



**Confédération  
des syndicats nationaux**

Comments of the  
Confédération des syndicats nationaux

Submitted to the Standing Committee on Finance  
For the Pre-budget Consultations

Montreal, August 12, 2011



## Summary

The Confédération des syndicats nationaux (CSN) is a trade union organization composed of 2,100 unions representing over 300,000 members primarily residing in Quebec. The CSN works to create a cohesive, democratic, just and equitable society, and it is in that spirit that we are submitting our comments. Year after year, we have participated in this discussion. In our view, public finance, as a result of the public policies that stem from it, is an important tool for addressing current economic and social problems.

The CSN believes that:

- Given that Canada's financial situation is less problematic than that of some major G7 countries, a balanced budget could be achieved over a longer period, and this would minimize the impact of any budget cuts in the public sector.
- The round of budget cuts the Canadian government is preparing to implement is unacceptable and it is now clear that many strategic missions of government will be seriously affected by those cuts.
- Tax relief, which still seems to be an approach preferred by the government to stimulate economic growth and job creation, is a very costly and ineffective strategy.
- It is essential that the federal government pursue an interventionist strategy, and we therefore make the following three recommendations:
  - That the federal government effectively occupy the fields over which it has jurisdiction in the area of social policy, and accordingly that it provide an adequate increase in transfers for health, postsecondary education and social housing assistance;
  - That the federal government introduce changes to the employment insurance scheme to improve access, increase benefit rates and eliminate the waiting period. The current economic situation alone makes it crucial that these changes be made as an urgent matter;
  - That the government introduce serious measures to speed up the transition to a sustainable economy and the reduction of greenhouse gases.



## **Role of the government and managing public finances**

The economic crisis of 2008 and the great recession should have demonstrated the importance of government in a mixed economy in which all parties have a role to play in economic and social development. The evidence is overwhelming: when the market is left to its own devices it creates instability, and only the very visible hand of government can civilise it, and ensure that the economy serves the needs of the public, and not the other way around. Governments and individuals throughout the world have paid very dearly for the years of financial sector deregulation, which led to the virtual bankruptcy of the sector. Western capitalism was only saved through unprecedented monetary and fiscal intervention by governments.

Given that feat, we might have expected economists, ministers of finance and central banks in the developed countries to reconsider the neoliberal policies that had been followed. Unfortunately, as we came out of the recession, most of them quickly reverted to their orthodox vision of the economy, a vision in which government intervention is often regarded as an obstacle to the private sector and the public sector is by definition less effective than the private sector. The rebirth of capitalism that some heralded after the financial crisis therefore either never occurred or was only minimal. Instead, some countries, including Canada, are currently applying austerity policies in order to balance their budgets, thus following the dictates of the financial markets that they have only recently rescued from the brink of bankruptcy.

While some countries are showing large budget deficits coming out of the financial crisis and recession, the Canadian government's budget deficits are modest (in 2011, the structural budget deficit as a proportion of potential GDO should be 3.6% in Canada, as compared to 8.1% in the United States, 8.3% in Japan, 6.6% in the United Kingdom and 4.0% in France). The difference in the case of public debt is even more in Canada's favour (in 2011, again, the net debt/GDP ratio was 35.1% in Canada as compared to 72.4% in the United States, 127.8% in Japan, 75.1% in the United Kingdom and 77.9% in France).<sup>1</sup> Given that Canada's financial situation is less problematic than that of some major G7 countries, there is nothing to justify trying to balance the budget over a short period, and this means that the impact of budget cuts in the public sector that would otherwise have had to be made can be minimized. Given that Canada's financial situation is less problematic than that of some major G7 countries, a balanced budget could have been achieved over a longer period, and this could have minimize the impact of any budget cuts in the public sector. However, the Harper government decided to balance the budget by 2014-2015. To achieve that objective, the 2011 budget adds to the cuts already announced (freeze on departmental spending from 2010-2011 to 2012-2013, among other things) by calling for new recurring cuts of \$4.0 billion starting in 2014-2015. In the fall of 2011, federal departments and agencies will have to propose ways to reduce their spending by 5 to 10% to Treasury Board.

The CSN considers the round of budget cuts the Canadian government is preparing to implement to be unacceptable. It is now clear that many strategic missions of government will be seriously affected by those cuts. For example, we recently learned that a strategic review of previous spending had resulted in the elimination of 700 positions in the Department of the Environment. This decision is a perfect illustration of the denialism of the Conservative government when it comes to climate change. The

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<sup>1</sup> *World Economic Outlook*, International Monetary Fund, April 2011.

Canadian government has been universally condemned for its slack approach to climate change, but the government is choosing to divest itself of a portion of its scientific expertise, among other things.

If the government has its way, we will see many more announcements like this over the next few years. The CSN sees no need for this. Not only could the government live with a deficit for a few years longer, the time it will take for growth to start again on a firm foundation, but it could also have been much more prudent in its tax policy. Since the Harper government came to power, cuts to income and other taxes have been made in budget after budget, both for corporations and for individuals. Even when the recession had become a fact, the government chose to retain the corporate tax cuts handed out in earlier budgets, and this contributed to creating the budget deficits. It is symptomatic that in the pre-budget consultations, the committee is asking us to propose ways “to ensure relatively low rates of taxation”, which it is obvious that the government should be thinking about increasing its budget revenue, as other countries have done. However, cutting taxes seems to be the method the government will always choose to stimulate economic growth and create jobs. In the view of the CSN, this is a very costly and ineffective strategy, since only a small number of very profitable industries have been given a large share of tax cuts in recent years. In addition, we would note that these tax cuts do not necessarily translate into job creation, as some corporations take advantage of the situation to rationalize their business and increase their profit margins. In many cases, targeted interventions by the government in various industries would cost less and be more effective. Although tax policy can and in fact does provide an incentive for some activities and redistribute income, we must always recall that overall tax levels must, first and foremost, enable governments to fund the public services and social programs that the public expects to receive. In a mixed economy, governments must have the resources they need to do this. From that perspective, it is foreseeable that the tax cutting strategy adopted by the Harper government will ultimately undermine important government missions.

The CSN calls on the federal government to effectively occupy the fields over which it has jurisdiction in the area of social policy. In fact, public services and the social safety net are particularly important when economic growth is still uneven as it now is.

With respect to the employment insurance program, the CSN reiterates what it has called for. There are various reasons why reform of the employment insurance program is needed. First there is fairness, since a majority of workers who contribute to the employment insurance scheme expect to be able to draw on it when they lose their jobs and this is not the case at present, and has not been for several years. There are also economic reasons, since by making the employment insurance program less generous over the years the federal government has abdicated a significant portion of its responsibilities in terms of macroeconomic stabilization (the employment insurance program is one of the main automatic stabilizers). For these and other reasons, the CSN believes that it is urgent that changes be made to the employment insurance scheme to improve access, increase benefit rates and eliminate the waiting period. The CSN shares the following specific proposals with the Coalition des Sans Chemises:

- Establish an eligibility threshold of 360 hours for all regions, which would improve access to the program. The Toronto-Dominion Bank estimates that this would cost \$2 billion.<sup>2</sup>
- Eliminate the two-week waiting period, which unfairly penalizes claimants.

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<sup>2</sup> *Is Canada's employment insurance program adequate?*, Grant Bishop and Derek Burleton, Toronto-Dominion Bank, April 30, 2009

- Increase the income replacement rate to 60% from 55% of earnings, with benefits calculated based on the 12 best weeks of work.
- Create an income support program for older workers. Many older people who lost their jobs in the current recession may never be able to re-enter the labour market, and it is urgent that they be provided with a bridge so they are able to retire with dignity.

Similarly, the CSN reiterates what it has said regarding federal transfers for social programs. Federal health transfers to the provinces are to be renegotiated in 2014. The CSN recognizes that to date, the government has honoured its commitment to maintaining those transfers. However, the Minister of Finance of Canada has already warned the provinces that they cannot necessarily count on the same level of funding from the federal government in future. It is important to note that unlike the federal government, provincial governments, like Quebec's, manage public services provided to the public, such as the health and social services system.

In health care, even with average funding increases of 6% in recent years, the system is hard pressed to meet all of the public's needs, because of numerous factors that affect costs (prescription drugs, an aging population, etc.). Clearly, we must be sure that in 2014 those transfers are renewed in accordance with the present formula, under which the federal government's contribution represents 25% of all health care spending, as the Romanow Commission recommended.

In the area of postsecondary education, the Government of Quebec is still waiting for the additional \$800 million that would bring it back up to the 1994-1995 level of federal funding in real terms, for postsecondary education. Weak growth in the total envelope for postsecondary education presents problems, particularly in the context of an economy that is increasingly based on knowledge and the importance of raising productivity in Canada to counter the aging of the population and ensure that the standard of living improves. It is common knowledge that education spending in Canada has declined over the last decade in comparison with spending in the other developed countries, and that this trend has an impact on performance.<sup>3</sup>

On the question of federal transfers, the CSN also wishes to speak out against the fact that they are no longer paid on the basis of needs and cost-sharing, and are instead based on provincial population. This method of allocating funds is inequitable.

A number of other social problems call for genuine involvement by the federal government. The situation of aboriginal people in Canada is a national scandal that just keeps going. Their unemployment rate is twice the rate for the general population. As well, while Canada ranks eighth in the human development index, First Nations communities rank 78th. The government must finally take the kinds of actions that will solve the problems. In terms of social housing, the government's efforts are inadequate, while the need is still glaring. The problem of homelessness also calls for much more sustained commitment by the central government. And as the Canadian pension system now stands, a majority of workers will have insufficient income for their retirement and the aging of the population will only make this situation more

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<sup>3</sup> *How are we doing on social policy? Is the recession paralyzing or transformative?*, Don Drummond and Grant Bishop, Toronto-Dominion Bank, August 24, 2009

obvious. It is necessary to reform the Canadian pension system by taking all of its components into account (OAS/GIS, CPP/QPP, RRSP, employer pension plans). The public cannot simply count on the pooled registered pension plans recently announced by the federal government. Although employers will be responsible for enrolling their employees in those plans, this does not mean that employers will make any contributions. Public consultations would make it possible to assess the options available for modifying the Canadian pension system to ensure that it in fact provides income security for retired workers. Options that must be seriously discussed and assessed include improving the public plan and creating mandatory supplementary plans that would cover all Canadians.

Each of the elements of social policy that we have discussed here has a direct impact on the standard of living and quality of life enjoyed by people in Canada and Quebec. Given the gaps that have been identified in various of its aspects, the federal government has a duty to improve the performance of its social policy. Contemporary economic research has shown that development of public services and social programs is a prerequisite for economic and social progress.

### **Economic growth and employment**

In addition to its responsibilities in respect of social policy, the federal government obviously has an important role to play in respect of all aspects of economic policy (current and structural).

After strong real GDP growth in the first quarter of 2011 (3.9% annualized), results for the second quarter were less impressive. Forecasters say that this slowdown should be temporary, however, and economic growth should be at the 2.9% level in Canada in 2011, according to the WMF, as compared to 2.5% in the United States and 2.0% in the European Union. The labour market has generated 163,400 jobs since the beginning of 2011. The unemployment rate fell to 7.2% in July, which is still higher than the average rate of 6.1% observed in 2008.

As well, the labour force participation rate has fallen to nearly its lowest point in four years, and this means that the good performance in terms of the unemployment rate is offset by a large number of discouraged workers. Nonetheless, the Canadian labour market's performance is slightly better than in the United States: the Desjardins Federation is in fact predicting an average unemployment rate of 8.9% in the United States as compared to 7.6% in Canada.

In fact, some economists see the improvement in economic conditions in Canada as justification for the Bank of Canada to raise its policy interest rate. The factors that allegedly justifies a tighter monetary policy include the recent rise in inflation, the reduction in the productivity gap that is predicted within the next year and the need to eliminate the incentive for taking on debt that low interest rates provide. However, while Canada is experiencing a better economic recovery than most of the G7 countries, that does not mean that all is well. The export sector is handicapped by the weak economic recovery in the United States. Canada's trade deficit rose from \$4.6 billion in 2009 to \$9.0 billion in 2010. That means that net exports are not contributing to economic growth at present. The downward trend recently observed in residential construction will likely continue in the foreseeable future. Growth in household consumer spending was only 0.2% in the first quarter of 2011, and this is a cause for concern. And government austerity programs will hinder economic growth if they are implemented as announced: witness the weak job growth in Canada in July, a mere 7,000 jobs, which is explained in significant part by the elimination of 71,000 government jobs. There is also still considerable uncertainty at the



international level: the debt crisis in Greece and possibly other European countries, including Spain and Italy, slow economic growth in the United States, the impact of the downgrading of U.S. public debt by Standard & Poor's on the financial markets, the market correction on August 4, 2001, and so on.

The CSN believes that it is too soon for the Bank of Canada to raise its policy interest rate. In the present circumstances, that would make the Canadian dollar rise as against the American dollar, and that would have a negative impact on net Canadian exports, which are already weak. This would have a devastating impact on the manufacturing sector, which is still facing fierce competition from emerging nations such as China.

Having stated our opinion about the conduct of current economic policy, we would like to comment on structural economic policy. Since the Conservatives came to power, a laissez-faire ideology seems to have settled in when it comes to economic development. The government's primary objective is to create a tax environment that is among the most competitive on the international scene and negotiate free trade agreements, with what comes next to be determined by the free operation of the market, through competition between corporations here and elsewhere. The government has not done enough for industries in trouble, like the forestry industry or some manufacturing industries.

The government is on the wrong track here. Governments must use their industrial policy to enable them to intervene to remove certain constraints hindering restructuring and the ongoing modernization of the economic fabric. Without sustained intervention by governments, it is very possible that modernization of the industrial structure will stall. Although some orthodox economists claim that industrial policy is no longer relevant in the context of globalization and free trade agreements, that is not the case.

When it comes to industrial policy, it is high time that the Harper government proposed some serious policies to speed up the transition to a sustainable economy that is less greenhouse gas (GHG) intensive. This is achieved by transforming the production system, with renewable energies gradually replacing hydrocarbons. It should also provide for the emergence of new green industries. The Pembina Institute and the David Suzuki Foundation have published a study that shows it is possible to reduce GHG by 25% in 2020 from 1990 levels without any significant reduction in economic growth and with a neutral or slightly positive effect on overall employment levels.<sup>4</sup> The federal government's inaction in this area has to stop, because global warming is undoubtedly the most important issue of the 21st century. Canada has to do its part in reducing GHG emissions. The federal government's inaction penalizes the provinces that are actively engaged in this issue.

In conclusion, the CSN essential that the federal government pursue an interventionist strategy. The current economic situation leaves no doubt as the support that is needed and the government must provide. That support must take the form of a larger federal contribution to health and education funding and restoring balance in transfers to the provinces, among other things. To continue fighting budget deficits at the expense of the economic recovery and our ability to maintain public services would be a serious mistake.

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<sup>4</sup> *Climate Leadership, Economic Prosperity: Final Report on an Economic Study of Greenhouse Gas Targets and Policies for Canada*, Pembina Institute and David Suzuki Foundation, 2009. Economic estimates were done by M.K. Jaccard and Associates. The TD Bank provided funding for the study.