2011–2012 Pre-budget Consultations

Brief by Mouvement Desjardins

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Summary

Mouvement Desjardins is participating in the pre-budget consultations of the House of Commons Standing Committee on Finance to share its priorities for the 2012 budget. Generally speaking, the federal government seems to be on the right track to return to a balanced budget, an essential goal for Canada to maintain its position in the world. Thus, the 2012 budget must stay the course. However, this must not prevent the federal government from focusing on certain priorities. The Department of Finance must find a way to continue investing in infrastructure. This must include a review of infrastructure funding. Given the fragile financial position of the provinces and territories as well as some households, the federal government must also refrain from reducing transfers to individuals and other levels of government—despite the significance of these expenditures in the government's overall budget. Finally, the Department of Finance must continue working to reduce elevated Canadian household debt.

A stay-the-course budget

First and foremost, budget 2012 must stay the course. The past few years have been tumultuous, with the financial crisis and global recession. Together with the governments of the other major industrialized countries, Canada implemented a substantial economic recovery plan that contributed greatly to its economic recovery. This provided for a new economic expansion in the summer of 2010 and enabled the labour market to recoup all the jobs that were lost.

Canada is now in a very strong position in the global economy. Not only is its economic recovery further along than most industrialized countries', but the federal government's fiscal position is also gradually improving. The combined effects of accelerated economic growth and the end of the government's stimulus program produce a net reduction in the budget deficit. In addition, through a strategic expenditure review, the federal government plans a gradual return to a balanced budget by the 2015–2016 fiscal year. Very few industrialized countries' governments have such a well-defined plan to restore the health of their public finances. This is a clear advantage, and to maintain it, the federal government must stick to the plan in the next budget. By keeping spending under control and continuing its strategic review, the government should be well positioned to maintain tax rates at relatively low levels and eventually balance the budget.

That said, there is still significant uncertainty as to the strength of the global economy. Canada is a very open, trade-oriented economy, so it goes without saying that its growth prospects are affected. Moreover, the sovereign debt problems in Europe and the state of public finances in the United States could still result in unpleasant surprises. The federal government must therefore remain prudent in the 2012 budget. In the current climate, the economic and financial forecasts that will be used in the next budget will inevitably be marred by uncertainties. The federal government would be well advised to reintroduce a budgetary reserve in its projections.

However, continued pursuit of a balanced budget should not prevent the federal government from focusing on certain priorities in the next budget. In this vein, Mouvement Desjardins makes the following three recommendations:

Recommendation 1: Provide for quality infrastructure

Having suffered from inadequate funding for many years, public infrastructure across Canada is aging. In Quebec, the Champlain Bridge (a federal responsibility) is coming to the end of its useful life, the Turcot interchange must be rebuilt and many other arterial roads are in a sorry state. Moreover, water and sewer systems are problems for many Canadian municipalities.

Quality infrastructure is essential to the economy. It provides for the easy flow of people and goods, which results in lower costs for businesses and Canadians and leads to productivity gains. This encourages investment, including new businesses locating themselves in Canada.

The federal government's economic recovery plan implemented during the recession certainly allowed for some catching up, but given the extent of what is needed, there is much yet to do. And with the end of the recovery plan, there is fear that funding will be short once again, which would considerably slow infrastructure renewal in Canada.

Under these circumstances, we recommend that the federal government, in close cooperation with the other governments concerned, establish a long-term program that provides sufficient funding for modernizing Canada's infrastructure. At first glance, introducing such a program could prove very costly to the federal government and thus could compromise the return to fiscal balance. Since healthy public finances are essential, the government must find additional sources of funding that would allow it to make infrastructure improvements. First, the government could delay the scheduled corporate tax cuts. Corporations are major beneficiaries of Canada's infrastructure, so clearly they must contribute their fair share. At the same time, the federal government should make use of the user-pay principle for infrastructure within its jurisdiction.

Recommendation 2: Maintain transfers

Given the need to strictly control spending, it could be tempting to reduce transfers to individuals or other levels of government as was the case at the start of the deficit fight in the early 1990s. Make no mistake, this type of spending accounts for a significant portion of the federal budget. According to Department of Finance forecasts, transfers to provinces and territories will total $58.2 billion in fiscal 2011–2012, while transfers to individuals are expected to be $70.6 billion. These two items alone account for nearly 52% of program spending. However, it is critical that the federal government not cut these transfers.

For provinces and territories, a decrease in transfers would have serious repercussions on their fiscal status, which is already precarious due to the negative impact of the recession and an increasingly obvious fiscal imbalance. Indeed, most provinces are expecting a significant budget deficit for 2011–2012.

Transfers to individuals essentially comprise employment insurance and Old Age Security benefits. Job creation has certainly been good during the past few months, and incomes are

increasing at a fairly good rate, but many households have not yet recovered from the recession, and are still in a difficult position. For example, the unemployment rate reached 7.2% in July. This is lower than the peak of 8.7% reached at the height of the crisis, but it is a long way from the low of 5.9% seen in early 2008. Moreover, the number of households in a precarious position relative to the labour market is significantly higher if one considers discouraged job seekers, workers waiting to be recalled or waiting for an answer and Canadians involuntarily working part time. If these workers, who are usually excluded from the official statistics, were taken into account, the unemployment rate would be slightly above 10%. As to Old Age Security, a number of seniors live on the edge of poverty, and the government has a duty to maintain benefits, even if the costs of this program inevitably increase in the coming years due to the aging population.

Recommendation 3: Encourage household debt reduction

Our final recommendation concerns household debt, which has risen dramatically over the past few years. Interest rates are likely to remain low for a long time yet, which will undoubtedly encourage Canadians to take on even more debt. For now, the situation is under control thanks to low interest rates, which hold down interest costs. However, sooner or later, rates will rise significantly, causing certain Canadian households to run into trouble in meeting their financial commitments.

The federal government has already taken a number of measures over the past few years to restrict access to mortgage credit. We encourage the Department of Finance to continue on this path. Obviously, the major challenge in implementing such measures is the regional variations in the real estate market. For example, the Vancouver market and the Toronto condominium market are particularly worrying given the sharp rise in prices over the last few years. However, with the free movement of capital, it is difficult to target a particular region when setting mortgage financing standards.

While mortgage credit is largely responsible for the increase in household debt over the past few years, consumer credit has also grown significantly. Moreover, the federal government has not really taken action to limit increases in this type of household borrowing. Consumer credit nevertheless accounts for a considerable portion of household liabilities (28%).

It was in this context that Mouvement Desjardins announced in March that it was raising the minimum payment on its credit cards from 3% to 5% of the balance. The goal is to promote more responsible use of credit. Mouvement Desjardins is encouraging the federal government to extend this change to all Canadian credit cards by amending the regulations.