

The 2009 Federal Budget: Preliminary Canadian Labour Congress Analysis

(More analysis to follow The Budget includes many quite small spending and tax initiatives.)

Impact on Jobs and the Economy

What We Wanted:

The most important priority for the Budget was to stop the unemployment rate from rising to at least 8% this year and to double digit levels next year.

“Fiscal stimulus” is not the same thing as running a deficit. The federal government is going into deficit mainly because tax revenues are slumping along with the economy, but this does not inject new purchasing power into the economy.

We said stimulus should be concentrated in two key areas:

- Public investment in infrastructure, “green industries” and public services.
- Income support for the victims of the recession, especially through major improvements to Employment Insurance and better public pensions.

Public investment has a much bigger impact on job creation and the economy than does broad brush corporate tax cuts, and income supports targeted to those most in need are much more effective than across-the-board personal income tax cuts.

Corporate tax cuts are a poor way to create jobs and help troubled industries because they are of no use to companies losing money, and have little or no impact on real investment (which was very slow in recent years outside the energy sector despite deep cuts to corporate tax cuts). Businesses will invest only when they see the economy recovering, or if new investment is directly supported by governments.

Broad brush personal income tax cuts are also a poor job creator because some of the tax cuts will be saved – especially when there is widespread fear of job loss – and because a high proportion of consumer spending goes to imports. \$1 billion of personal tax cuts increases GDP by just \$720 million and creates just 7,000 jobs – while \$1 billion spent on public infrastructure increases GDP by \$1.8 billion and creates 16,000 jobs.

The federal government could have easily afforded to invest in a major stimulus package. Unlike in previous recessions, the cost of government borrowing is now very low, less than 3% today for ten-year Government of Canada Bonds. Federal government debt has shrunk very rapidly as a share of the economy, from a high of 70% a decade ago, to just 30% in 2007-08.

A focus on tax cuts is also the wrong way to go because, if they are made permanent, they shrink fiscal capacity and set the stage for structural deficits or spending cuts down the road. We are already paying the price

for the two-point cut to the GST in terms of reduced room to shift fiscal resources to where they will have the most impact on growth and jobs. By contrast, well chosen public investments boost growth and jobs today, and set the stage for higher productivity and a stronger economy and society tomorrow.

What We Got:

The Budget announced federal deficits of \$34 Billion in 2009-10 and \$30 Billion in 2010-11. While seemingly large, the Budget gives a very modest stimulus to the economy of just over 1% of GDP this year and next - \$18 billion this year and \$15 billion next year, half what the IMF called for, and much less than the Obama proposal for a stimulus of as much as 5% of GDP. The Budget claims its stimulus package comes close to the 2% target but this counts induced provincial spending and also loans to cities and the auto sector which do not count as part of government program spending. Much of the stimulus package goes to permanent personal income tax cuts.

The Budget does take some specific actions to to save and create jobs, in terms of infrastructure investment and providing access to credit but overall it will do very little to halt the expected sharp rise rise in unemployment.

The most important personal tax measures are not directly targeted to low income families. The thresholds of the two lowest tax brackets are raised and the basic personal amount increased so as to give a small income tax cut to everyone with taxable income of less than \$81,452. The cost in lost revenues is about \$2 billion per year. Child benefits will be phased out more slowly as income rises, and the Working Income Tax

Benefit is significantly improved at a cost of \$580 Million per year. The maximum benefit for a working poor family goes from just over \$1,00 to \$1,680 per year.

The government has re-announced wage controls of 1.5% on federal sector workers for 3 years; asset and crown corporation sales; and its commitment to P3s in federally funded infrastructure programs. continues

Investment in Public Infrastructure

What We Wanted:

We said the federal government should, in partnership with the provinces, territories, and cities, launch a major multi-year public investment program which would create jobs now, promote our environmental goals, and build new industries for the future. It should cover roads, sewers, and basic municipal infrastructure; First Nations community improvements; health and educational facilities; mass transit; passenger rail; affordable housing; energy conservation through building retrofits; and renewable energy; and should be twinned to a Made in Canada procurement policy that would help support new jobs in manufacturing and services.

We need a multi-year investment program because, even in a best-case scenario, high unemployment will remain with us for some years to come, and because we had a huge public infrastructure and environmental deficit going into the crisis which will not be resolved through just a year or so of accelerated so-called “shovel ready” projects.

We said government contracts should promote a strong public sector by avoiding P3s, and should promote unionization, and inclusion of women and workers of colour in good jobs.

What We Got:

The Budget invests \$7-billion in infrastructure spending. This includes a \$4 Billion Infrastructure Stimulus Fund to be spent over the next two years (cost shared 50% by the federal government and 50% by the provinces and municipalities) This is a small amount in the context of needs, and will be hard to access. The government claims as part of its stimulus package an offer to lend \$2 billion to cities. There is a \$2 Billion fund to support repairs and maintenance and accelerated construction at colleges and universities across Canada, and a \$1-billion Green Infrastructure Fund. The latter is a small, mainly symbolic 5 year program.

The Budget also includes \$2 Billion to build new public housing and renovate existing units. About \$1-billion will fund renovations of current public housing leaving \$600-million to build more on-reserve aboriginal homes; \$400-million for extra seniors housing and \$75-million for additional residences for persons with disabilities. These are two year programs. There is a home renovation tax credit.

The infrastructure investment overall is very modest in size and falls well short of what the cities and environmental organizations were looking for. At about \$5 Billion per year the total package, if spent, might create only 50,000 jobs.

The Budget does not remove or limit the current costly and time-wasting mandatory requirement to actively consider P3s to access the Building Canada Fund, and the launch of the P3 Fund combined with required city support for new projects will likely give yet another boost to P3s moving forward.

The Budget does not link public investment to Made in Canada procurement policies.

The program is short-term only, expiring at the end of 2010, and does not provide continuing funding to the cities and to major environmental investments.

Funds will not flow quickly and effectively to the cities which will be obliged to borrow to finance their one third share.

The Budget disappoints in terms of addressing our environmental and climate change goals.

The Manufacturing Crisis

What We Said:

We said that the federal government should, instead of across-the-board cuts to corporate tax rates, invest directly in support of sector renewal strategies to save jobs and promote successful restructuring in hard hit industries, such as auto, forest and fish products; should support investments to support cultural industries, environmental technology, renewable energy and other promising industries of the future; and

should promote fundamental changes to unbalanced trade deals to reverse our manufacturing trade deficit and promote higher value-added processing of our resources.

What We Got:

Rather than major support for sector renewal strategies through new targeted investments, the Budget announces some modest measures such as a temporary extension of a two year fast write off for new machinery investment. There are small new tax breaks for small business.

Significant measures are announced to free up credit markets, including government support for new mortgage and consumer lending by financial institutions, as well as major increases in credit available from the Export Development Corporation and the Business Development Bank.

The Budget establishes a \$1 Billion fund to help resource-dependent cities and towns, to be funnelled through regional development agencies, giving them a key role in helping smaller communities weather the recession.

Employment Insurance Benefits

What We Said:

We said major improvements to EI should have been a centrepiece of the Budget, since this directly assists the victims of the recession and is an

effective form of economic stimulus because the unemployed will spend rather than save, and support community economies.

What We Got:

An extra five weeks of eligibility will be added to all claims, taking the maximum outside very high unemployment regions to 50 weeks.. but only for the next two years, at a cost of just over \$500 million per year (or one quarter the amount spent on personal income tax cuts.) Nothing is done to equalize entry to the system across Canada or to make more of the unemployed eligible for benefits.

For the next two years, work sharing agreements can run for another 14 weeks to a new maximum of 52 weeks.

Severance pay will not be offset against EI IF spent on training by an unemployed worker and severance will be protected to some degree through extension of the wage earner protection fund.

EI premiums to be frozen in 2010 on top of 2009 freeze.

Pensions

What We Said:

We said th Budget should improve public pensions through a phased-in doubling of the CPP/QPP, and immediate increases to Old Age Security and the Guaranteed Income Supplement to protect today's and tomorrow's retirees and to reduce reliance on private pensions and RRSPs; create a pension guarantee fund to backstop promised pension

benefits; and provide flexibility for employers sponsoring pension plans only if unions agree, and this does not come at the cost of insecure pensions.

What We Got:

No new action to improve public pensions or shore up employer pension plans. Strong hints that much greater flexibility will be given to employers to deal with plan shortfalls after consultations are concluded in 90 days, including announcement that OSFI will be given more flexibility to smooth asset values. TSFA given deposit protection with no pension guarantees.

Support for Training and Labour Adjustment

What We Said:

We said there should have been be major increases in spending on labour adjustment programs and training so that workers can access the new jobs being created through public investment programs, sector strategies, and public services investments. Funds should flow to support high quality training of both unemployed and employed workers, on the basis of input from labour through labour market partner forums such as exist in Quebec and Newfoundland and Labrador.

What We Got:

While the Budget did announce major investments in training, we cannot be sure that these investments will reflect labour priorities and will support high quality, certified, portable training.

The Budget includes \$1 billion in training funds for laid-off workers to assist both those eligible to collect Employment Insurance, over two years, and another \$500 million over two years for those not eligible for EI. These funds will be transferred to the provinces. .

Another \$500-million in EI training funds over two years will be aimed at so-called "long-tenured workers" - those who have worked at the same job for a long time and have a narrow set of skills but are not close to retirement age. It will provide extended EI benefits and cover training costs.

Federal-Provincial Transfers and the Future of Public Services

What We Said:

We said the federal government should maintain all existing transfers to the provinces and cities which help pay for health, post-secondary education, training, infrastructure programs, and, through equalization, all public services and social programs. These programs ensure that people are not left on their own in tough economic times. We also need new investments in child care, home care, and long-term care for the elderly to create new jobs while promoting our social goals.

What We Got:

The Budget confirms that equalization improvements already announced will be limited to the growth rate of the economy, meaning that struggling provinces will receive \$2 billion less from the federal government than they had been counting on.

The Budget failed to invest in child care and early learning, and in care for the elderly, passing up a major opportunity to create jobs, especially for women, by promoting social investment along with infrastructure investment.

Equality and Inclusion

The Budget did not pass the test of ensuring that resources are directed so as to include women, workers of colour, persons with disabilities, and Aboriginal Canadians. Investments in public services are major job creators for women, and equality-seeking groups can be included in more traditional infrastructure investments through training and other measures. Improved access to EI would especially benefit women and recent immigrants.

Global Issues

The Budget did not increase Canadian support for international development and assisting the countries hardest hit by the crisis.