The 2009 Federal Budget: Canadian Labour Congress Analysis

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 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. One billion dollars 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, when account is taken of slumping tax revenues because of the recession, the Budget gives a very modest stimulus to the economy of just $18 billion this year and $15 billion next year.

While the Budget claims its stimulus package comes close to the 2% target in 2009-10, this does not adjust for the spending cuts announced in recent months, and assumes that the infrastructure, housing and training funding announced in the Budget will flow quickly and seamlessly into extra spending by the provinces and the cities, including so-called leveraged spending. Funds allocated on a “use it or lose it” basis may well be lost given the hurdles cities especially have to jump. The government counts loans to cities and the auto sector as stimulus even though they do not count as part of government program spending. And it should be noted that a significant part of the stimulus package goes to permanent personal income tax cuts which even the Budget says are not very effective in boosting the economy. The stimulus package is closer to 1% of GDP than the level claimed.

The Budget does boost federal program spending as a share of the economy – which includes increased EI benefits – by over 1.5% of GDP this year, and this can be counted as a not insignificant change of direction. However, it is not likely to put a major dent in the expected rise in unemployment. The focus on “timely” and “temporary” measures is appropriate in that short-term action is indeed needed, but the lack of a longer term plan will soon be regretted if the quick upturn the government is forecasting later this year does not come about.

The most important personal tax measures are not directly targeted to low income families. Pretty well everybody will get $33 from raising the basic personal amount. But raising the thresholds of the two lowest tax brackets gives an income tax cut only to those making more than about $40,000. The maximum tax saving of $317 per year goes to those making about $100,000 per year. The cost in lost revenues is about $2 billion per year today, rising in future years as the economy rebounds. Even the government concedes that this kind of tax cut does not have much of a stimulative effect, and its inclusion in the Budget is ideological and sets the stage for future spending cuts if rosy economic forecasts are not matched by the real economy in 2010 and beyond.

The Budget did not change the already announced cuts to the federal corporate income tax rate, which will fall from 19.5% in 2008 to 15% by 2012. The Conservative agenda of personal, corporate, and GST cuts has reduced federal fiscal capacity, which means less room for manoeuvre in terms of stimulus today and needed public investments tomorrow.

In a nod to the needs of lower income Canadians, child benefits will be phased out more slowly as income rises, but this provides no benefit to children in families drawing social assistance or struggling to get by on very low incomes from EI and work. The Working Income Tax Benefit is, however, significantly improved at a cost of $580 million per year. The maximum benefit for a working poor family goes from just over $1,000 to $1,680 per year for those making between about $10,000 and $15,000.

The tax changes in the Budget are permanent, while most spending measures last just two years.

The government has re-announced wage controls of 1.5% on federal sector workers for three years; asset and Crown corporation sales, and its commitment to Public Private Partnerships (P3s) in federally funded infrastructure programs continues.

Ongoing program review that cuts, saves and/or re-invests about $500 million of spending each year continues, as does ongoing review of corporate asset holdings, including Crown corporations, real property, and other holdings.

Investment in Public Infrastructure and Housing

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 as much as $7 billion in infrastructure spending. This includes a promised acceleration of long delayed earlier infrastructure programs, a new and temporary $4 billion Infrastructure Stimulus Fund to be spent over the next two years (cost shared to a maximum of 50% by the federal government and 50% by the provinces and municipalities). This is a small amount in the context of urgent needs, and will be hard for cash-strapped cities to access. The government claims as part of its stimulus package an offer to lend $2 billion through CMHC to cities, but this will still increase municipal debt. There is a $2 billion fund to support repairs and maintenance and accelerated construction at colleges and universities across Canada; $500 million over two years for community recreation facilities, and a $1 billion Green Infrastructure Fund. The latter is a small, mainly symbolic five-year program. A raft of specifically federal infrastructure projects such as more funding for VIA Rail have been announced.

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 which will subsidize home renovations in 2009 up to a maximum of $1,350 on a renovation of $10,000 or more at a cost of $3 billion.

The infrastructure investment overall falls well short of what the cities and environmental organizations were looking for. The total package, if spent, might create 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 is likely intended to 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 or to major environmental investments.

Funds will not flow quickly and effectively to the cities which will be obliged to borrow to finance their share if provinces do not flow through their expected share of funding. Cities have raised serious concerns that this program may do as little as previously announced to get projects which are ready to go off the ground.

The Budget disappoints in terms of addressing our environmental and climate change goals. While there are some useful “green” elements in the package, such as home and educational institution retrofits, there is no major emphasis on renewable energy.

The Manufacturing and Wider Jobs 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 businesses, and deep corporate tax cuts continue as planned. Auto loans are re-announced, and only token support is provided to the hard hit forest products industry, mainly for marketing assistance. Modest funding is provided in support of arts and culture, and the tourism industry.

Very significant measures are announced to free up credit markets, including government support for new mortgage and consumer lending by financial institutions by buying up securities, as well as major increases ($13 billion) in credit available from the Export Development Corporation and the Business Development Bank. A new “Canadian Secured Credit Facility” will be set up to purchase up to $12 billion in asset-backed securities to support financial institution lending to consumers and businesses for autos and equipment rentals and leases. While the government is prepared to backstop lending to a much greater extent, it will not – as called for by Canadian Manufacturers and Exporters – establish strategic investment funds which could take up an equity position to help new companies and companies trying to restructure.

Further steps are to be taken to improve bank lending and to ensure that support would be provided to the banks in the event of serious problems down the road. The government will be able, through CDIC, to intervene much more directly, and could even take an equity position in troubled banks. The government does not, however, seem prepared to vigorously regulate the financial sector moving forward to forestall Canadian-made financial problems, such as the failure of the asset-backed commercial paper market which resulted in large losses to pension funds and other investors. It calls for “principles” rather than rules-based regulation.

The Budget establishes a $1 billion two-year fund to help resource-dependent cities and towns, to be funnelled through regional development agencies, and establishes a new regional agency for

Southern Ontario, but with funding of only $200 million per year for five years.

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

The lack of major improvements to EI is the major disappointment of the Budget. The importance of EI as an automatic stabilizer is, however, suggested by the fact that total benefits are expected to increase by over $3 billion this year over last because of rising unemployment.

An extra five weeks of eligibility will be added to all claims, taking the minimum eligibility period from 14 to 19 weeks, and raising the maximum in high unemployment regions (over 9% unemployment) to 50 weeks. But this will be in place only for the next two years, at a small cost of just over $500 million per year (or one-quarter the amount spent on personal income tax cuts) and the maximum will still be generally available only to those who had worked close to full-time for a full year before layoff.

Benefits are also extended for so called “long tenure” workers who undertake longer term training, at a cost of $500 million over two years.

Nothing is done to equalize entry to the EI system across Canada or to make more of the unemployed who fall through the cracks eligible for benefits. The government did not listen to calls to lower the minimum number of hours required to qualify, which is as high as 910 hours.

For the next two years, work-sharing agreements can run for another 14 weeks to a new maximum of 52 weeks, and greater flexibility is promised in approving proposals.

Severance pay will not be offset against EI *if* it is spent on training by an unemployed worker. Severance pay will be protected to some degree through extension of the Wage Earner Protection Fund to cover severance and termination pay, though the maximum payment from the fund remains unchanged at $3,254 of unpaid wages.

EI premiums are to be frozen in 2010, on top of the 2009 freeze, which will forestall a significant increase. This will cost much more than the small increases in benefits, but is a useful economic stabilizer.

Pensions

What We Said

We said the 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 an announcement that OSFI will be given more flexibility to smooth asset values. While there are no pension guarantees, Tax Free Saving Accounts are to be protected through deposit insurance.

Support for Training and Labour Adjustment

What We Said

We said there should have been 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 EI over two years, and another $500 million over two years for those not eligible for EI. These funds will be transferred to the provinces who appear to have full control over how and where funds will be spent. Currently, some provinces provide only very short-term, low quality training delivered by private trainers.

As noted, another $500 million will be spent on extended EI training benefits over two years on 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.

The Budget also includes investments in skills development in Aboriginal communities, and a small addition to the targeted initiative for older workers.

While these initiatives are welcome, it is questionable whether they will meet the needs of Canadian workers in the present circumstances.

Workers are concerned that training will be available and that it will be high quality, will lead to recognized credentials, and will provide them with a measure of job mobility. This Budget provides no such guarantees.

As responsibility for training has been devolving from the federal jurisdiction to the provinces and territories through Labour Market Agreements, unions have been consistent in calling for labour market partners forums as part of the agreements to ensure that training meets the needs of both workers and employers, and that training received by workers is of a consistent quality. The Budget makes no mention of including workers and employers as necessary partners in an effective work-related training strategy.

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, postsecondary 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 $7 billion less from the federal government than they had been counting on over the next two years.

The Budget also confirms the federal government's intention to continue to cut programs, privatize Crown corporations, and sell real property and other holdings.

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. However, such measures were not included in the Budget. Improved access to EI would have especially benefited women and recent immigrants, but was also not in the Budget.

The Budget did allocate new funding to First Nations communities and program totalling $1.4 billion, but they get only 5% of the total infrastructure and housing package despite particularly pressing needs.

Global Issues

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

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