FINANCE

Ministry of Finance

With 310,000 members in every major sector of the Canadian economy, Unifor is the largest labour union in the private sector. Unifor also represents thousands of members in public sector industries. Unifor advocates on behalf of, and defends, the economic and social rights of working Canadians. Our organization is guided by the belief that democratic citizenship should not only entail dignity and security, it should also entail an equitable share in Canadian prosperity.

Unifor priorities

Unifor believes in a strong, graduated tax system that provides the revenue tools necessary for the federal government to play an active role in enhancing the value of national life. The welfare state retrenchment that has dominated federal politics since the 1980s has not only failed to stimulate higher levels of investment or faster GDP growth, it has left the federal government with chronically weak fiscal capacity to deliver the social services Canadians expect. It also leaves the federal government without the capacity to effectively respond to economic crises.

In terms of taxation, the Canadian welfare state has all but disappeared. In the 2014-15 fiscal year, federal government revenue as a share of GDP stood at 14%, down from nearly 20% in 1974-1975. Today, federal revenue is lower than at any point since 1940. Corporate income taxes in Canada have been halved since 1988. And while many business economists claim this has been beneficial to Canadians, business investment in fixed assets, job creation and GDP growth has fallen and/or decelerated over this period, not risen. Estimates vary, but the Harper Government's decision to cut the GST by two points has cost the federal treasury roughly $150 billion over the past decade. There is no evidence that jobs were created as a result of this tax cut. And the effects of the GST cut were too small to significantly alter the consumption decisions of Canadian households.

On the spending side, there are four main drivers of GDP growth: households (private consumption), businesses (fixed asset investment), foreigners (net exports) and governments (program spending). Corporate Canada has stockpiled nearly $700 billion in cash on its balance sheet, which it appears unwilling to use to foster growth. Canadian household debt has reached record highs. This worrying trend means private consumption cannot be relied upon to drive future growth. With a devalued dollar, exports might increase in the future, but for now it remains up to the federal government, through fiscal policy, to put Canadians back to work and get the growth process going.

Public sector spending is a vital part of Canadian prosperity and Canadian identity. Beyond (physical) infrastructure stimulus, which most experts agree is badly needed, Canada's social infrastructure, which has suffered years of neglect, needs strengthening. Public investment in everything from childcare and education to social housing and retirement security has a proven record of alleviating poverty and widening opportunity.

The low interest rate environment makes this an ideal time to borrow, but reversing some of the reckless tax cuts of the Harper Government would be a more sustainable path. Recent innovations in economic thinking suggest that, in uncertain times, government spending can reassure hesitant investors. Rather than 'crowding out' private investment, strong government spending in strategic sectors can lead to a 'crowding in' effect, as business is incentivized to invest on the belief that aggregate demand has been bolstered.

Issues and Policy Recommendations

Progressive Taxation

In its election platform, the Liberal Party of Canada proposed important reforms to the Canadian tax system. The cancellation of both income splitting and the elevated Tax Free Savings Account threshold will, in combination with the new tax bracket of 33%, bring in billions of dollars of much-needed federal revenue. Unifor recommends:

- The immediate implementation of the Liberal Party's taxation commitments, including the reinstatement of the tax credit for contributions made to labour-sponsored funds.
- The federal government reverse the Harper-era tax cuts by increasing the statutory corporate income tax rate, in a graduated fashion, from 15 to 21%.

Infrastructure

Canada's diminished social infrastructure and its aging infrastructure are in desperate need of restoration. If Canada is ever going to make the transition to a green economy, the federal government must play an active role in economically encouraging innovation, sustainable investment and clean technology. Unifor recommends:

- The federal government significantly increase its infrastructure spending program. Annual budgetary deficits of $25 billion over four years would leave Canada's debt-to-GDP ratio unchanged at roughly 30%. The average debt-to-GDP among the OECD is roughly 60%, which is why Unifor believes that even more federal government spending on green infrastructure is economically justified. Putting Canadians back to work and leading the charge towards an innovation-intensive, green economy will help create a virtuous circle that more easily enables the federal government to return to fiscal balance.

Canada Pension Plan

With regard to retirement security, evidence suggests that half of middle-income earners over age 40 will see a significant decline in their standard of living in retirement, largely because of low pension plan coverage (three-quarters of private sector workers don't have a workplace pension). Our public pension programs have been successful at reducing poverty among seniors, but current benefits are set too low. Canada spends roughly 4% of GDP on public pensions, while the OECD average is closer to 8%. Unifor is also concerned about developments regarding single-employer target benefit (TB) plans in the federally regulated sector. Prime Minister Trudeau suggested that defined-benefit plans, which have already been paid for by employees and pensioners, should not retroactively be changed into target benefit plans. Unifor recommends:

- The federal government work with the provinces to implement the Canadian Labour Congress's proposal for a mandatory expansion of the CPP that would see a gradual increase in CPP contributions, and eventually allow for a doubling of future CPP benefits.

- The federal government ensure that federally regulated defined-benefit plans, which have already been paid for by employees and pensioners, are not retroactively changed into target benefit plans.

Canada Development Bank

The stockpile of idle cash and liquid assets held by Canadian non-financial businesses is now approaching $700 billion. The use of publicly owned development banks has proven to be an effective sector development tool in many jurisdictions, including Asia, Europe, and Latin America. These banks provide financing for crucial infrastructure projects, especially those associated with sustainable energy and clean technology. Unifor recommends:

- The federal government create a Canadian Development Bank (CDB) to provide financing for key sectors of the Canadian economy, including energy, transportation and advanced manufacturing. CDB investments will help to address the continuing failure of private businesses to reinvest their surplus cash flow in job-creating Canadian projects.

- The CDB would have the mandate to cover its cost of capital on a net break-even basis (across its portfolio of investments). The fair value of those investments will be reflected on the asset side of the government's balance sheet, and hence the bank's initial capitalization—experts at the Canadian Centre for Policy Alternatives have recommended something in the range of $2 billion—will be recorded as an investment by government (not a current expense).

- This new public bank will have the power to create credit and allocate it to innovative projects in targeted sectors of the economy. It will also be authorized to take equity stakes in firms or projects with strategic value. The CDB would evaluate and fund potential projects on the basis of broader criteria, including an integrated social cost-benefit analysis, than would normally be considered by private investors. With interest rates even on very long-run government bonds (as long as 50-year maturities) at record lows, this is an excellent moment to establish the bank.

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