Canadian Labour Congress
Congrès du travail du Canada

The 2010 Federal Budget: Canadian Labour Congress Analysis

1. Summary

The Budget contains no big surprises but is still a big disappointment. Despite the fact that unemployment is and will remain very high, economic stimulus measures effectively end after this year. A few very small new investments in jobs and skills will be made, but they do not amount to even the beginnings of a strategy to build a new economy. There will be a temporary extension of EI work-sharing, but about 500,000 unemployment claims filed during the Great Recession will still be exhausted. Corporate tax cuts continue, and are even modestly increased in this Budget, so the burden of deficit reduction will fall on government programs. Despite very low interest rates and one of the lowest debt levels in the advanced industrial countries, federal program spending will be slashed. Spending on international assistance is to be frozen.

While the world's and Canada's economic recovery is still very fragile, the Harper government has decided to focus on eliminating the deficit. Creating jobs would help balance the books at far lower cost.

2. Impact on Jobs and the Economy

Since October 2008, almost 500,000 permanent, paid jobs have been lost as the manufacturing and forest industry jobs crisis intensified and spread to other sectors. In the last Budget, under intense pressure, the federal government passed an economic stimulus package that, combined with ultra-low interest rates, seems to have stabilized the economy. The Budget estimates that the stimulus package has saved or created 130,000 jobs as of today.

But, a significant proportion of layoffs that occurred in the last few years are permanent, the result of bankruptcies and plant closures. Unemployment is expected by the Budget to average 8.5% this year, and 7.9% in 2011, and the real rate of unemployment — counting people who have been forced into part-time jobs or have given up looking for jobs — is already over 12%. Many unemployed workers are able to find only very low wage, insecure jobs.

We face a severe social and poverty crisis as tens of thousands of workers, who are unemployed through no fault of their own, exhaust their EI benefits and as the incomes of working families fall. The crisis has also had a devastating impact upon retirement savings and pension plans.

The CLC called on the government to build on existing stimulus measures and to launch, in partnership with the provinces and cities, a major, multi-year, public investment program which would create jobs now, promote our environmental goals, and build new "green" industries for the future. The current infrastructure program is far too small to have much impact on the jobs crisis, and excludes the larger and longer term projects which would have the greatest positive impact on our future economic potential. We also called for investments in job-creating public services, such as child care and home care.

The CLC also said that the federal government should invest directly in sector renewal strategies to save jobs and promote successful restructuring in hard-hit industries, such as auto, forest, and fish products.

What We Got

The Budget praises corporate tax cuts as its key economic lever, and maintains already announced stimulus measures only for this coming year, as expected. Stimulus money not spent in 2009-2010 will be carried over, but the program will end in March of next year. The Budget also adds some very modest new job creation initiatives. New measures listed under the category “building a strong economic foundation” total just $1.5 billion over the next two years (on top of funds already committed). One hundred and eight million dollars will be spent over three years on employment and skills measures aimed at youth, including Aboriginal and at-risk youth. About $500 million will be spent over two years on programs to build a more innovative economy, including through support for the National Research Council, and university and college research. There are small increases for regional economic development agencies, some very minor green jobs programs, and more support for basic infrastructure (including $175 million over two years for Marine Atlantic, and $330 million over two years for First Nations infrastructure).

Billed as a job creation measure, the Budget eliminates remaining tariffs on machinery and equipment, as well as on industrial inputs to manufacturing. These tariff cuts will be front-end loaded but phased in over five years, and will save business $200 million next year, rising to $300 million per year when the process is completed. The net effect on jobs may be negative if these tariffs result in higher imports at the expense of Canadian producers. Also, they eliminate a key bargaining chip in ongoing trade negotiations.

3. Employment Insurance

What We Wanted

EI is a critically important program for Canadian workers. Laid-off workers deserve adequate benefits to support themselves and their families. And EI is an effective form of economic stimulus which can help maintain hard-hit communities.

Our EI program has left far too many Canadians, especially women and lower wage, insecure workers, out in the cold. Only half of all unemployed workers qualify for benefits, and the average weekly benefit for those who do qualify is just $343. The more than 800,000 unemployed workers now on EI qualify for an average of just 38 weeks of benefits, and tens of thousands of workers who lost their jobs in the early stages of the crisis have already exhausted their claims. EI benefits have been temporarily extended for five weeks for all workers who file their claims before September 11, 2010, and up to 20 weeks for a few older workers under an extension program that will be phased out from June of this year and closes in September. But this is not enough in a jobless recovery. Provincial social assistance caseloads are starting to rise rapidly.

The CLC has called for a uniform entrance requirement of 360 hours of work across the country so that more unemployed workers will qualify. We want higher weekly benefits based on the best 12 weeks of earnings before a layoff, and a replacement rate of 60% of insured earnings. We also call for longer benefits of at least 50 weeks in all regions. As in the United States, benefits should be extended on an emergency basis for at least 26 weeks so long as unemployment remains so high. Work-sharing agreements under EI currently cover about 160,000 workers saving many from layoff, but they are about to run out, and must be renewed. The unemployed must also be given access to long-term skills training.

What We Got

The only EI measure in the Budget is a welcome extension of EI work-sharing. Arrangements can be extended for a further 26 weeks to a maximum of 78 weeks until March 2011. This measure is keeping some 30,000 workers from being laid off.

4. Pensions

What We Wanted

The crisis has exposed major faults at the heart of our pension system. Our public pensions — Old Age Security (OAS) and the Guaranteed Income Supplement (GIS), plus the Canada Pension Plan (CPP) — provide a secure income in retirement, but the maximum value of public pensions falls well short of replacing the 50% to 70% of pre-retirement income needed to maintain living standards. Meanwhile, the private part of our pension system is in deep trouble. Only about one in five workers in the private sector now belongs to an employer pension plan. The average pension plan is seriously underfunded because of low interest rates and the recent collapse of stock markets, placing pensions at risk if employers go out of business. Those without pension plans must rely on high cost RRSPs, which will leave many with very low incomes in retirement.

The labour movement believes that Canadians should not have to "fend for themselves" in retirement. We have called for a phased-in doubling of benefits under the Canada Pension Plan, from 25% to 50% of pensionable earnings, financed by a modest increase in worker and employer premiums. This will require federal/provincial agreement. The pension priority for the federal budget is to improve the Guaranteed Income Supplement (or GIS) which is paid to low income seniors to bring their incomes up to a minimum level. We call for an immediate increase in the GIS of 15% or about $100 per month, at an annual cost of about $1 billion. This measure would ensure that no senior lives below the poverty line.

The federal government should guarantee pension benefits in the federal jurisdiction up to $2,500 per month, and work with the provinces to create a national pension insurance system.

What We Got

Consultations on reform of the pension system are promised before the next meeting of federal and provincial finance ministers to be held in May, with the process to be launched this month.

5. Public Spending Cuts: Putting Deficit Reduction Before the Real Priorities

Economic stimulus from increased government spending in combination with low interest rates helped stabilize the economy. Deficits have financed programs which created jobs and helped the unemployed at a time when the private sector was very weak. As even the International Monetary Fund argues, the recovery is largely driven by government stimulus measures, and countries risk a quick return to recession if anti-crisis measures are withdrawn too soon.

The Budget argues that we have to move back quickly to balanced budgets through cuts to social programs, public services, and public sector jobs. For the Conservatives, deficits are the problem, not unemployed workers and their families. For them, balancing the books today is more important than helping people and building a better social and economic future.

Deficits are not a problem when they are used to finance public investment programs which create jobs for people, raise our economic potential, and further our environmental and social justice goals. And they are not a problem when the total government debt today is the lowest of the advanced industrial countries (53% of GDP in 2008-2009 compared to 102% in 1995-1996), and interest rates are at an all-time low. The federal debt is just one-third of GDP, and the cost of servicing that debt is very modest, just 2% of GDP. The federal deficit run this year (2009-2010) sounds scary in dollars, but is still less than 4% of national income, far lower than it was in the early to mid-1990s.

With low interest rates, we can and should finance public expenditures which create jobs now while raising our productive potential and the future tax base.

What We Got

As expected, the Budget focuses on balancing the federal government books at the expense of new investments. Significant spending cuts are to be imposed and potential new investments are to be foregone even though the government notes that

Canada's overall debt is very low by comparison to other advanced economies. As a result of economic recovery, the end of economic stimulus measures after this year, and net changes to spending and revenues, the deficit is forecast to shrink from $54 billion in 2009-2010, and $49 billion in 2010-2011, to under $2 billion in 2014-2015. In this coming year, 2010-2011, there are spending cuts of $800 million, and spending increases of $1.1 billion, but from then on spending cuts gather pace and begin to bring down the deficit. By 2014-2015, federal government program spending is forecast to shrink to just 13.2% of GDP compared to 15.6% this year — a difference of about $35 billion in annual spending. The burden of spending cuts is spread across three major areas: the administrative cost of government including strategic review of programs, international assistance, and military spending.

Deep cuts are imposed on Canada's international assistance programs. After reaching $5 billion per year this year, spending will be frozen rather than increased at the planned rate of 8% per year. This means spending will be $1.8 billion less than planned by 2014-2015, and will be $4.5 billion less than planned over the period from now through 2014-2015. The planned rate of increase in military spending is also to be reduced from 2012-2013.

In this Budget, the focus is on cuts to federal departments. Compared to the existing path of planned spending, there will be $15 billion in cuts over five years starting in 2010-2011. The federal government will cut, by a total of $6.8 billion, the operational cost of government. Departmental budgets will not be increased to fund increased demands as a result of population growth, the increased cost of goods and services purchased by government, and the 1.5% increase in annual wages already in place. Operating budgets will not rise by 1.5% this year to pay for wage increases, and will be frozen for the next two years.

Departments will be required to reallocate from the remainder of budgets the means to fund these wage and other cost increases. A lot of the burden will likely fall on jobs as vacancies arise and are not filled, and there may be layoffs. The government plans to meet with unions to discuss “all compensation costs.” The freeze on operational spending will be effectively extended to federal Crown corporations. On top of this, the government expects to cut another $1.3 billion over five years through program review. It is clear that, contrary to previous years, savings achieved through the program review will not be allocated to new programs, but to the deficit.

It is too early to predict what will be the results of these cuts, but they will have an impact on jobs and the economy that will limit the impact of the stimulus package this year, and slow economic recovery moving forward.

6. Fair Taxes

What We Wanted

If the government wants to return to balanced budgets over the medium-term without cutting the programs and services needed by working families, there is scope to raise taxes. In the next fiscal year (2010-2011), the two-percentage-point GST cut will cost the government over $12 billion in lost revenues, and their corporate tax cuts will cost almost $9 billion, without any significant impact on real job-creating business investments. Any so-called “structural deficit” — the deficit that would exist after an economic recovery — is almost entirely the result of short-sighted Conservative tax cuts. The CLC has supported higher personal income taxes for very high income earners and a return to the corporate tax rates in place before the Conservatives took office.

What We Got

While tax revenues will rise in line with the forecast economic recovery, the government has more or less stuck to its promise of no tax increases. The promised cut in the general corporate tax rate, from 22% when the government took office to 15%, will continue. On top of the phasing out of some tariffs, the Budget also cuts taxes by $30 million per year for Canadian companies which operate internationally by "improving Canada's system of international taxation." In fairness, the Budget also proposes to raise about another $400 million per year by closing down tax loopholes.

Conclusion

The priority in this Budget should have been jobs and support for the unemployed, not deficit reduction. The jobs crisis is still very much with us. Our national debt is low, and interest rates are and will remain very low. It is up to governments to deal with the human impacts of the crisis, and to set the stage for shared progress in the next economy.

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