Written Submission for the Pre-Budget Consultations in Advance of the 2019 Budget

Canadian Centre for Policy Alternatives
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List of Recommendations

Recommendation 1: Focus on revenue generation and stability in federal revenues through progressive tax reforms.

Recommendation 2: Put resources toward the Government of Canada's commitment to reconciliation with First Nations, Métis and Inuit.

Recommendation 3: Establish proactive and reactive fiscal measures, partly tied to provincial/federal carbon tax revenues, to facilitate a just transition away from fossil fuels and toward a sustainable economy.

Recommendation 4: Establish an adjustment fund for workers and industries adversely affected by U.S. tariffs, to be funded in part by countervailing tariffs applied to U.S. imports.

Recommendation 5: Invest in national programs that will improve public services and make them more affordable, such as universal single-payer pharmacare and child care.

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Introduction

The Canadian Centre for Policy Alternatives welcomes the opportunity to present to the committee our priorities for the upcoming federal budget. The CCPA is one of Canada's leading sources of progressive policy ideas. For more than 37 years, our work has rooted public policy solutions in the values of social justice and environmental sustainability.

Our annual Alternative Federal Budget (AFB), now in its 24th year, applies these values to federal fiscal policy in a way that would enhance Canada's competitiveness, stabilize federal revenues and put our economy on more sustainable footing. The recommendations below are drawn from the forthcoming (2019) edition of the AFB, which was developed in partnership with researchers, activists and leadership from a broad spectrum of civil society organizations representing millions of Canadians.[1]

Recommendation 1: Focus on revenue generation and stability in federal revenues through progressive tax reforms.

Decades of tax cuts have compromised the health of federal fiscal coffers. These cuts constrain the government's ability to be nimble during economic downturns, invest and expand vital public services and programs (e.g., the proposed introduction of national pharmacare and affordable child care programs), and implement measures to reduce income inequality.

Federal revenues are presently 14.4% of GDP, much lower than the 50-year average of 16.4%. This 2% difference represents lost revenue of $46 billion in 2019 alone. Canada, in other words, doesn't have a spending problem, it has a revenue problem.

As proposed in the 2019 AFB, the government should prioritize closing expensive tax loopholes (tax expenditures) that benefit mainly Canada's wealthiest income-earners, including the stock option deduction and preferential taxation of capital gains, to generate an additional $18 billion in revenues a year. Likewise, the government should consider a wealth tax on estates valued at more than $5 million, similar to the estate tax in the U.S. and many other OECD countries (revenue potential: $2 billion per year).

The government should continue to crack down on tax evasion and tax dodging; for example, by imposing a 1% withholding tax on corporate assets held in known tax havens (revenue: over $2 billion a year). Revenue can also be recuperated from foreign-based e-commerce firms (e.g., Google, Facebook and Netflix) that do not currently charge HST on the services they provide Canadians (as their Canadian competitors are required to do).

Finally, while the government will come under pressure to lower corporate tax rates in response to the Trump cuts earlier this year, we propose that Canada should raise its top corporate rate to match the current U.S. rate of 21%. This, and a related increase in the small business tax rate to 15%, would generate revenues of $12 billion annually — money that could be reinvested in existing and new social services (see examples listed under Recommendation 5), while providing a buffer in the event of a future economic downturn.

Recommendation 2: Put resources toward the Government of Canada's commitment to reconciliation with First Nations, Métis and Inuit.

Since 1996, a 2% cap on annual funding increases for core First Nations programs and services has resulted in constant losses against inflation and population growth, among other cost drivers. This has prevented closing the socioeconomic gap between First Nations citizens and other Canadians.

The federal government has committed repeatedly to eliminating the 2% cap. Over the course of three federal budgets, Canada has ensured that funding for some programs and services will exceed 2% annually. However, in many other cases the cap is effectively (if no longer officially) in place.

With annual increases to governance and administration under 2% for 22 years, First Nations governments have been unable to build modern governance infrastructure, hire and retain skilled staff, or manage programs to improve results for their citizens.

The federal government should invest $2.5 billion over the next three years in the four areas of governance capacity: band support funding, band employee benefits, professional and institutional development, and tribal councils.

To address the infrastructure funding gap on reserves, the government should also put $5 billion over three years for use toward housing, water, roads and other construction projects that improve lives and have obvious benefits for Canada's economic competitiveness.

Recommendation 3: Establish proactive and reactive fiscal measures, partly tied to provincial/federal carbon tax revenues, to facilitate a just transition away from fossil fuels and toward a sustainable economy.

To address and mitigate the rising costs of climate change, Canada must rapidly transition away from fossil fuel dependence and toward a clean and sustainable economy. To minimize the potential harm to workers and communities from such a dramatic transformation, and to maximize the competitiveness advantages, Canada needs a comprehensive just transition plan, which could include, but is not limited to, the following measures:

- Allocate $250 million over five years to a create a National Decarbonization Strategy (NDS) in consultation with First Nations, Inuit and Métis representatives, provincial-territorial governments, and labour unions. The Strategy will prioritize greenhouse gas emission reductions in line with Canada's Paris Agreement commitments. A further $500 million should be allocated for a Just Transition Transfer to help provincial and territorial governments implement their own just transition policies (e.g., to sustain income supports, skills retraining and career counselling for laid-off workers).
- Establish a new Strategic Training Fund ($1 billion a year) to bolster and diversify the workforce in key carbon-free sectors identified as priorities through the NDS consultation process. This fund will improve Canada's competitiveness by ensuring a supply of skilled workers for the sustainable jobs of the future.
- Establish a Sustainable Infrastructure Transformation Fund ($6 billion over three years, to be funded in part by federal carbon tax revenues) to provide resources for ambitious, competitiveness-enhancing projects related to public transit expansion (including high-speed rail), clean electricity and zero-emission infrastructure (i.e., to displace internal combustion engines), waste reduction, retrofitting and the use of geothermal energy.

Recommendation 4: Establish an adjustment fund for workers and industries adversely affected by U.S. tariffs, to be funded in part by countervailing tariffs applied to U.S. imports.

The NAFTA renegotiations with the United States and Mexico have been frustrated by U.S. bullying tactics, including the imposition of harmful tariffs on important Canadian exports such as steel, aluminum, newsprint and, potentially, autos and auto parts. While the economy has absorbed these shocks so far, Canadian competitiveness and employment may be harmed in the long run by the unpredictable actions of the Trump administration.

In the short term, Canada should allocate $100 million toward a new adjustment fund for workers, industries and communities negatively affected by U.S. tariffs. In the longer term, the federal government must engage constructively in discussions with civil society on how to replace NAFTA and other free trade deals like it with a new, fairer and more sustainable trade and investment treaty model and negotiating process.

Recommendation 5: Invest in national programs that will improve public services and make them more affordable, such as as pharmacare and child care.

There is very clear evidence that investments in public services create jobs and make real-life improvements for all Canadians. Yet, as a country we are not investing enough in health care, child care, seniors care, education and affordable housing.

We also know that the changing nature of Canada's labour market means more workers are in precarious jobs, facing job instability and economic insecurity. Yet we are not doing enough to support those workers.

We propose a major expansion of federal public services and support programs, in particular in the following areas.

Health care: Increase health transfers to the provinces and territories. Commit to a new Health Accord, featuring a Canada Health Transfer that grows at 5.2% annually. Allocate $7 billion a year to create a universal single-payer pharmacare plan in Canada, with direct savings to Canadians of $11.5 billion across the economy. Implement a mental health program using the principles and criteria of the Canada Health Act.

Child care: Most comparable countries spend at least 1% of GDP on child care, but not Canada (it spends 0.3%). The federal government should increase child care funding by $1 billion annually until the 1% of GDP benchmark is reached. That funding should go directly to public and not-for-profit providers to reduce child care fees for parents.

Home care and long-term care: Spend a targeted 2% of GDP on home care based on principles and criteria set out in the Canada Health Act. Invest $1.65 billion a year in long-term and residential care.

Poverty reduction: Set a target to reduce Canada's poverty rate by 50% from the 2015 level within three years. Introduce a yearly $4-billion transfer to the provinces and territories to boost social assistance benefits and achieve clear poverty reduction targets. Increase direct transfers to low-income families, including a new dignity dividend, to reduce child poverty by a quarter and adult poverty by 10%. Increase the Guaranteed Income Supplement (GIS) top up by $1,000 for single seniors and couples. Expand the Canada Pension Plan (CPP) replacement rate to 50% and increase the income exemption for the GIS to reduce senior poverty rates by 40%.

Worker supports: Set a universal Employment Insurance entrance requirement of 360 working hours to level the playing field for precarious workers. Set a minimum benefits floor for all unemployed workers, not just those with children. Issue open work permits for the Temporary Foreign Worker Program (TFWP) and allow migrants to obtain parental benefits. Support immigrants with greater access to training and accreditation and ensure a path to citizenship for the most marginalized immigrant workers.

Housing: Make a one-time $1-billion capital investment in repairing and retrofitting existing social housing. Allocate an additional $1.5 billion a year to the Canada Housing Benefit that helps low-income households afford their rent.

Conclusion

The CCPA strongly believes enacting these priority measures in the forthcoming federal budget would enhance Canada's competitiveness, enrich and stabilize federal revenues, and meaningfully address inequalities in employment opportunities and public service availability among Canada's diverse population. Especially given the current uncertainty in the Canada-U.S. trade relationship, it is vital to open new opportunities for sustainability, economic and employment growth in the areas outlined in this brief.

Notes

1 The 2019 Alternative Federal Budget will be available at www.policyalternatives.ca in September 2019.

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