Written Submission for the Pre-Budget Consultations in Advance of the Upcoming Federal Budget

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Recommendation 1. That the government of Canada require that all financial practices and innovations in securities and other forms of asset management be subject to review by the Department of Finance and the CRA and to approval/disapproval for their impact on the tax revenues of the government.

Recommendation 2. That the government of Canada, including its Crown corporations, end all subsidies to the fossil fuel industry and redirect such benefits (of any type from tax breaks, to direct aid, to providing insurance and export support) to renewable sources of energy, energy efficiency in transmission and use, and to energy efficient technologies.

Recommendation 3: That the government of Canada, whenever it funds or subsidizes the development of new technologies or private enterprises, require that there be a proportionate public share in any return on that investment.

Recommendation 4. That the government of Canada pass an amendment to the Bank of Canada Act that requires the Bank of Canada to exercise its existing facility to fund the federal government, stipulating that it must do so up to a minimum of 70% of any federal deficit.

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Honourable Members of the Finance Committee

The government of Canada has responded quickly and quite effectively in my view to the economic and social health crisis created by the need to support public health and the economic consequences of social distancing in response to the Covid-19 pandemic. The financial result, a federal deficit in excess of $343 Billion and a national debt above $1 Trillion is shocking to many Canadians. Many warn that as soon as the pandemic is under control, austerity is required. I submit that that is precisely the wrong financial strategy given the individual, business and societal need for additional health and employment programs due to continuing threats from the pandemic. It is equally urgent that we address the crises caused by global warming at home and abroad. We need to finance a just and environmentally sustainable recovery that addresses these problems and the tremendous inequities of the disadvantaged in Canada – from our first nations and other racialized minorities and immigrants, to women and the elderly.

As members of the Finance Committee, you set policy on the use of fiscal facilities in the federal budget in service of government policy. The recommendations I am submitting do not attempt to be comprehensive. Instead, they point to quite specific tax, regulatory, spending and borrowing measures that are either somewhat novel or so fundamentally important they bear repeating.

Recommendation 1. That the government of Canada require that all financial practices and innovations in securities and other forms of asset management be subject to review by the Department of Finance and the CRA and to approval/disapproval for their impact on the tax revenues of the government.

"RBC to raise $1.75 billion with new tax-efficient security" (https://www.theglobeandmail.com/business/article-rbc-sells-175-billion-of-new-tax-efficient-security).

RBC's new security, the LRCN or 'limited recourse capital note', is deliberately structured to be 'tax efficient'. Undoubtedly, other major banks will also start selling LRCNs to raise capital. A major feature of the LRCN is to make payments on them into tax-deductible interest payments for the issuing bank as opposed to non-tax-deductible dividend payments, such as those on more traditional preferred shares.

Canada's major banks are the core of the most consistently profitable industry in our economy. They already pay lower taxes than banks in other G7 countries, as little as 16% by one 2017 estimate. (https://projects.thestar.com/canadas-corporations-pay-less-tax-than-you-think/).

Those taxes are sorely needed by our government in this time of fiscal deficits necessary to sustain health, safety, and sustainable livelihoods for people and businesses in the face of the devastation of Covid-19 and climate change. If any federal government or government agency authorized this financial innovation that will diminish the public purse, I would like to know which one and why. Are the banks powerful enough in Canada to make fiscal policy themselves? This is the reason for this recommendation.

Recommendation 2. That the government of Canada, including its Crown corporations, end all subsidies to the fossil fuel industry and redirect such benefits (of any type from tax breaks, to direct aid, to providing insurance and export support) to renewable sources of energy, energy efficiency in transmission and use, and to energy efficient technologies.

Subsidies to the fossil fuel industry by Canada's federal government only, which have been going on for many years, in 2020 alone will be at least $600 million.

(https://www.iisd.org/sites/default/files/publications/canada-fossil-fuel-subsidies-2020-en.pdf)

On top of that, in 2019, the federal government purchased the Trans Mountain Pipeline for $4.5 billion and is spending another $12.6 billion on its expansion. Those subsidies and that project are incompatible with Canada's Paris Agreement commitment to reduce the greenhouse gases causing climate change. In addition, it is becoming increasingly difficult to insure such projects as Zurich's recent decision not to renew its insurance this month shows. That leaves the government and all Canadians on the hook for spills, explosions, etc., not just during construction but for years to come. There is no economic, political or moral justification for this spending. Those concerned with the workers of Alberta can subsidize alternate job programs in sustainable industries like renewable forms of energy.

(https://www.nationalobserver.com/2019/01/21/news/ipcc-authors-urge-neb-consider-climate-impacts-trans-mountain-pipeline-expansion ; http://priceofoil.org/content/uploads/2017/01/climate_on_the_line_FINAL-OCI.pdf)

Recommendation 3: That the government of Canada, whenever it funds or subsidizes the development of new technologies or private enterprises, require that there be a proportionate public share in any return on that investment.

For far too long public investment in research and development has permitted private enterprise to reap all the gains, increasing inequality in our world. Regulations requiring that the public have a share in the returns on investment in innovative applications coming from such research whether in pharmaceuticals, electronics, or other fields should be attached to all such government funding. A public share proportionate to the public's investment would be a significant source of revenue and reduce the inequalities that flow from intellectual property.
(https://www.doctorswithoutborders.ca/issues/medical-rd-and-essential-medicines)

This is not to propose that government take over the economy. It is instead to argue that it is time to recognize that all modern economies are a mix of public and private endeavour – and money. For too long the public hand has been as invisible as that of the market. It has been left to clean up the mess – the costly social and environmental side effects or 'externalities' of many private businesses, which too often just take the money and run. Governments not only structure the economy by defining and protecting property rights legally, they create its foundations in physical and social infrastructure – from highways to schools to basic scientific research. Of course, governments also have their faults, tending to excessive bureaucracy and abrupt politicized changes of direction. Both the private and public sectors can descend into corruption. Both can build bridges to nowhere. But the role of the public hand, of government, deserves greater recognition for protecting the social good - human and

natural rights, and greater rewards for its contributions to private enterprise – rewards that return to the pubic it represents, the more democratically the better.

Recommendation 4. That the government of Canada pass an amendment to the Bank of Canada Act that requires the Bank of Canada to exercise its existing facility to fund the federal government, stipulating that it must do so to a minimum of 70% of any federal deficit.

It is absolutely imperative to prevent a return to austerity politics and lax environmental regulation as happened after the Great Recession of 2008. Fortunately, there are leading economists stating that this is not the time for austerity – more debt is definitely affordable because interest rates are extremely low – close to zero, and given the economic collapse, likely to remain so for some time.

(Hepburn, C., O'Callaghan, B., Stern, N., Stiglitz, J., and Zenghelis, D. (2020), 'Will COVID-19 fiscal recovery packages accelerate or retard progress on climate change?', Smith School Working Paper 20-02.)

Crucially, it is the amount of interest paid on debt, not the amount borrowed that is the major limit on sovereign government borrowing. Debt service squeezes out spending on social and environmental programs. Canada's government debt should therefore no longer be raised primarily from the private, commercial banking system, which always adds its profit margin to the rate of interest charged. Canada has learned the hard way that the international financial markets and agencies can downgrade the debt of a country and/or devalue its currency when it is too dependent on them. The Fitch rating agency has already lowered Canada's debt rating a

notch from AAA to AA+. This is despite the fact that Canada's debt to GDP ratio still remains among the lowest in the G7.

The Bank of Canada, which is a publicly owned bank, should finance most federal debt for relief and sustainable recovery programs, keeping it at home. Public central banks don't add a profit margin to the rates they charge. The interest payments they receive, after deducting administrative costs, are 'profits' returned to their 'owner', the Federal Government, thereby further reducing the debt carrying burden. Finally, the central bank can roll over debt in perpetuity. **After all, this is public debt - we owe it to ourselves, unlike private debt.** Sovereign nations that issue their own currencies are not at all like households or businesses, and they do not have to finance and budget in the same way.

For the first forty years following the Bank of Canada becoming a publicly owned bank, it financed the government's recovery from the Great Depression of the 1930s, Canada's massive Second World War effort, and the foundations of our social welfare system, including unemployment insurance and Medicare. Despite financing all those endeavours, Canada had almost no federal debt until the 1970s when the Central Bank's policy changed and the government turned to the commercial banking system to fund its deficits. The result was massive growth in the federal debt, primarily due to the increase in the amount of interest charged. Now, during the Covid-19 crisis, suddenly, the Bank of Canada has discovered the full extent of its original monetary mandate. Not only has it engaged in buying commercial paper and corporate bonds - the credit easing that provides liquidity to the private financial system and lowers interest rates throughout the economy (and can be inflationary for assets), it is also engaged in quantitative easing - providing $5 billion a week to the federal government.

One consequence of this is that the interest cost on the debt this fiscal year is now expected to be less than on a deficit one tenth the size, as had been projected prior to the pandemic.

Canada has the history to prove that public financing of major government programs doesn't necessarily cause inflation. But there is one condition. The money created by such financial stimulus must go to people and enterprises producing real goods and services for which there is an adequate supply of labour and materials. The programs implemented by the Federal Reserve Bank of the United States following the 2008 financial crisis flooded the financial markets with money that was used primarily to buy back company shares and increase executive pay, increasing inequality. The result was inflated valuations in the stock and real estate markets. While that has happened again during the pandemic, both the Federal Reserve in the United States and the Bank of Canada have now started to reduce such credit easing.
(www.levyinstitute.org/is-monetary-financing-inflationary-a-case-study-of- the-canadian-economy,1935-75)

By contrast, when money created by public banks is used to invest in individual income support and productive enterprises for the social good – in physical and social infrastructure and ecosystem renewal, as long as the resources they require, primarily people needing jobs, are not in short supply – no general inflation ensues. With the levels of unemployment today and many small, medium and large businesses closing because of the pandemic, that is not going to be a problem in the foreseeable future.