



CRFA PRESENTION

May 29th, 2008

Standing Senate Committee on National Finance

Bill C-50, An Act to implement certain provisions of the budget tabled in Parliament on February 26, 2008 and to enact provisions to preserve the fiscal plan set out in that budget

The Canadian Restaurant and Foodservices Association appreciates the opportunity to present the views of the nation's restaurant and foodservice operators on Part 7 of Bill C-50.

I am here today on behalf of Canada's largest hospitality association with 33,000 members across the country. CRFA represents a \$59 billion industry with over a million employees.

I have been before both the House of Commons Standing Committee on Finance and Standing Committee on Human Resource Development many times on the issue of employment insurance. Because of the labour-intensive nature of our business, where \$3.00 out of every \$10.00 in sales goes to payroll, restaurant operators pay a disproportionate amount of taxes as payroll taxes.

Recognizing the burden that artificially high employment insurance rates place on labour-intensive industries, CRFA is on record as objecting to the

setting of EI premiums at excessively high levels, and has argued against the use of EI funds for purposes unrelated to employment insurance.

CRFA, long-ago concluded that the only way to ensure employment insurance premium rates are set on a break-even basis is to re-establish a dedicated trust fund that is separate from Canada's public accounts and operated at arm's length from government.

Over the last 12 years, EI premiums have been set at rates that consistently far exceeded program costs, resulting in the accumulation of a \$54 billion surplus in the EI account. This has resulted in an enormous financial obligation to the employers and employees who exclusively fund the program.

In principle, building up a surplus during times of economic growth makes sense, so that premium assessments do not have to increase during a prolonged recession. In practice, the intention behind establishing surpluses has not been respected. As far back as 1994, in a submission to the Standing Committee on Human Resources, CRFA expressed concerns about this approach: *“Unfortunately, our experience has been that surpluses have been too irresistible for government, and have been diverted to other initiatives. CRFA cannot support the anti-cyclical financing approach unless there is a statutory guarantee that the surplus would be accumulated for an economic downturn only”*.

Our fears back in 1994 were obviously well-founded. Governments quickly became dependent on the funds in the EI account. The 1986 directive of

the Auditor General to integrate the Employment Insurance program into the overall finances of the government has been used as an excuse to justify the diversion of EI funds. It has been clarified by the Auditor General many times, that it was never the intent of the Auditor General to have EI revenues as part of the government's general tax revenue stream, nor for them to be used for purposes other than EI. The only reason for the directive was that back in 1986, the EI account was in deficit and contributed to Canada's overall deficit, which in turn, impacted the overall borrowing requirements of the country. As we all know, there has been an enormous improvement in federal government finances since then.

We also know that there will always be pressure on any government to increase spending on a multitude of programs and activities and to lower taxes in a host of areas. As a result, we are pleased that Part 7 of Bill C-50 will no longer allow the EI program to be treated as a cash cow. Payroll taxes are profit-insensitive and regressive and should never have been part of the government's general tax base.

A counter-cyclical approach to rate-setting was pointless as long as the EI account was consolidated with general revenue because government's accounting principles do not allow surpluses to be carried forward from year to year. Employers and employees were always vulnerable to premium rate increases when the unemployment rate went up, regardless of the "reserve" in the EI account.

CRFA recognizes that the \$54 billion EI surplus is a notional account and given fiscal realities cannot easily or immediately be turned over to the proposed *“Canada Employment Insurance Financing Board”*.

We could debate whether the initial prepayment of \$2 billion to be provided to the new crown corporation for its reserve is adequate. The long-term economic outlook suggests low unemployment levels and intensified labour shortages. This is in stark contrast to the double-digit unemployment rates during the 81-82 and 91-92 recessions, which significantly reduces EI reserve requirements. In the case of a prolonged or severe recession, resulting in a significant increase in EI expenses, CRFA would certainly expect the federal government to make up for the revenue shortfall. Given the \$54 billion surplus, the federal government would be expected to respect its obligations to employers and employees even if it meant raising other taxes or cutting spending.

Perhaps a better way for government to return the \$54 billion surplus would be to begin contributing to the EI program again. Because an increasing percentage of benefits are unrelated to the labour market, CRFA believes it is time for government to pick up a share of the costs for the EI program on a permanent basis. A broad range of social programs have been added to EI over the years such as benefits for parental leave and compassionate leave. These benefits, while introduced as a response to genuine societal needs and concerns, are unrelated to the original intent of EI and now comprise more than 40% of program costs.

When the EI program began, its purpose was to provide income support for those temporarily and involuntarily out of work. The cost of the program was split between employers, employees and government. Over time government gradually reduced its level of contribution and in 1990 withdrew its contributions altogether. Today employers shoulder 60% of the costs of the EI program, with employees contributing the balance despite the fact that only \$8 billion of the \$14.4 billion of benefit disbursements in 2006 were for regular or pure EI benefits.

CRFA has long been on record as supporting a more equitable split in EI contributions. CRFA recommends a cost sharing formula of: employers 40%; employees 40%; and government 20%. Adding government as a partner in the cost of the program would make it more equitable, would draw down the \$54 billion EI surplus on the books and ultimately improve accountability.

To conclude, CRFA supports the establishment of the “*Canada Employment Insurance Financing Board*” and a stand-alone EI fund to be administered at arm’s length from government. This is the only fair and responsible way EI premiums can be set on a counter-cyclical basis. It also allows the program to be maintained on a sound financial footing without temptations for government. CRFA believes that is time for the government to begin sharing in the cost of the program again to make it more equitable and as a means of drawing down the \$54 billion surplus. CRFA also believes that Part 7 of Bill C-50 provides necessary statutory protection for employers and employees by removing the option of having their hard-earned premiums used for other purposes.