

# Considerations for Preparing the Next Federal Budget for Canada

Submitted in response to the Department of Finance's consultative process

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By

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Please consider four initiatives that could offset the mounting adversities facing Canadians, due to geopolitical and tariff uncertainties and domestic policy challenges. Two are spending-related, and two are revenue-related. Costs/revenues are not included in each case because of the spectrum of implementation alternatives within each proposal.

**Recommendation 1: Fix EI.** The cost to the public purse is zero or negligible if premiums are raised immediately. Alternatively, an increase in the EI deficit would accrue to federal fiscal accounts.

**Recommendation 2: Address the crisis in the care economy and increase its contribution to growth** through six new time-limited, targeted, conditional federal transfers for provinces and territories that improve childcare, healthcare and long-term care.

**Recommendation 3: Re-launch Victory Bonds** which, depending on the design, could add revenues or borrowing capacity, supplementing a fiscal strategy that currently relies primarily on tax cuts and spending cuts.

**Recommendation 4: Consolidate the Canada Pension Plan's net income into federal accounts,** as was done with the EI account's surplus in 2010. This would change rules of revenue-raising or disbursements, but could offset deficits, reducing the urgency for spending cuts or enhancing the potential for reallocating "savings" to programs that could boost growth.

## 1. EI Reforms

Only [516,620 people](#) were in receipt of regular jobless benefits in May 2025, the most recent data available. That same month [1,574,600 million people were unemployed](#), meaning only 32.8% of the jobless were in receipt of jobless benefits. That is the lowest rate of coverage in the history of the program, established in 1941. *See chart on the last page.*

Given the delayed and escalating impact of tariffs, more people will be unemployed by the fall. EI's income replacement rate is 55%, for those in receipt of benefits. Maximum insurable earnings in 2025 are \$65,700. That doesn't mean the sidelined auto, steel and aluminum workers, many earning

around \$100,000, will receive \$36,135. The most they will get is maximum weekly benefits of [\\$695](#) times maximum number of weeks ([45 weeks, tops, depending on your economic region](#)).

For a worker making \$100,000 that's \$31,275; an income replacement rate of 31.3%. That amount must also cover lost health benefits. If they had mortgages, these workers may lose their housing, particularly if they were refinancing this year.

A recent federal package for steelworkers provides help for "[up to 10,000 workers](#)", which is [almost half the current steel workforce](#). There are already 15,000 temporary and permanently laid-off auto workers receiving help at Unifor's action centres, and thousands of other workers in auto, aluminum and lumber are at similar risk of job loss. What share of high-earning workers will be idled in this trade war?

Similarly troubling is the unknown share of the almost [3.5 million workers](#) in retail trade and hospitality (bars, restaurants and hotels) who could find themselves jobless or with significantly reduced hours as economic uncertainty amplifies the number of people pulling back on spending. Most workers in these sectors earn close to the minimum wage. Most also live in big cities, where 55% of low wages will not cover living costs. Many may lose their rented housing, with no options for cheaper places to live. Without EI reforms, a recession will produce a cascade of despair.

EI was designed in the 1940s as an automatic stabilizer, to reduce the depth and duration of recessions. It was meant to sustain purchasing power so losing a job did not guarantee a descent into poverty and losing everything. This also helps businesses maintain business.

We are not recession ready, but we have some runway to prepare for the inevitable next recession.

There is broad consensus on the best ways to do this, which include:

- lowering the threshold for eligibility to a universal 360 hours;
- raising the floor for benefits – either through a minimum benefit of at least \$350 a week, [our inflation-adjusted [recommendation from 2021](#)], or by increasing the income replacement rate to 2/3rds of insured earnings; and
- raising the ceiling (maximum insurable earnings).

See [Reforming-EI-for-the-21st-Century-Oct2021.pdf](#) We encourage steps be taken in the next federal budget to restore this essential role of economic public policy.

The EI fund has run a surplus in each of the last three years, but its [accumulated deficit is \\$15.8 billion](#), a hangover from the pandemic. There were [over 8.8 million taxfilers with incomes of \\$70,000 or more](#) in 2023, over 82% of whom had employment income. Most of these earners do not work in small businesses, which would be most sensitive to these changes. Most of these earners are unlikely to lose their jobs due to tariff pressures. Raising maximum insurable earnings to \$98,000 – conforming with the [maximum under Quebec's Parental Insurance Program](#) – would bring an infusion of premiums into the fund, reducing the annual deficit that accrues to the federal fiscal bottom line, permitting improvements to eligibility and benefits.

## 2. The Care Economy

[At 13.7% of GDP](#), the combined sectors of health & social assistance and education are the biggest drivers of the Canadian economy and represent the single biggest source of employment in Canada, accounting for [21.4% of all jobs](#). Care is essentially a recession-proof industry and provides a source of organic growth amidst a slowing economy due to population aging and the needs of the smallest

cohort of working-aged people since the 1960s, who require higher employment rates to deal with escalating shelter costs. This has resulted in the [rising labour force participation rates of parents](#). As an economic engine, the care economy produces 1.5 times more GDP than manufacturing, 1.9 times bigger than construction and 2.6 times bigger than all forms of mining and extraction, including oil and gas. As a source of employment, it offers almost twice as many jobs as in the second most job-rich sector that is retail; 2.5 times as many jobs in manufacturing; 2.75 times as many jobs in construction; and almost 15 times as many jobs as in all of mining, quarrying and oil/gas extraction. Its “product” plays an unsung economic role in preserving and enhancing productivity and its role in creating decent jobs has been ignored in the wake of the tariff threats. After years of chronic excess demand and insufficient supply, many aspects of the care economy are facing deepening crisis. Over 6 million Canadians have no doctor. The system of last recourse, hospital emergency rooms, are closing more frequently for lack of staffing. Wait lists for childcare, long-term care and homecare can extend for years. People are literally dying for lack of care; and human potential is being undercut by inactive public policy.

In 2004, the Paul Martin Liberals launched a “[10-year plan to strengthen healthcare](#)”, [including six targeted, time-limited funds to alleviate pressure points in the system](#). Discrete, time-limited funds (with 5 or 10-year horizons) could address six distinct elements of the current crisis in the care economy:

- i. **Labour shortages:** Provide free training/residencies for nurses, doctors, schoolteachers and early childhood educators, on condition of course completion and placement in an underserved community for up to 5 years (for ex. a two-year diploma would require 2 years of return of service). Underserved communities exist in Indigenous, rural, remote and urban locations.
- ii. **Retention challenges:** Reduce labour turnover and improve continuity of care by ensuring care workers’ compensation systems reflect living costs and need for pooled benefits/pensions programs. This is particularly urgent for low-wage workers providing publicly funded childcare, healthcare, homecare and long-term care.
- iii. **Migrant workforce:** Create well-publicized pathways to permanence (before and after arrival) for migrant workers with temporary residency permits who are already employed in these sectors.
- iv. **Lengthening wait times:** Cut wait times for healthcare by funding initiatives that improve interoperability of medical record systems, to produce a single-entry model of digital documentation. This optimizes provider and patient ability to book service requisitions, monitor availability by location and duration of wait time, and track treatment outcomes/drug utilization more effectively. Done inter-provincially, with elimination of extra fees for out-of-province patients, this could be more meaningful and effective than the current focus on eliminating internal trade barriers.
- v. **Limited access:** The first phase of the Canada-wide Early Learning and Childcare agreements focused on reducing parental costs. Phase two must focus on improved access. While spaces have slowly been added over time, [only 32% of children](#) had access to full- or part-day licensed programs in 2024. Fund targets to double the number of fully-staffed licensed public/non-profit spaces over the next five years. NOTE: Given the current administration’s focus on leveraging new private sector investments, it is important to remove restrictions on public delivery (such as school-based care) and put guardrails on the growth of [the for-profitization of care in Canada](#), in childcare, healthcare and long-term care. One step is by red-circling existing for-profit providers.

- Scaling up capacity and management efficiencies must be through non-profits and public providers, not for-profit providers, based on experiences in the U.S., UK and Australia.
- vi. **Need for flexibility:** Fund additional staffing capacity to more fully utilize existing public infrastructure (operating rooms and emergency rooms in hospitals), on condition that provinces reduce reliance on private clinics and temporary agencies. Floating pools of workers to deal with unpredictable shortages, operated in the public sector, is an untested but viable option.

Each of these dedicated funds require public and well-publicized annual reports on how the federal money was used, with reports following a consistent format and categories across provinces and territories. Those who skip categories or simply ignore reporting don't get the money next year. This is not a jurisdictional issue. It is a contract. Don't like the terms? Don't take the money.

The Canada-Wide Early Learning and Childcare Agreements provide a template for a successful way to flex federal spending power and buy change; but contracts need to be monitored and enforced. CWELCC's focus on expansion of public or non-profit providers as the way to add capacity is data-driven, based on [long-documented problems associated with for-profit care](#), and not just in childcare. Despite contracts that cap for-profit shares of the existing market in these fed-prov agreements, [for-profit care increased more quickly](#) in 6 of 10 provinces, including the most populous – Ontario, Quebec and B.C. – in 2024. Data from the Canadian Centre for Policy Alternatives show [this trend has continued through 2025](#), with 57% of all the growth in childcare spaces coming from increased for-profit provision of care.

### 3. Victory Bonds

Since the new federal administration came to power, it has axed the carbon tax (minus rebates, which added [\\$650 million](#) to revenue in 2023-24, possibly \$3.2 billion over the next five years), deleted the Digital Services Tax ([\\$5.9 billion](#) expected over the next 5 years), cut the GST for new homebuyers ([\\$3.9 billion](#) over 5 years) and rescinded the planned increase in the inclusion rate of capital gains ([\\$19.4 billion](#) over 5 years). In addition, it introduced a “middle class” tax cut that provides the maximum benefit to anyone with incomes of \$57,375 (the top of the first tax bracket) or more, including millionaires. No money will accrue to the [8.9 million people \(29% of all taxfilers\)](#) whose net incomes were too low to trigger income taxes. This measure was estimated to reduce federal revenues by [\\$27 billion](#) over the next five years.

This represents an estimated \$59.4 billion hole in public finances over the next 5 years. (We cannot yet assess the revenue impact of Canada's ultimate tariff response to U.S. actions.)

To prevent a worsening deficit picture, this administration has also proposed [reprofiling expenditures into operating and capital spending](#), and cutting direct program operational spending [by 7.5%, 10%, and 15% over the next three years](#).

Beyond cutting, we have another fiscal option: borrowing from ourselves. With the [lowest debt to GDP ratio in the G7](#) for the last 20 years, and projected to maintain this vaunted position into the foreseeable future, this government should harness the mutual aid spirit that's on the rise.

Trump's stance on Canada's economic and political relationship with the U.S. has triggered a patriotic surge among Canadians. “Elbows Up” and “Never 51<sup>st</sup>” is not just about what we are fighting against,

but what we are fighting for: a country whose values – like universal healthcare – are different from those of the U.S. and worth defending.

The wildly popular Victory Bonds helped Canada finance our war efforts in the first and second World Wars. The awareness campaigns not only raised money; [they built morale](#), and a sense of shared purpose. They underscored that everyone had a financial stake in a shared struggle, even if they only bought a \$5 savings certificate.

By [1946, Canada Savings Bonds](#) were a permanent fixture in the federal financing landscape. Payroll deductions became a common way Canadians saved while helping finance our common future. Because of falling interest rates and the availability of other savings vehicles, by [November 2017](#) the government of Canada ended the program.

Today there is no retail vehicle for Canadians to invest in the country they love. That's a missed opportunity for those who don't just want to buy Canadian; they want to help Save Canada.

In June I wrote a piece for the [Canadian Tax Foundation](#) on how the government of Canada could create such a voluntary option as a way of raising money. It offers some ideas on how to advance this idea, for which there are endless permutations. Bottom line: if you're going to dig yourself into a revenue hole, why not let your friends pitch in with their own shovels to help dig you out?

#### **4. Consolidate CPP into Fiscal Accounts**

In [Budget 1989](#) (p.29), in line with their commitment to deficit-reduction, the Mulroney Conservatives ended the tri-partite funding of EI (eliminating \$2.9 billion in federal contributions, over \$6.3 billion in today's dollars). [cutting eligibility](#) and [raising premiums](#) by over 24% amidst a recession. Despite subsequent cuts to premiums, continued reductions in eligibility and a rapidly recovering economy under the Chretien and Martin Liberals saw the EI account develop a large off-book surplus.

In 2010, the Harper Conservatives stayed on track with their deficit-reduction priorities despite the Global Financial Crisis (GFC) by [shifting that EI surplus from a dedicated EI account into the Consolidated Revenue Fund](#). The GFC triggered a [\\$56 billion deficit for 2009-10](#). When Harper's government created the [Employment Insurance Operating Account](#) (p.5), the surplus was \$57 billion. When the Conservatives headed into the 2015 election, the government was running a [\\$1.9 billion surplus](#), in no small measure due to absorbing the unallocated balance from the EI account.

Similarly, the Canada Pension Plan is a federal program not funded directly by the federal government (except for its employees). However, just as the federal government establishes the statutory terms for premiums and payouts for jobless benefits, so it determines the payroll deductions and benefits for the CPP. CPP is a federal program.

The Canada Pension Plan Investment Board reported a [\\$59.8 billion "surplus"/net income](#) for the year ending March 31, 2025, up from \$46.4 billion for 2024. Including this balance on federal books could ease some cost-cutting pressure, and permit savings achieved in other spending areas to be reallocated to programs that boost economic resilience, productivity and output.

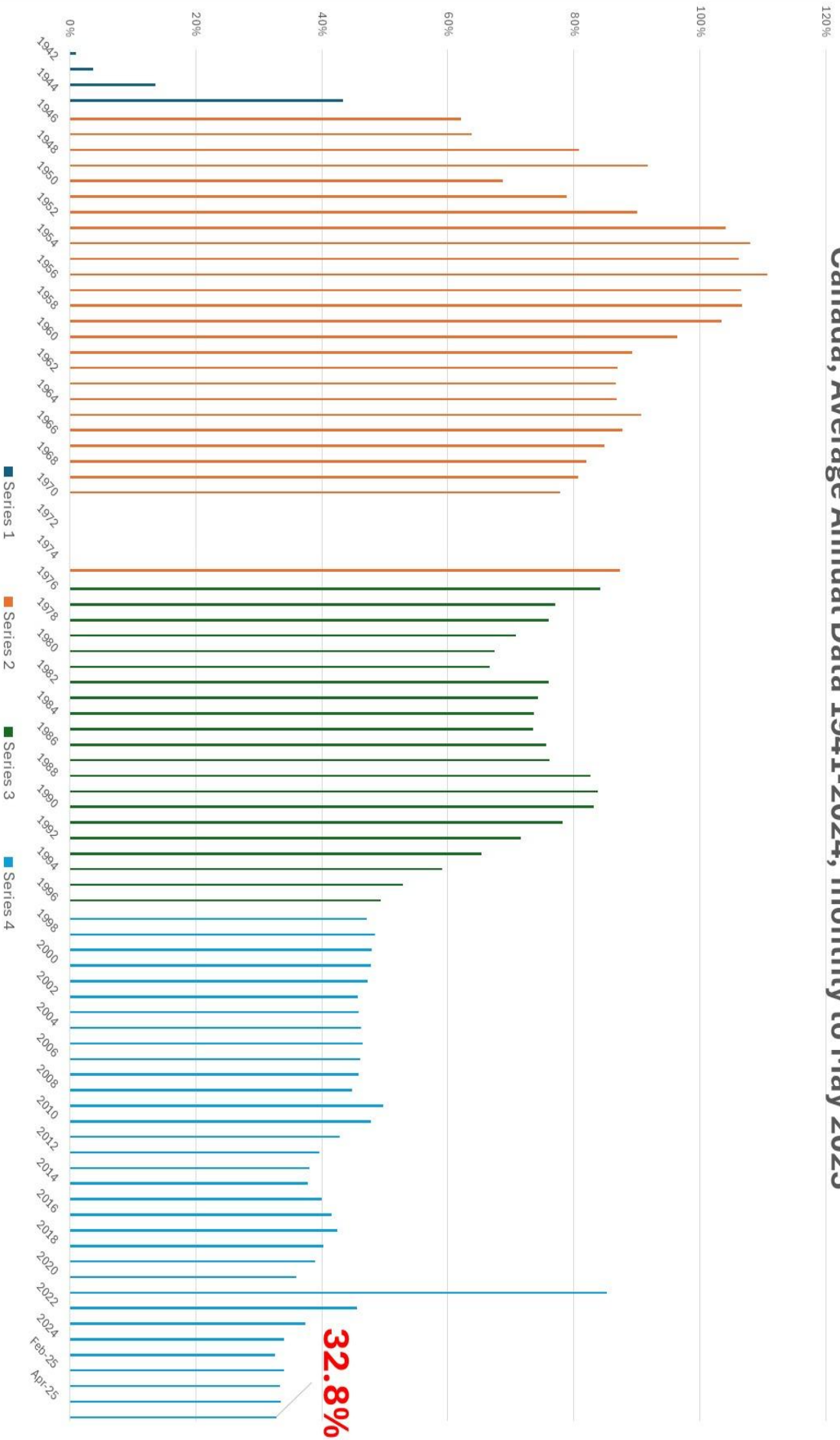
Such spending could boost Canada's economic growth, or at least reduce existing drags on it, if conditional financing for adding capacity in childcare and various aspects of healthcare is supplemented (see recommendation #2, above). Without such initiatives, the chronic excess demand/inadequate supply issues will continue to be a drag on Canada's growth potential.

Alternatively the Infrastructure Bank or federal procurement plans may use reallocated funds in ways that support and maintain Canada's industrial capacity, which is currently imperilled by trade uncertainty and friction with the U.S., ultimately threatening even our internal trade levels.

Since these are workers' savings, a range of labour unions should be actively consulted before developing such a plan, which should be sold on the basis that it will preserve and create more decent jobs in Canada. In addition, the Finance Minister, who appoints all directors to the CPPIB board, should ensure there is representation of workers' interests if not joint governance on the 12-member CPPIB Board, as is the case for numerous Canadian public pension funds. (There are currently [no workers' representatives](#) on the board; it has a [vacancy](#); and the [standards for directors](#) do not limit appointments to people with exclusively corporate backgrounds.)

# Regular UI/EI beneficiaries as a % of the unemployed

## Canada, Average Annual Data 1941-2024, monthly to May 2025



Statistics Canada sources:  
 Series 1 and 2: Historical Data Cat. No. 11-516-x, series E166, 171 and D124, 133 (over 100% when those who were working significantly reduced hours also claimed income support)  
 Series 3: Table 73-506-82015001-eng.pdf and Labour force historical review : CS71-0004-MRC - Government of Canada Publications - Canada.ca  
 Series 4: Employment Insurance beneficiaries (regular benefits) by province and territory, monthly, seasonally adjusted and Labour force characteristics, monthly, seasonally adjusted and trend-cycle