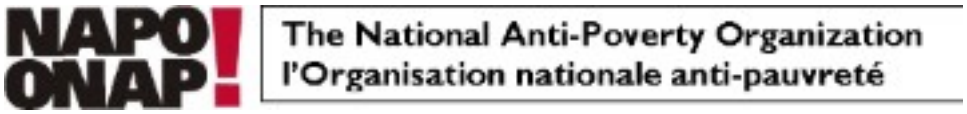

Submission to the Standing Committee on Finance
Pre-Budget Consultations
November 2004

Redefining "Sound Fiscal Management": Creating Financial Priorities that Benefit all Canadians

The National Anti-Poverty Organization/
l'Organisation nationale anti-pauvreté
2212 Gladwin Crescent, Unit C7, Ottawa, ON K1B 5N1
Tel: (613) 789-0096 Fax: (613) 789-0141

The National Anti-Poverty Organization (NAPO) is a non-profit organization representing 4.7 million Canadians currently living in poverty. Our mandate is to eradicate poverty in this country. We are most commonly referred to as a national "voice of the poor" because our 19-member board is made up of people who live or have lived in poverty at some time in their lives. Our membership is made up of low-income individuals, organizations that provide direct and indirect services to the poor and other concerned Canadians.

Introduction

Economic Success

> ***"Just as Canadians are united by the belief in equality of opportunity, so too are the three themes of the Government's agenda. For it is by giving all Canadians the opportunity to succeed, to reach their potential, and to build a better life for themselves, their families and their communities that Canada will succeed and be a model for the world."*** Ralph Goodale, Finance Minister, Budget speech, March 2004

When NAPO presented its brief to the Standing Committee one year ago Canada had experienced strong and consistent economic success for over four years. Our standard of living had grown faster than any other country in the G-8. Personal disposable income per capita had increased by 13% from 1996.[1] The government was recording surpluses with GDP growth exceeding 3% - growth that surpassed most other OECD countries. In 2003, NAPO indicated that while this economic prosperity was laudable, it was failing to reach almost 5 million Canadians living in poverty.

Today, many of the economic indicators remain positive despite a slight slowdown in real GDP growth in 2004. The government has a surplus for the seventh consecutive year. Since 1992 Canada has had the largest improvement in its budgetary situation among the G-7 countries, including the sharpest decline in the debt burden.[2] According to the Organization of Economic Cooperation and Development (OECD), Canada is projected to be the only G-7 country to record a surplus in both 2004 and 2005.[3] By most indicators Canadians should be enjoying significant prosperity, and some groups are. However, different but equally important

[1] February 18, 2003, Budget 2003: Economic Picture, Budget 2003: Overview
[2] 2004 Economic and Fiscal Update and March 2004 budget
[3] March 2004 budget brief

numbers show little has changed for the almost 5 million Canadians still living in poverty.

- One in five children in Canada are poor. Canada's child poverty rate of 15% is 10% higher than Sweden, Norway and Finland (UNICEF).
- Canada now has at least 639 food banks and over four hundred meal programs, and the number is rising. Seven hundred and seventy thousand people use food banks every month and 40% of these users are children.
- Poverty is increasing for immigrants, workers, youth and young families. The national poverty rate for young families with children rose from 41.5% to 56.6% from 1981 to 2001. In Toronto, the poverty rate for young families rose by 56% over the same period. The situation is worse for immigrant and racialized families.
- Workers, particularly young workers, are experiencing greater poverty as real wages decline. Median incomes for young families under age 25 with children in Toronto fell by 27.1% from 1981-2001. For young families between 25-34 years of age median wages fell by 18.4% in the same twenty years.
- Poverty among Aboriginal groups remains appallingly high both on and off reserve. Research shows Canadian Aboriginals would rank 78th on the UN Human Development Index. Canada ranked fourth on the same scale in July 2004.

There has been some success in improving people's living conditions with decreases in poverty rates for seniors and lone-parent families. However, there is little question that the prosperity suggested by economic statistics is bypassing significant numbers of individuals, families, children and workers. Canada's consistently high rate and depth of poverty continue despite strong economic growth. This poverty is apparent not only to Canadians but also the international community. Canada has been admonished for and encouraged to address its rate and depth of poverty on numerous occasions by the UN Committee on Economic, Social and Cultural Rights. Specifically, the government has been asked to deal with

- the level of homelessness
- the failure to protect people from discrimination because of their poverty
- the manner in which the National Child Benefit program discriminates against families relying on social assistance
- the effect that cuts to social spending have had on increasing women's poverty and the poverty of single mother's in particular

The Committee on Economic, Social and Cultural Rights hearings scheduled for 2006 will again show Canada's failure to secure a meaningful drop in the rate and depth of poverty unless immediate and concrete actions are taken.

Past Budget Priorities

"Sound Fiscal Management": Deficit/debt reduction

"Sound fiscal management has been at the core of the Government's economic strategy over the past 10 years. This strategy has put an end to almost three decades of chronic deficits and replaced them with six consecutive years of budgetary surpluses—an achievement unique among the Group of Seven (G-7) countries." Budget Brief 2004

The priorities of debt reduction and tax cuts have been the focus of the last several budgets. Not only have these objectives failed to help the poor, they have succeeded in increasing the rate and depth of poverty. In the name of debt reduction and tax cuts, transfers to the provinces have been reduced, CAP eliminated, funding for social housing removed, and the Unemployment Insurance system drastically cut to name just a few of the changes. Canadians are still waiting for a national childcare program despite a demonstrated and rising need. The result of these choices is greater homelessness and poverty.

Current Budget Priorities

Smaller government, debt reduction

"To keep the federal debt-to-GDP ratio on a downward track so that the Government of Canada will be in a better position to address pressures resulting from an aging population, the Government is setting an objective of reducing the federal debt-to-GDP ratio to 25 per cent within 10 years." Federal Budget March 2004

Canadians believe we spend more on social programs and public services than the United States.[4] While this is true, the gap between the two countries has decreased dramatically – in a downward direction. The difference between Canadian and American spending on social programs and public services as a percentage of GDP dropped by 10.9% from 1992 to 2001.[5] In 2001, Canada (all governments) spent 34.8% of GDP while the U.S. (all

[4] Andrew Jackson, "Paul Martin's Economic Record: Living Standards of Working Families and Prospects for Future Prosperity." Hell and High Water. ed. Todd Scarth, 2004 p. 84.
[5] Ibid.

governments) spent 31.9% indicating the push towards smaller government through reduced income redistribution programs and tax-financed public services.[6] The result has been more wide spread and deepening poverty.

With the deficit long eliminated, there are strong calls for continued restraint in spending on social programs in order to accelerate debt reduction and ensure "sound fiscal management". This position holds the false notion that increased social program spending will cause renewed deficits. These are strongly held beliefs in some quarters despite the lack of empirical evidence that countries that spend generously on social programs somehow inhibit or halt economic growth. In fact, studies show the opposite. Countries such as Sweden, Norway and Denmark have continued to enjoy strong economic growth while funding extensive social programs. Evidence shows they enjoy strong growth partly because of the strong safety net. At the very least, there appears to be no significant deterrent to productivity or GDP.[7]

Equally problematic is the persistent belief that Canada must rush to pay down its debt, usually at the expense of much-needed public services and social programs. However, there is little reason to increase or maintain payments to the debt at the current level. Canada is already well ahead of other OECD nations in decreasing the nominal GDP to debt ratio. The current ratio target of 25% by the year 2014, established in the March 2004 budget, is unnecessarily aggressive and removes funds from where they should be spent. Canada's steady and positive economic growth already ensures the debt will decrease at the government's desired rate over the next few years. There is little justification for taking further financial resources from health care, social programs, clean water, public education etc to reduce it. The $3 billion allocated annually to debt repayment that was renewed in the March 2004 budget are resources desperately needed by poor Canadians. Since 1997, Canadians in low income have gone without $50 billion in revenue all in the name of "sound fiscal management".

Finally, the sacrifices poor Canadians were asked to make under the guise of prudent fiscal management were supposed to be temporary; part of the plan to eliminate the federal deficit. The tax cut packages that at the time were described as a reward for living with reduced public services,

[6] Jackson, p. 84.
[7] Jeff Madrick, "New book shows higher taxes, government spending don't hurt the economy." The CCPA Monitor, July/August 2004 p. 35.

diminished health care etc, went to the wealthiest income earners and corporations, not to those in low income.

Poor Canadians suffered the most for the "deficit/debt reduction at all costs" approach that defined budgets over the last several years. They will pay the price for a similar misdirection of priorities if debt reduction continues to be the justification for a failure to provide and adequately finance desperately needed social services and programs.

It is our hope that the 2004-2005 budget will truly reflect the interests and priorities of poor Canadians. It is our hope that the government will strengthen and expand initiatives contained in the 2003 budget such as increased funding for social housing and childcare. It is our hope that the government will put into action the all-party commitment to eliminate child poverty made in 1989; that it will live up to Canada's international obligations under the Covenant for Economic, Social and Cultural Rights to provide secure housing, food and clothing for all Canadians; that it will live up to its obligations under the Convention on the Rights of the Child and the UN Covenant on Civil and Political Rights.

This submission presents several recommendations that can help the government achieve these goals. If the recommendations are implemented, this government will be able to legitimately claim it is concerned about and actively working to eliminate poverty. It will also be able to demonstrate to the international community that it takes seriously its obligations under international conventions.

Recommendations

Recommendation #1: The Surplus

In the 2000 budget the government promised to use 50% of surplus revenue to support social services and programs and the remaining 50% to pay down the debt and provide tax cuts. This promise has been repeated by successive Finance Ministers but has yet to be fulfilled. Based on data in the Alternative Budget 2004, since 1997-98, 90% of surplus funds have gone to tax cuts and paying the debt. Only 10% of revenues have been used for authentic program spending increases.[8] It is clear that further tax cuts for wealthy Canadians and corporations combined with unnecessary aggressive debt reduction remove money from where it is most needed.

[8] Alternative Federal Budget 2004, Canadian Centre for Policy Alternatives, p. 7

NAPO recommends the government use the surplus to fund social and environmental programs and services instead of tax cuts and debt reduction.

Recommendation #2: Social Housing

An important contributor to poverty is the cost of housing. Four out of every 10 households in Canada live in rental housing. Rents across the country have seen large jumps over the last several years while the income of poor people has stagnated or fallen. Those who rent housing tend to have considerably lower incomes than those who own. In effect, increased rents have eliminated the extra income received from the Federal government in child benefits.[9] As a result, more families are forced to use emergency housing and shelters than ever before. Approximately 200,000 Canadians are homeless and 1.7 million are in core housing need.[10]

The social cost of homelessness and poverty are immense. In the NAPO report *Voices: Women, Poverty and Homelessness in Canada*, released in March 2004, females across Canada describe what it is like to be poor and without a home. They are the people behind the statistics.

> **"Being homeless is like being cold all the time. And it's like being hungry. People who are homeless are pushed into those circumstances…If we don't start changing things more people are going to end up on the streets."[11] anonymous project participant**

In 1996, the Federal government pulled out of the area of social housing. Canada is now the only industrialized country lacking a national housing program. The government took positive steps in 2002 and 2003 to address the shortage of social housing by allocating close to $1 billion over several years. During the June 2004 election campaign the Liberals promised an $1.5 billion over five years to build social housing units. However, this money does not approach the amount required to meet the *current* need for housing let alone the amount needed to increase the supply.[12] NAPO feels the

[9] *"A Historic Day for Child Care,"* February 18, 2003. Canadian Council on Social Development, page 1. www.ccsd.ca/pr/2003/postbudget.html
[10] Canada Mortgage and Housing Corporation, 2004.
[11] *Voices: Women, Poverty and Homelessness in Canada,* Rusty Neal, 2003.
[12] *"Growing Needs in the 1990's Boom,"* October 30, 2001. CCSD www.ccsd.ca/pr/2001/budget01.htm p.5

government should go much further in addressing this very important and well-documented problem. **We recommend**

- **the government implement and adequately fund a national housing strategy,**
- **increase transfers to the territories and provinces to be spent specifically on the construction of social housing units and the renewal of existing social housing,**
- **commit a minimum of $2.5 billion annually over the next 5 years for building social housing that is affordable for low-income Canadians,**
- **build a minimum of 30, 000 social housing units that are affordable for low-income Canadians annually for the next 5 years.**

Recommendation #3: National Child Benefit

The government showed a commitment to addressing family poverty by increasing the National Child Benefit payments in the February 2003 budget. This commitment was to bring the maximum annual benefit for a first child to $3, 243 by the year 2007. NAPO believes this increase is not enough to help low-income families meet children's basic needs, nor will it a make a significant difference in the depth and rate of child poverty. The increase will not help families on social assistance in particular.

In most provinces and territories, families receiving social assistance have the NCB supplement clawed back. The claw back coupled with frozen and reduced assistance rates - the value of social assistance benefits has fallen by 23% since 1991[13] - mean poor families have fallen further behind. Almost seven hundred thousand children who live in families on social assistance live in poverty.

We continue to support both Campaign 2000's and the Canadian Centre for Policy Alternatives' conclusion that the Canadian Child Tax Credit payment needed to make a noticeable change in child poverty is $4,200-$4,900 per year per child.

[13] *"A Historic Day for Child Care,"* February 18, 2003. Canadian Council on Social Development, www.ccsd.ca/pr/2003/postbudget.html p. 1

NAPO recommends

- **the funding to the CCTC be increased through the NCB to $4,900 per year for each and every child by January 2005,**

- **the federal government work with territorial and provincial governments to immediately end the claw back of the NCB supplement for families receiving social assistance in regions where this still takes place.**

Recommendation #4: Child Care

There have been some encouraging steps in the area of childcare in the last two years. The $935 million dedicated over 5 years to childcare spaces and services in the budget of 2003 and the addition of $75 million dollars each year for 2004-05 and 2005-06 are much-needed funds. However, this funding is not enough to meet the current demand for spaces. The Canadian Council on Social Development states that 70% of women with pre-school age children work outside the home but only 12% of children have access to licensed care. Research shows that good early education and childcare programs have a positive effect on growth and development of children, especially those in low-income families.[14] Finally, a lack of quality, affordable childcare is a major barrier to poor parents working. **NAPO recommends**

- **the government implement and adequately fund a *national* childcare strategy,**

- **increase funding for the first 2 years to meet at least the current need for spaces. Funding for the strategy should be at least $5 billion over five years. This is only half of the estimated cost of a national strategy.**

- **Implement the fully subsidized 70,000 spaces for children from low-income families promised in the June 2004 election and the March 2004 Federal Budget.**

[14] Ibid, page 1.

Recommendation #5: Employment Insurance

A study by the Canadian Labour Congress called Falling Unemployment Insurance Protection for Canada's Unemployed, clearly shows the inadequacy of the government's EI program. With each increase in the hours and weeks needed to qualify and corresponding reductions in maximum benefit weeks, insurance coverage has fallen.
The result has been a greater number of unemployed workers without income support. The changes have also impacted heavily on women of all ages and youth, who already have greater vulnerability to poverty.

Although there has always been a coverage gap between males and females, it has grown significantly since the last four rounds of changes to the unemployment insurance system. Thirty percent of unemployed women received benefits in 2001 (down from 33% in 2000) while forty-four percent of men had coverage (down from 46% the previous year).[15] Coverage rates for youth also show a disturbing trend. Despite the fact that the unemployment rate for youth continues to climb, the number of youth receiving income assistance through EI continues to drop. Youth under age 20 who benefited from EI decreased from 67,000 in 1995 to 32,000 in 2001.The number of recipients aged 20-24 that receive EI benefits has declined from 449,000 in 1980 to 230,000 in 2001. This decrease is a result of tighter eligibility rules and other program restrictions introduced during EI reforms of the 1990's.

Unemployment insurance is an important income support program for Canadians. When it is not available those who are unemployed can fall into poverty that is difficult to escape. EI must be returned to an adequate level and accessibility increased so people do not find themselves forced into inadequate-paying jobs or onto social assistance where they must struggle to meet even basic needs. **NAPO recommends the government**

- **alter EI eligibility requirements so those who require it can access it. Currently, only 38% of people who are unemployed and require unemployment insurance receive it.**

- **Use the surplus from the EI program to fund income support for unemployed workers, and effective employment programs and training. The surplus should not be used to pay down the debt.**

[15] Falling Unemployment Insurance Protection for Canada's Unemployed, Canadian Labour Congress, March 2003, p. 5

Recommendation #6: Taxation

For years Canadians have been told there is not enough money for increased spending on social programs while, for years, the government has been substantially reducing its revenue by providing tax cuts to wealthy income earners and corporations.

In the last several years, the greatest number of tax cuts has gone to the wealthiest taxpayers. More than 30% of tax cuts went to the highest income 5.3% of taxpayers.[16] The highest income 30% of taxpayers received 70% of benefits.[17] The corporate tax rate has dropped from 28% and is expected to reach 21% by 2008 – a corporate tax rate below the United States.[18] The implications for these choices are serious. It is estimated that government revenue will decrease by $31.1 billion dollars each year due to previous tax reductions.[19] There has already been a 17% decrease in total federal government revenue that would not have occurred if tax cuts in the last several years were not implemented.[20]
Tax cuts implemented by the government since 2000 have benefited corporations and Canadians with the highest incomes. A fair and equitable taxation system and the current budget surplus can easily generate funding required for social program spending. **NAPO recommends the government**

- **eliminate taxes for people living below the poverty line and implement the tax cut so that the benefit accrues to people in poverty rather than higher income earners.**

- **return tax rates for high-income earners and corporations to pre-2000 levels.**

- **NAPO also supports the recommendations of the Alternative Federal Budget 2004 for the government to begin taxing large intergenerational transfers of wealth over $1 million at the rate of 25%; raise the inclusion rate for capital gains to three-quarters (where it was prior to February 28, 2000); and introduce a new tax rate on earnings over $250,000 to**

[16] Hugh Mackenzie, "Taxation: The Martin Record". Hell and High Water ed. Todd Scarth, 2004 p. 60
[17] Ibid, 62
[18] Ibid, 62
[19] Ibid, 60
[20] Ibid, 60
[21] Andrew Jackson, p. 81.

32.5%. Canada is one of only three countries in the OECD who do not tax transfers of wealth.[12]

- **Use the additional revenue generated by steps 2 and 3 to help finance the rebuilding of the social safety network dismantled in the 1980's and 1990's.**

Recommendation #7: Minimum Wage

Employment is no longer a guarantee against poverty. Real wages have fallen significantly for middle and low-income earners in the last 15 years, especially young families, women and youth. The increase in low paying, part time precarious jobs has meant poverty for many workers. Almost 13% of food bank users in Canada are employed. In 2002, 25.3% of Canadian workers were low paid meaning they earned less than two-thirds the median hourly wage.[22] By contrast, only 5% of workers in Scandinavia are in low wage jobs. Median incomes for young families under age 25 with children in Toronto fell by 27.1% from 1981-2001. For young families between 25-34 years of age median wages fell by 18.4% in the same twenty years. **NAPO recommends the government**

- **reinstitute the federal minimum wage at $10 an hour or higher and index it to the real cost of living,**

- **develop a national job strategy that includes Aboriginals, youth, women, immigrants and people with disabilities.**

Recommendation #8: Post-Secondary Education

The Federal government has created the Canada Learning Bond and the Canada Education Savings Grant to help people in low income save for their children's education, however, there are problems with these federal initiatives. All provinces and territories have restrictions on the amount of assets a person may have when applying for or maintaining social assistance benefits. Most rates are extremely low. For example, in Ontario the ceiling for assets is $1,457.00. When a client saves more than this amount they are cut off benefits. Clearly, there is a discrepancy between what the Federal government is encouraging low-income individuals to do and what social assistance programs allow them to do.

[22] Ibid, p. 81

Furthermore, the most effective way to ensure accessibility to higher education for people in low income is to reduce tuition fees. An education transfer to the provinces and territories with sufficient funds and national standards is required to bring down tuition rates to an affordable level. **NAPO recommends**

- **the government work with anti-poverty groups, and provincial and territorial governments to establish harmonious guidelines for low-income savings initiatives and provincial and territorial social assistance maximum asset limits so recipients are not denied or cut off benefits for exceeding allowable savings limits.**

- **The Federal government along with provinces, territories and anti-poverty organizations establish significant increases to current provincial and territorial social assistance asset limits that take into consideration the education savings ideas of the CLB and CESG.**

- **The government establish an education transfer to the provinces and territories with sufficient funds and national standards to ensure tuition rates decline to affordable levels.**

Recommendation #9: The Canada Social Transfer

The 2002-2003 Budget made significant changes to the Canada Health and Social Transfer by dividing the Transfer into two distinct entities – the Canada Health Transfer (CHT) and the Canada Social Transfer (CST). While the Social Transfer contains money for social services and post-secondary education, it does not set national standards for the social services as CAP once did. In addition, the Canada Social Transfer will likely receive a far smaller portion of money than the CHT due to the increasing allocation of finances to the health care system and the absence of an escalator clause that would ensure funding for social programs increases as needed. The CHT will receive $25.1 billion for 2004-05 while the CST will get $14.9 billion or only 37% of the total funding for both Transfers. In the long term, funding the CST at a rate that is less than the CHT could increase the cost of health care.

Research shows that reducing poverty decreases health costs. The 2004 report *Improving the Health of Canadians* written by the Canadian Population Health Initiative of the Canadian Institute for Health Information (CIHI), states the number one determinant for good health is avoiding poverty. The report clearly documents the health problems associated with being poor, including reduced life expectancy. Investing in social programs

such as income support programs helps people avoid and escape poverty resulting in reduced health care costs.

NAPO recommends the Federal government

- **clearly identify enforceable standards for the spending of the Canada Social Transfer. The standards should be the same as those previously contained in the Canada Assistance Plan. The standards should reinstate the right to an amount of income that at the very least meets basic needs, the right to appeal a welfare decision one feels is wrong, the right to income when in need, regardless of the province you are from, the right not to have to work for welfare and, most importantly, the right to income when in need.**

- **Federal-provincial agreements and federal legislation related to the Canada Social Transfer should incorporate the rights outlined in the International Covenant on Economic, Social and Cultural Rights on income, housing and food security.**

- **Increase the amount of money transferred to the provinces through the CST, ensure the funds are equal to those provided by the Canada Health Transfer in three years, and include an escalator clause in the CST.**

- **Establish a royal commission to hold hearings in communities across Canada so Canadians can discuss and debate their vision of a social safety net. This would be a national discussion similar to the one on health care facilitated by the Romanow Commission.**

Recommendation #10: Guaranteed Adequate Income

The idea of a guaranteed adequate income is not new in this country. Canada acknowledged the right to an adequate income as early as 1948 when it signed the Universal Declaration on Human Rights.[23] This government raised the notion of a GAI in 2000. NAPO believes it is time to seriously consider implementing a guaranteed adequate income for everyone. **We recommend the government**

•establish a fund for researching current international models and practices of guaranteed income, and the development and

[23] Sally Lerner, C.M.A. Clark and W.R. Needham, The CCPA Monitor, November 2000 p. 2

implementation of a GAI. The fund should be accessible to poor people, organizations that deal with poverty issues, NGO's, social justice groups as well as other organizations and individuals.

- **Any proposed GAI should be set above low-income levels.**

Recommendation #11: Participatory Budgeting

NAPO also recommends that the government develop and implement a participatory budget process that obliges the government to receive the input of poor and homeless individuals, and groups dealing with these issues. Participants should have the power to make decisions on budgetary matters including the allocation of funds for affordable housing and income support programs.

Conclusion

Six successive budgets have had surpluses. The Alternative Federal Budget of 2004 developed by the Centre for Policy Alternatives clearly shows that the government has enough revenue to eradicate poverty. From 2004-2007 the government could increase spending by 48.2 billion dollars. This year alone the government has an $8.3 billion surplus that can be used to rebuild social programs without incurring a deficit or raising taxes (AFB 2004).

NAPO encourages the Committee to take the priorities of Canadians who are living in poverty and make them priorities of the upcoming budget, and in this way ensure current economic prosperity is enjoyed by all Canadians.