

## Alternative Federal Budget 2007

› budget response

April 2007

# Does the 2007 Federal Budget address inequality and poverty?

### **CANADIANS' ASPIRATIONS VS. THE FEDERAL BUDGET**

On the day that the federal Budget was released, Canadians made their priorities clear to the federal government in a Strategic Council poll (released by the *Globe and Mail*) which indicated that over 50% of Canadians wanted more spending on social programs, contrasting sharply with only 19% who favoured further tax cuts.

These figures reinforce the CCPA's own polling, conducted by Environics, which show that 86% of Canadians want government to reduce the gap between rich and poor.

Clearly, Canadians have indicated that, more than tax cuts or debt repayment, they want their government to take action to address income inequality and rebuild Canada's social programs.

Unfortunately, the federal government has chosen to craft a budget — perhaps ironically, but certainly inappropriately entitled “Aspire” — that uses a \$9 billion surplus to serve their electoral tactics rather than the needs or the desires of Canadians.

### **THE SCOPE OF THE PROBLEM**

#### **Growing inequality**

- The gap between Canada's richest and poorest families has been growing — especially since the mid-1990s.
- The richest 10% of Canadian families enjoyed a 30% earnings increase compared to a

generation ago: the only group to experience such gains.

- In 2004, the average earnings of the richest 10% of Canada's families raising children was 82 times that earned by the poorest 10% of Canada's families. That is approaching triple the ratio of 1976, around 31 times.
- Only the richest 20% are experiencing gains from Canada's economic growth, and most of those gains are concentrated in the top 10%.
- The top half of Canadian families saw their share of total earnings grow from 73% to 79.5% between 1976 and 2004. The poorest 20% of Canadian families saw their share of the earnings pie drop from 4.5% to 2.6%.
- Everybody but the richest 10% of families is working more weeks and hours in the paid workforce.

### Poverty

- **Close to 1.2 million children — almost one child out of every six in Canada — still live in poverty.** Low-income families need, on average, an extra \$7,200 a year just to reach the poverty line.
- The Canada Child Tax Benefit is an important tool for reducing child and family poverty. Unfortunately, benefit levels have been kept too low to produce a meaningful reduction in poverty levels, and many of the most vulnerable families have their benefits clawed back because they are on social assistance.
- The GST credit is one of the most effective means in the tax system of benefiting lower-income people. However, the value of the credit was reduced by about 12% between 1992 and 1999 because it was not indexed to inflation.

- Only about four in every 10 unemployed workers collect regular EI benefits, down from 80% in 1990.

*Existing programs that could address poverty and inequality are inadequate.*

**Employment:** No province pays a decent minimum wage — one that helps lift working families above the poverty line. Thirty percent of full-time workers earning less than \$10 an hour lived in a low-income household in 2000.

**Housing:** Almost 1.5 million Canadian households are in desperate need of decent, affordable housing.

**Child care:** Although three-quarters of mothers with young children also participate in the paid labour force, regulated child-care spaces, outside of Quebec, exist for less than 20% of Canada's children.

**Post-secondary education:** Federal cuts to post-secondary education over the past 20 years have, with few exceptions, led to massive tuition fee increases, forced students to incur huge debt loads, and prevented many qualified Canadians from acquiring post-secondary education.

**Retirement:** Old Age Security (OAS) and the Guaranteed Income Supplement (GIS) provide a basic guaranteed annual income for seniors. But the guarantee is inadequate.

**Aboriginal peoples:** Socio-economic conditions of Aboriginal peoples fall well below the overall population average in key areas, including education, employment, income and health status. A history of subjugation and racism that Aboriginals have endured from both government and non-Aboriginal neighbours has created the

need for special consideration and programs to directly address Aboriginal issues across the country.

### **WILL BUDGET 2007 TAX CUTS CLOSE THE GROWING GAP?**

The largest measure in Budget 2007's new "Working Families Tax Plan" is a \$2,000 child tax credit which provides families with up to \$310 per child under the age of 18 (total cost: \$3.3 billion over 3 years). Additionally, the budget offers a \$209 tax reduction if a taxpayer has a dependent spouse or child (total cost: \$620 million over 3 years).

Political rhetoric aside, these measures are helpful only if you have enough taxable income to make use of them. High-income Canadians will get the maximum benefit under both measures. But because these tax credits are not refundable, low-income Canadians will get little or nothing.

In dollar terms, a two-earner family with two children and a total income of \$30,000 will receive nothing from these measures. If this same family had a total income of \$100,000, they would receive \$620.

Several smaller measures also neglect those struggling to make ends meet. The Harper government continues to treat social problems as private responsibilities by implementing minor tax measures to "encourage" families to handle these problems out of their personal savings. The problem with this approach is that affluent families can make full use of these measures, while low- and moderate-income families cannot.

For example, changes to the Registered Educational Savings Plan and Canadian Education Savings Grant are beneficial only to those with the ability to set aside a lot of money to save for post-secondary education (total cost of these changes:

\$40 million over three years). Those who can only put aside modest savings for post-secondary education receive no benefit from these changes.

The new Registered Disability Savings Plan enables families to save to support children with disabilities (total cost: \$140 million between 2007-08 and 2008-09). But, since caring for a child with a disability is a severe financial strain, it is likely that low- and moderate-income Canadians will be hard-pressed to set aside savings in order to make full use of this program. Moreover, this new measure raises other concerns. It would indeed be unfair if parents endure great sacrifice to save money in these plans only to find out that the means-testing in provincial adult disability benefits forces their adult children to draw down these savings.

### **WILL BUDGET 2007 SPENDING MEASURES CLOSE THE GROWING GAP?**

By far the largest spending story in Budget 2007 is the over \$6.9 billion in new money allocated between 2006-07 to 2008-09 to fix the "fiscal imbalance," which includes a \$2.9 billion increase for the Canada Social Transfer (CST).

Does this indicate Conservative government support for the social programs favoured by Canadians? After all, some of the CST increase is intended for post-secondary education.

Appearances, however, can be deceiving. No new funding for post-secondary education is budgeted until 2008-09 (\$800 million). And total federal transfers for early learning and child care have actually been reduced by 37%, from \$950 million in 2006 to \$600 million in Budget 2007. When it comes to child care, Budget 2007 is a far cry from the \$1.5 billion total committed in the 2005 Budget for child care agreements with the provinces. Moreover, federal transfers

to the provinces and territories are not tied to national standards. By failing to insist on national standards, a great risk arises that these transfers will not produce the results claimed by the federal government. Case in point: the Charest government announced its intention to use some of its new equalization money to fund tax cuts in Quebec.

In writing blank cheques which purport to solve the fiscal imbalance, Ottawa is washing its hands of further responsibility in terms of ensuring that Canadians get the social programs they want. By attaching no conditions or accountability measures, the Harper government has renounced any leadership role in terms of ensuring that these transfers deliver the child care, post-secondary education, or other programs Canadians want.

### **WILL BUDGET 2007 ADDRESS POVERTY?**

The major initiative related to poverty in Canada in Budget 2007 is the Working Income Tax Benefit (WITB), depicted as a means of assisting people to move from social assistance into the workforce (total cost: \$1.2 billion over three years). It is a geared-to-income refundable tax credit intended to top-up the earnings of low-income working Canadians.

While income assistance for the very poor is welcome, the measures implemented fall far short of the levels needed to make a meaningful assault on poverty in Canada. A single individual with an income of less than \$9,500 will get a maximum of \$500, and an individual whose income exceeds \$12,833 gets nothing at all. Indeed, the 2005 Economic and Fiscal Update proposed a very similar program, but it would have been more far-reaching.

At minimum, the WITB should be combined with higher minimum wages to ensure that it

supplements the incomes of the working poor, rather than subsidizing the labour costs of low-wage employers. But even if WITB were more generous, the tax system alone cannot eradicate poverty in Canada. Better wages, in combination with affordable housing, child care, and other social services, would make meaningful progress in lifting people out of poverty. But, by skimping on child care, leaving the federal minimum wage unchanged, and keeping affordable housing completely off the table, Budget 2007 offers little prospect of a substantive impact on poverty in Canada.

It is particularly galling that the First Nations have been virtually shut out of the federal Budget this year (in fact, many of the measures that do appear in the Budget are re-announcements of previous commitments and do not amount to new spending). After backing away from the Kelowna Accord, the Harper government claimed that it had its own solution to the dire problems facing First Nations — a solution we have yet to see. Meanwhile, First Nations are falling farther behind, and poverty among Aboriginal peoples, on and off-reserve, is a disgrace for all Canadians.

### **WHAT THE FEDERAL GOVERNMENT SHOULD HAVE DONE**

Every year the Alternative Federal Budget provides a fully-costed, fiscally responsible plan for the federal Budget. This year, the AFB presents a plan that would make substantive progress in closing the growing income gap and addressing poverty in Canada.

## **ALTERNATIVE FEDERAL BUDGET: SPENDING MEASURES TO ADDRESS POVERTY AND THE GROWING GAP**

High-quality public services increase our overall and collective economic, social, and environmental security. In addition to helping lift families out of poverty, decent public services ensure that everyone has an opportunity to contribute to society — and to benefit from our collective resources — thereby reducing inequality and improving the economy. What's more, public services benefit the vast majority of Canadians — unlike tax cuts (such as the “Working Families Tax Plan”), which are both expensive and tend to focus too much of their benefits on middle- to upper-income earners.

Families who are struggling to get by require affordable housing and child care, affordable post-secondary education, public transportation, and access to high-quality public health care. Compared to the rather modest benefits of a tax cut — one your family may or may not qualify for — this social infrastructure would create the foundation for families to live with greater security. The AFB makes the investments necessary to make a meaningful difference in income inequality in Canada.

- The AFB creates 20,000 new affordable housing units per year, and renews 8,000 units per year to ensure that the existing stock can continue to subsidize housing for households with very low incomes.
- The AFB creates a national vision for child care, ensuring that all children aged three to six can access a quality child care space in their community by 2010.
- The AFB allocates \$1.5 billion to help ensure that those who are qualified and want to go to college or university can do so.

- The AFB stops the clawback of money from poor children and increases the CCTB up to \$5,000 a year to ensure that every child in Canada gets a fair chance at a good start in life.

Today, only four in every ten workers qualifies for Employment Insurance. The AFB reforms the system by increasing and expanding EI, and encourages training for the unemployed and for those who have jobs. In addition, the federal minimum wage will be increased to \$10 (and indexed thereafter).

To address the debt we owe to Aboriginal peoples, the AFB honours the Kelowna Accord — and in fact goes beyond Kelowna to deal with some of the pressing infrastructure issues among First Nations to ensure access to clean drinking water and other basic necessities of life. The AFB also increases resources for Urban Aboriginal peoples.

## **TAX PACKAGE FOR A MORE EQUITABLE SOCIETY**

The expensive and poorly-targeted tax cuts featured in both the 2006 and 2007 federal Budgets do little to help families struggling from pay-cheque to pay-cheque. In order to maximize the tax system in providing benefits to those families in the greatest need, the AFB will:

- substantially increase (by about \$1,500) the Canada Child Tax Benefit — an income-tested program that focuses its support on those who need it the most;
- increase the GST credit and threshold by 25%, thus providing low-income people with further income; and

- increase the Guaranteed Income Supplement to support low-income seniors.

To help pay for these measures, the AFB implements tax fairness measures to help ensure that those benefiting the most from Canada's economy contribute more to enhancing equity in our society. As part of this initiative, we will increase the tax rate for people on any income in excess of \$250,000.

## CONCLUSION

The 2007 federal Budget has used up a lot of fiscal room: it announces almost \$20 billion in tax cuts and new spending, as well as \$15.2 billion in debt repayment between 2006/07 and 2008/09. But for all of that money Canadians will see very little progress in narrowing the growing gap or eliminating poverty. Eighteen billion dollars over two years is a lot of money to spend with such piecemeal results. Instead of taking an historic opportunity to make meaningful progress on the issues Canadians say they care about, the government has instead chosen to craft a budget that serves short-term and self-interested electoral tactics rather than the needs or aspirations of Canadians.



**410-75 Albert Street, Ottawa, ON K1P 5E7**

**TEL 613-563-1341 FAX 613-233-1458 EMAIL [ccpa@policyalternatives.ca](mailto:ccpa@policyalternatives.ca)**

This report is available free of charge from the CCPA website at **[www.policyalternatives.ca](http://www.policyalternatives.ca)**. Printed copies may be ordered through the National Office for a \$10 fee.