

→ CLOSING THE GAP ←

Eliminating the social deficit ♦ Creating a stronger Canada

*Submission to the Standing Committee on Finance Pre-Budget Consultations
by Citizens for Public Justice, September 2003*

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SUMMARY

Eliminating Canada's social deficit stands as one of the most important challenges we need to address together as Canadians. And the federal government has an important role to play. Fortunately, the government has already taken steps in recent budgets to reduce the social deficit. Citizens for Public Justice recommends that the federal government accelerate and increase its efforts. Specifically, CPJ proposes that the next federal budget include:

- increased funding for affordable housing;
- plans to complete the development of the Canada Child Tax Benefit;
- plans to increase funding for quality early learning and child care;
- additional transfers to the provinces and territories for social programs and post-secondary education.

Closing the Gap: Eliminating the Social Deficit, Creating a Stronger Canada proposes a realistic five-year social investment strategy which would make substantial progress in each of these four policy areas. The strategy builds on federal initiatives in previous budgets with increased annual investments of approximately \$2 billion in 2004-05 growing to \$11 billion a year in 2008-09.

| | 2004-05 | 2005-06 | 2006-07 | 2007-08 | 2008-09 |
|----------------|----------------------|---------|---------|---------|----------|
| | <i>(millions \$)</i> | | | | |
| Housing | \$300 | \$600 | \$800 | \$1,000 | \$1,000 |
| Child Benefits | \$500 | \$1,000 | \$2,000 | \$3,000 | \$3,200 |
| ELCC | \$125 | \$300 | \$600 | \$1,100 | \$2,000 |
| CST | \$1,000 | \$2,000 | \$3,000 | \$4,000 | \$5,000 |
| Total | \$1,925 | \$3,900 | \$6,400 | \$9,100 | \$11,200 |

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INTRODUCTION

Canada faces a serious challenge. The economic and fiscal situation has improved. Yet worrying gaps persist. There is broad consensus across sectors of society – business, labour, non-profit groups, civic leaders – that it is crucial for us to invest adequately in our social and physical infrastructure in order to close those gaps. And there is broad consensus that the federal government must take a lead role in funding and shaping the national nature of these programs and services.

Good economic & fiscal news

In 2002, Canada's growth in real Gross domestic Product, at 3.4%, led the G-7 countries, and employment grew by a record 512,000 jobs. Canada has also had six consecutive federal budget surpluses, relatively stable inflation and historically low interest rates. Recent times have also seen a marked increase in the value of the Canadian dollar relative to its U.S. counterpart.

House of Commons Standing Committee on Finance Invites Canadians to Participate in its Pre-budget Consultations 2003.

The growing gap

Two important developments account for the persistence of the housing affordability problem across Canada in the second half of the 1990s.

First, most low-income families continued to fall further behind during the second half of the 1990s. After falling in the 1991-95 period, total family income for the lowest 20 per cent of income earners in Canada began to grow again in real terms in the 1996-2000 period, particularly for lone-parent families and seniors. But in virtually every region of the country, gains of lower-income families paled in comparison to those chalked up by households further up the income scale. And, poverty rates among new immigrant families continued to worsen....

Second, the overall supply of rental housing in Canada stagnated in recent years, and has actually been receding at the lower end of the rent range – the segment of the market where lower-income individuals with affordability problems are concentrated – causing rents to rise accordingly.

TD Bank Financial Group

Citizens for Public Justice (CPJ) calls on the federal government to use the next budget to make the significant social investments Canada needs so badly.

Citizens for Public Justice (CPJ) is a national organization that promotes justice in Canadian public affairs. For decades, CPJ staff, board and members have endeavoured to help create a Canada that more equitably shares the bounty of this land. Our focus has been on how to improve quality of life, more so than how to increase the quantity of goods and services exchanged in the economy. This has meant that we pay careful attention to the way different paths of economic development and different public policies impact on the life chances of vulnerable people and communities, and on the natural environment.

Key principles CPJ would hope to see reflected in the federal budget include:

- reducing inequality in incomes and wealth;
- developing human capabilities
- building social capital and fostering social inclusion
- protecting and enhancing the integrity of creation
- strengthening true human security and the chance for people in other parts of the world to achieve the highest possible states of well-being.

We call on the federal budget to include specific investments in

- Affordable housing
- Child benefits
- Early learning and child care
- Social services and post-secondary education.

Substantial progress can be made in each of these areas through a multi-year investment strategy that builds on existing initiatives. In this brief, we outline such an investment program whose annual cost we estimate rising from \$2 billion annually in 2004-05 to just over \$11 billion in 2008-09.

BUDGET 2003: SMALL STEPS IN THE RIGHT DIRECTION

The actions we would like to see in the federal budget remain consistent with those we put forward in the past. Below (p. 6) is a chart comparing what CPJ recommended in last year's submission, *Quality Over Quantity: Investing in Human Development*, with federal government commitments made in *Budget 2003*.

CPJ acknowledges the steps the federal government has taken in each of these policy areas.

- The additional funding for affordable housing is welcome, yet remains far below what is needed for a serious commitment to eliminate Canada's affordable housing crisis.

- The additional investments in the National Child Benefit Supplement, we believe, serves as an indication of the federal government's commitment to eliminating child poverty in Canada. The increase in maximum child benefits to \$3,200 for the first child by 2007-08 brings the Canada Child Tax Benefit three-quarters of the way towards a mature benefits of \$4,400 per child.
- Likewise, the announcement of funding for Early Learning and Child Care, followed by the Multilateral Framework signed by Federal, Provincial and Territorial Social Services Ministers is an important initiative. However, the initial funding level announced in Budget 2003 is a mere fraction of what a real investment in early learning and child care requires.
- We would have liked to see direct action aimed at reducing post-secondary tuition, instead of steps to mitigate excessive debt burdens caused by the steep increase in the costs of post-secondary education.
- We were particularly pleased by the government's commitment to extend student loan eligibility to refugees.

In short, positive steps have been taken in each of these areas, but they remain steps along the way. Nonetheless, they indicate the federal government's commitment to addressing the social deficit and creating a stronger Canada. And they demonstrate that public policies can eliminate the social deficit just as fiscal deficits were eliminated.

Canada Social Transfer

Another important initiative in Budget 2003 was the announcement of a new Canada Health Transfer (CHT) and Canada Social Transfer (CST) to replace the Canada Health and Social Transfer in April 2004. Citizens for Public Justice applauds this initiative. The federal government could further improve transparency and accountability by also creating a Canada Post-Secondary Education Transfer – separating funding for social security programs (including social assistance and related services) from post-secondary education. This step would create better transparency and accountability than existed in either the Canada Health and Social Transfer or its predecessors, the Canada Assistance Plan and Established Program Financing (which combined health and post-secondary transfers). In this brief, CPJ recommends increased transfers for social programs and post-secondary education, preferably through separate Canada Social Transfer and Canada Post-Secondary Education Transfer.

| CPJ Recommended for Budget 2003 | Budget 2003 Included |
|---|--|
| <p>Child Benefits Raise maximum Canada Child Tax Benefit to \$4,200.</p> | <p>Child Benefits Maximum Canada Child Tax Benefit increased to \$3,243 by 2007.</p> |
| <p>Early Childhood Education and Care That the federal government commit to a new investment in quality Early Childhood Education and Care services that are universal, inclusive and accessible in all communities. When fully implemented, this initiative would require a \$3 billion annual investment.</p> | <p>Early Childhood Education and Care \$935 million over the next five years to assist provinces and territories and First Nations in increasing access to quality child care and early learning opportunities, especially for low-income and single-parent families;(p. 90)</p> |
| <p>Affordable Housing That the federal government create a national affordable housing investment strategy leading to the creation of 20,000 new affordable housing units each year over the next 10 years and rehabilitating a further 10,000 units per year. This will require an investment of \$1 to \$1.5 billion annually for ten years.</p> | <p>Affordable Housing \$320 million over the next five years to enhance existing affordable housing agreements with the provinces and territories, bringing the total federal investment to \$1 billion by the end of 2007–08; \$256 million over the next two years to extend the Government’s housing renovation programs to help preserve the existing stock of affordable housing; \$270 million over the next two years to continue to fight homelessness; (pp. 90-91)</p> |
| <p>Post-Secondary Education That the federal government commit to national investments through the provinces and territories to freeze and lower tuition fees for post-secondary education. The federal government should also introduce a national system of needs based grants. This would require additional investments of about \$500 million a year.</p> | <p>Post-Secondary Education \$60 million over two years to improve the Canada Student Loans Program; (p. 119)</p> |
| <p>Student Loans for Refugees The federal government should change the rules to allow refugees to access student loans.</p> | <p>Student Loans for Refugees The Canada Student Financial Assistance Act will be amended to make protected persons, including convention refugees, eligible for Canada Student Loans, and to make provisions with respect to the enforcement, management and implementation of the Canada Student Loans Program. (p. 132)</p> |

CANADA'S SOCIAL DEFICIT CAN BE ELIMINATED

The continual increases in food bank demand, large inequalities in incomes and assets, high incidence of homelessness, and continued high rates of poverty are indicators that Canada's social deficit remains – even after the elimination of the fiscal deficit and a return to stronger economic performance.

The need to address Canada's social deficit is widely acknowledged. Anti-poverty groups and housing advocates have long been sounding the warning that Canada's social safety net has been dangerously unwoven (Novick, Ontario Non-Profit Housing Association, McIntyre for example.) The health, social and economic costs of persistent poverty and inequality have been documented (National Council of Welfare (2001-02), Health Canada, Raphael). Canadian municipalities joined the call for social re-investments, as cities confronted the growing problems of poverty, hunger and homelessness and declining quality of life (Federation of Canadian Municipalities). More recently Canadian business leaders have spoken out on the need to strengthen Canada's income security programs, close the gap between rich and poor, and build affordable housing (TD Bank Financial Group, Toronto City Summit Alliance).

For the past decade, CPJ has consistently championed the cause of strong social supports as an essential component for Canadian socio-economic development. We cautioned that the means chosen to eliminate the fiscal deficit risked widening Canada's social deficit.

The good news, however, is that the steps the federal government has already taken in recent budgets to address these issues are proven methods for reducing social deficits – as well as building human and social capital. Affordable housing is one of the surest ways of eliminating homelessness. Child benefits are having a positive effect in reducing the rate and depth of poverty for many low income families. The *Budget 2003* announcement of funding for high quality early childhood learning and care can help build a national program of services proven to provide multiple benefits for children and their families.

These are all steps in the right direction. Citizens for Public Justice recommends that the federal government accelerate and increase its efforts.

FIVE-YEAR SOCIAL INVESTMENT PLAN

Specifically, CPJ proposes that the next federal budget include:

| | 2004-05 | 2005-06 | 2006-07 | 2007-08 | 2008-09 |
|----------------|----------------------|----------------|----------------|----------------|-----------------|
| | <i>(millions \$)</i> | | | | |
| Housing | \$300 | \$600 | \$800 | \$1,000 | \$1,000 |
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Affordable Housing

Housing advocates have indicated the need for \$1 billion annually in federal funding for new affordable housing units. *Budget 2003* reaches 20% of that target (\$1 billion over five years, or \$200 million annually). A funding plan to reach the goal of \$1 billion annually could look like this: additional investments of \$300 million in 2004-05, \$600 million in 2005-06, \$800 million in 2006-07, \$1 billion each in 2007-08 and 2008-09.

Canada Child Tax Benefit

Steady progress had been made in strengthening child benefits since the introduction of the National Child Benefit in 1998. This has been marked by increased benefit levels of both the National Child Benefit Supplement (NCBS) and the base Child Tax Benefit (CTB). The Canada Child Tax Benefit (CCTB) – combining the NCBS and CTB – was further strengthened when it was fully indexed to inflation in the 2000 budget. The current plan brings the maximum CCTB to \$3,243 by 2007. Policy experts have calculated the size of a mature child benefit at \$4,400 (Battle and Torjman, Novick). We estimate the cost of completing the CCTB at roughly \$3.2 billion annually – above what is projected in *Budget 2003*. (CPJ's projection of costs is based on estimates given in *The Economic and Fiscal Update 1999*, pp. 110-111.)

Early Learning and Child Care

Following *Budget 2003*, Federal, Provincial and Territorial governments signed a *Multilateral Framework on Early Learning and Child Care*, explaining how the federal funds are to be used.

Federal, Provincial and Territorial Ministers Responsible for Social Services agree that support for early learning and child care is a critical investment in our children's future. Ministers agree that further investments in early learning and child care should also be incremental, predictable and sustained over the long-term.

Multilateral Framework

Reliable estimates place a federal contribution to universally accessible early learning and child care across Canada at \$4 billion annually (Novick; Friendly and Rothman). Current plans are

for \$75 million in 2004-05 rising to something in the range of \$300 million in 2007-08. Federal contributions – in addition to those in Budget 2003 – that are “incremental, predictable and sustained” leading toward full funding of ELCC could look like this: \$125 million in 2004-05, \$300 million in 2005-06, \$600 million in 2006-07, \$1.1 billion in 2007-08, and \$2 billion in 2008-09.

The Canada Social Transfer: Closing the Gap

The 2003 Federal Budget announced the creation of a separate Canada Health Transfer and Canada Social Transfer “to increase transparency and accountability.” The announced funding levels for the CST indicate just how much social transfers have languished in the era of the Canada Health and Social Transfer. For example, if we take per capita federal cash transfers for health, post-secondary education and social services in 1992-93 as a baseline and adjust for inflation, we find that by 2002-03, per capita transfers for health surpassed 1992-93 levels, while transfers for post-secondary education and social services fell substantially. In total dollars, the health transfer increased by \$1.29 billion by 2002-03, while the post-secondary education and social services portions decreased by \$1.86 billion and \$3.35 billion, respectively (see the Public Justice Resource Centre discussion paper of September 2003, *The Size and Costs of Reduced Social Transfers*).

This decline in transfers has had real impacts on the quality of life for Canadians and their communities. It has contributed to the decline in real incomes for people relying on social assistance. It contributes to the rise in the number of children in care. It exacerbates the problem of homelessness. It fuels the “great divide” in access to post-secondary education along income lines and leaves graduates with large tuition debts.

A funding plan to close that gap within five years could look like this: an additional \$1 billion in 2004-05, \$2 billion in 2005-06, \$3 billion in 2006-07, \$4 billion in 2007-08, \$5 billion in 2008-09. Ideally, the Canada Social Transfer and the Canada Health Transfer would be complemented by a Canada Post-Secondary Education Transfer.

PAYING FOR THE FIVE-YEAR SOCIAL INVESTMENT PLAN

Budget 2003 returned to including a full \$3 billion contingency fund plus a prudence factor for each year of its budget plan. For 2003-04, the combined contingency and prudence reserve amounted to \$4 billion. For 2004-05, \$5 billion. If the federal government sticks to the plan of using the contingency reserve as a debt reduction fund, the only apparent source of new revenue, other things being equal, would be for economic activity to outpace forecasts. For 2003-04, with projections for growth in GDP reduced to 2.2% from the 3.2% growth rate in *Budget 2003*, it appears there will be no budget windfall in the very near future.

New sources of revenue: a pension plan tax credit

One option for raising new revenue could come from converting the RRSP and RPP deductions into tax credits. Currently, these deductions cost the federal treasury more than \$11 billion annually. Providing the deduction is premised on two grounds. First, the deduction simply defers taxation that will be collected when retirees draw income from the retirement savings or private pension. Second, particularly for the RRSP, the deduction serves as an

incentive to encourage people to build up private retirement savings. Canada and Quebec Pension Plan premiums are treated differently. They provide a non-refundable tax credit of 16%. Converting the RRSP/RPP deductions into tax credits would bring tax expenditures for private pension programs in line with those for public pensions.

Given that retirement incomes are lower than the incomes from paid employment for most contributors to RRSPs, the tax savings for many through a deduction from current income will be at a higher marginal tax rate than their retirement income marginal tax rate. On the grounds of equalizing the present foregone tax revenue with future tax revenue, there is a case for turning the RRSP/RPP deduction into a tax credit.

The federal government converted personal exemptions and most deductions to tax credits in 1988. Even the tax deductions for contributions to the Canada and Quebec Pension Plans were converted to credits. However, the government refused to take the next logical step and do the same for contributions to occupational pension plans and RRSPs.

National Council of Welfare, 1999

In 1999, the National Council of Welfare estimated that not converting RRSP/RPP deductions to tax credits cost the federal treasury just over \$2 billion in 1996. If the federal government made the sensible move of converting these deductions into tax credits, the savings to the federal government today in tax expenditures could amount to roughly \$3 billion annually (see the Public Justice Resource Centre research notes of September 2003, “Converting the RRSP/RPP Deductions into Tax Credits: Estimated Tax Expenditure Savings”). Such savings alone could fund the rest of a mature child benefit system or three-quarters of the cost of a national early learning and child care program.

MOVING FORWARD

We will close by re-iterating a challenge presented in *Quality over Quantity*, CPJ’s brief to the 2002 pre-budget consultation.

Budget debates in Canada invariably are structured around fiscal capacity as it exists in the present moment....The first challenge therefore, for this committee’s deliberations, is to leave aside the fiscal and economic projections for the moment and look to the question of what kind of society we want. Then we can go back and decide what are the steps we can take today to get us there.

Citizens for Public Justice proposes a vision for Canada where eliminating the social deficit becomes a key public priority. This is a vision of investing in people and communities. In this brief, we have presented recommendations for a five-year social investment plan that would help realize that vision. We have also suggested one way that plan could be paid for. We are certainly open to exploring other avenues for doing that. At this moment, let us together make the commitment to close the gap of enduring social deficits and work to build a stronger, more inclusive Canada.

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