



A temperate budget that leaves some people out in the cold

2005 federal budget analysis from Citizens for Public Justice

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The first way to analyze a federal budget is to look at what's been called for and what was delivered. That's especially helpful this time in a budget called "Delivering on Commitments."

In our brief to the Finance Committee last fall, CPJ called for a *limited, realistic* mix of measures that would make a serious difference in the level and depth of child and family poverty in Canada.

We asked for funding, by 2008-9, for early learning and childcare to be at \$6 billion a year. On affordable housing, we wanted the federal government to be spending \$2 billion a year. And for national child benefits, \$4 billion a year more (which would get the maximum child benefit to \$4,900 per child per year.) We've long critiqued the practice of provinces "clawing back" the National Child Benefit Supplement from families on social assistance. So this year we called for an increase in the Canadian Social Transfer of \$0.5 billion a year to offset the costs of provinces ending this practice and putting the federal money into the hands it's intended to be in – families.

At the minimum, we said, the government should make good its election promise to invest \$5 billion in early learning and childcare and another \$1.5 billion in housing over the next five years. Again, *limited* and *reasonable* expectations.

In that light, how did this budget perform? The government came through on its childcare commitment, promising \$1.2 billion a year by 2008-9 (so that's short of our \$6 billion.) The budget offered nothing new on housing, child benefits or the Canada Social Transfer.

The budget, then, did less than we saw needed. Nonetheless, the child care money is an important financial commitment, one that is long overdue. We hope this budget allocation will give Social Development Minister Ken Dryden a good base in upcoming meetings with his provincial and territorial counterparts. The test will be to what extent they can lay the foundation of a program that truly meets the principles of quality, universal, accessible, developmental child care.

Overall the Liberals spent a tremendous amount of money on a wide array of program and priorities, and CPJ thinks some of them are terrific (like green initiatives, spending on seniors, and international aid.) Big commitments to health care (\$41 billion over 10 years) where the provinces and territories signed on with the federal government will help us all. And the provinces receive an additional \$33 million in equalization payments and some of that money will go to social spending.

There were some commitments the government made, like giving part of the gas tax to municipalities, which ensures stable funding, and they delivered.

So why is there so little for poor Canadians, with the exception of seniors, who got another boost? This budget leaves low-income Canadians largely out in the cold. But their fortunes affect us all. Here's an example.

Healthy choices

On the one hand, the federal government can say it's strongly supporting health in Canada. But transferring money for hospitals, equipment, and procedures is just one way of supporting health. And, in fact, it's short-sighted to only treat bad health if the government doesn't also take steps to ensure good health (by paying attention to the so-called social determinants of health.)

One very positive way to ensure good health is through housing. When people don't have housing, or housing they can afford, this is a huge stress. It makes them sick. That increases the demands on the health care system that gobbles up so much money already. An investment in housing, then, is about more than housing. There is no money for housing in this budget.

Michael Shapcott of the National Housing and Homelessness Network reads this as a bitter betrayal of Paul Martin's promise to deliver a new five year housing deal. "Exactly one year ago today (Feb. 23, 2004), Paul Martin said in a press scrum in Montreal that his government was committed to a new, five-year national social housing program. During the election, he promised that his government would provide \$1.5 billion for social housing."

What does this mean for Housing Minister Joe Fontana, who is wrapping up consultations on a national housing strategy? Will he have resources at his disposal to deliver? He's been left trying to explain to housing advocates why the government had nothing for housing and *but* how the government commitment remains.

Tax cuts for the poor?

Another example of a false economy comes under what the government headlined "a fair tax system." In the budget, personal tax exemptions were raised, which was called a measure to help poor and middle income Canadians.

We pay taxes in many forms: income tax, payroll taxes (like CPP/QPP and E.I. premiums), consumption taxes (like GST and provincial sales tax, taxes on cigarettes, alcohol, gas, etc.) and property taxes. For low-income households, the consumption taxes make up the largest share of their tax contributions.

A recent study of the National Anti-Poverty Organization reports that for the 4,900,000 low income tax payers – those whose incomes fall below the Low Income Cut Off – consumption taxes make up roughly 70% of the taxes they pay.

The budget includes tax cuts in the form of raising the personal exemption to \$10,000 by 2009; this will offer little support to the poor, contrary to common assumptions. Nor does the measure result in removing more low income households from the tax rolls. They may owe no federal income tax. But there is no lightening of the load for other taxes.

Altogether, by 2009 this measure will cost the government \$3.55 billion a year. That's not much less than the \$4 billion CPJ recommended for increasing the Canada Child Tax Benefit. That refundable tax credit goes directly into the hands of low and modest-income families. For the same amount of money, the government could have taken a big bite out of child and family poverty in Canada.

And the winner is ... (again)

As in years past, the big winner in this budget is debt repayment – the single biggest allocation of \$15 billion over five years. You would have heard of it as the contingency reserve of \$3 billion a year.

Minister Goodale gives four reasons for why debt repayment should be priority number one:

- It relieves a big burden on future generations.
- It saves billions of dollars in servicing charges.
- It facilitates a Triple-A credit rating, lower interest rates and rising standards of living.
- It enables Canada to prepare for the inevitable pressures of an aging population.

The burden on future generations may not just be a fiscal one. And if the government made no payments on the debt, the fiscal burden would fall at nearly the same rate as with a \$3 billion annual payment. Certainly, if debt repayment means municipal infrastructure deficits accumulate, future generations will be faced with a big burden. If debt repayment means post-secondary tuition continues to rise at faster than the rate of inflation, while middle and low-income households continue to see little or no real improvements in income, future generations will be saddled with the burden of high student debts (for those who manage to get post-secondary education) or unfulfilled potential (for those who are left out of achieving post-secondary education). The Triple A credit rating is good for federal government borrowing, but it does little to finance provincial, municipal or personal debt. The pressures of an ageing population will require a skilled workforce for the future – that will mean a highly educated and trained

workforce. In short, it is not at all evident how fiscal frugality at the federal level will ease the future burdens of Canadians and their communities.

Debt repayment will equal (at least) \$15 billion. In 2004-05, debt repayment of \$3 billion is greater than all other net tax and spending initiatives, combined – at \$2.982 billion.

The government has a target of 25 per cent for the debt/GDP ratio (meaning we'll reduce debt to a quarter of the combined total of goods and services in Canada.) Page 240 of the budget plan has a chart showing how/when the government will get there. Helpfully, it traces the path with and without using the annual \$3 billion contingency reserve toward paying down the debt. The difference is two years. Using the annual contingency reserve to pay down the debt gets the government to the 25% target by 2013-14. Not using the contingency reserve for debt repayment gets you there by 2015-16.

It is interesting to ponder what \$3 billion a year would buy. One billion of that annually would help build a lot of affordable housing. Or, that \$3 billion, on top of the \$1.72 billion a year (by years 3-5) could ramp up early learning and child care. Or, that \$3 billion would be a big boost in transfers for social assistance and social services, and/or post-secondary education. And of course, when that money is spent, some of it comes back as tax revenue generated by the economic activity the spending creates.

It really begs that question, if we accept the government's target of debt/GDP at 25%, how fast do we have to get there? And is it worth it to forego crucial public services and programs in our haste to reach that fiscal target?

Here is analysis of specific issues.

Immigrants and refugees

This is a mixed bag. CPJ applauds the \$298 million earmarked to help immigrants adjust to Canada through settlement programs and agencies. It's needed money for good and necessary work. An additional \$100 million will include "more efficient and responsive services and improvements to the availability of client information and assistance." That means that this funding will support an enhanced Going to Canada (Internet-based) immigration portal, allowing prospective newcomers to make better-informed decisions. It will also help settlement agencies begin to establish common service standards, codes and so on, so it's great to see the money there. And it's helpful to all that \$75 million has been tucked into the health care agreement to get health-care workers trained elsewhere working in the Canadian health system.

At the same time, there is nothing to reduce refugee limbo in this budget. The resources of the Immigration department are not adequate to process the applications of refugees in Canada, or those waiting overseas, whether for sponsorship or to be chosen out of camps. That means the department is pushed to the limit, staff burnout and get jaded, and those in need are kept waiting ... without relief.

There is plenty of money to stop asylum-seekers from even getting a foot on Canadian soil. There is \$433 million in the budget for border security. Some of that money will go to customs agents to speed up trade and get trucks across border posts faster. But security is a big concern for this money and CPJ reads two messages into that. One, those who come to our borders - refugees - are still being seen first as security threats, and second as people in need of protection for whom Canada has an international obligation. And second, because Canada is operating out of skepticism far more than justice and compassion, we are stopping people at airports from getting on planes to Canada. This process is called interdiction, and CPJ expects that this budget item will likely increase that unsavoury and often racist practice.

That means that Canada is putting more money into keeping people out than in helping new Canadians get on with their lives.

Seniors

In this budget the federal government has increased the Guaranteed Income Supplement, boosting it by \$2.7 billion over two years. This is good news. The Liberal governments over the last 10 years have implemented a number of plans to catch seniors, whose incomes were falling, trying to move this whole group into a better position. In this budget, the trend continues. There are also measures to help low-income seniors, raising the benefits of singles with low-incomes by \$400 a year and low-income couples by \$700. In addition, they have increased funding for the New Horizons program, which funds initiatives involving seniors in their communities, to \$25 million a year, which is double what it was, but only a quarter of what was recommended in Creating a National Seniors Agenda (the 2004 report of a task force struck by the Prime Minister). There is also money for a seniors' secretariat.

Aboriginal peoples

A variety of funding initiatives were named, with emphasis on the Aboriginal healing fund and Aboriginal learning. It will be interesting to see if the federal government adopts the Assembly of First Nations' recent proposal to offer a blanket compensation payment to all former residential school students. The legal and administrative costs of establishing government compensation are actually far outstripping the actual compensation being paid.

Budget in Brief name \$345 million over five years for First Nations child care, special ed and child and family services. (Is this on-reserve only? Or will part of it be available off-reserve?) \$340 over five years for on-reserve housing, Aboriginal languages and culture and healing.

Environment

We defer to our colleagues in environmental organizations who are pleased with the number of budget items attending to climate change and other green initiatives.

International aid

The Jubilee commitments to debt relief begin to show up in the budget and that pleases CPJ, which participated fully in the churches' Jubilee campaign around the new millennium in 2000. This is especially encouraging with African poverty on the agenda of the G8 summit in June. Now that Canada has increased its commitment to international aid and debt relief, it can play a supporting role on these issues with other nations.

Employment Insurance

There was reason to hope for more here. The Bloc Québécois had made this a priority and the Liberals have been trying to appease Opposition members. And just this month, the Standing Committee on Human Resources, Skills Development, Social Development and the Status of Persons with Disabilities Subcommittee on Employment Insurance Funds released a report that had broad cross-party agreement and that included these two recommendations.

Recommendation 10

The Committee recommends that the government implement a uniform 360 hours qualification requirement, irrespective of regional unemployment rates or the type of benefit. This would establish a qualification requirement based on a 30-hour week over a 12-week period.

Recommendation 11

The Committee recommends that the maximum benefit entitlement for regular benefits be extended to 50 weeks, the same as that afforded special benefits.

CPJ considers it a real shame no real money was given back to Employment Insurance and little was done to help more people qualify. What happens when EI only funds a few, is that it stops being a place people can turn when they lose their job, or are only able to piece work together in bits and pieces. So the first resort, for those without work, then becomes welfare. Unlike EI, welfare is a provincial responsibility. So the cost of scaling back EI falls on the provinces. The other option the federal government had to relieve pressure on the provinces in this regard was to put more money into the Canadian Social Transfer, but that didn't happen either. So a double pressure on the provinces results.