

Repaying a Debt to Canada's Children

*Submission to the Standing Committee on Finance Pre-Budget
Consultations*

by Citizens for Public Justice, November 2004

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It has been fifteen years since the House of Commons unanimously resolved to try to eliminate child poverty in Canada by the year 2000. In 1989, 14.9% of children were living in poverty. By 2001, the child poverty rate had *increased* to 15.6%. That means 1,071,00 children were living in poverty in 2001.

By any standard, that is failure. We have let Canada's children down. We owe it to them to make good on that 1989 pledge.

Since 1997, the federal government has socked away \$61 billion towards paying down the federal debt. That is money that could have been spent on affordable housing – to help make sure all children have a safe, secure home. That is money that could have gone a long way to building a national system of early learning and childcare. That is money that could have boosted family incomes through the Canada Child Tax Benefit.

Other countries in the Organization for Economic Cooperation and Development have made poverty reduction among children a priority. And many have succeeded. Now is the time for Canada to join that club.

The policy mix for significantly cutting the rate and depth of child poverty is pretty well established: good jobs at good wages, strong child benefits, investments in affordable housing, a universal system of affordable, high quality early learning and child care. Those policies do not come cheap. The good news is that Canada clearly has the means to be among the world leaders in reducing child poverty. The question is do we really want to do it.

The Federal Budget: A Statement of Values

Citizens for Public Justice is glad to be able to participate in the Finance Committee's pre-budget hearings again this year.

CPJ was founded 40 years ago by Canadian justice-oriented Christians who believe that governments, and all of us, are responsible for the common good. CPJ is a non-profit research, education, and advocacy organization which responds to God's call for love, justice and stewardship in Canada's public life. CPJ has a membership of over 1,500 individuals and organizations from the Atlantic to the Pacific to the Arctic and a total mailing list of over 3,000.

As Christians who take seriously Christ's call "to preach good news to the poor, proclaim freedom for the prisoners, release the oppressed (Luke 4:18-19)" we have chosen to work on issues which affect people our political and economic systems often ignore. We do this by analyzing public policy and offering alternatives from a public justice perspective. In recent years, our policy focus has been on child and family poverty and on policies affecting refugees in Canada.

One of the ways the government demonstrates its guiding principles and priorities is through its annual budget choices. It is here we find the heart of the government's commitments. Questions about spending, taxation and public debt are important. The way they are answered helps to determine the kind of society Canada is to become.

A Health Deal for Children

Health care seems to be perennially atop the list of national priorities. This was illustrated in the First Ministers' conference on health care in September. The televised hearings captured the nation's attention. Yet, we must recognize that it is good health, not more health care, that is our real priority. Healthy individuals. Healthy families. Healthy communities.

The single greatest determinant of health is socio-economic condition. We cannot hope to improve the health of Canadians, of our families and of our communities so long as one in five children is growing up in poverty. We cannot have good health when more than 840,000 Canadians a month must turn to food banks to stave off hunger (Canadian Association of Food Banks). We cannot have good health when 1.7 million Canadian households are in core housing need or have no home at all (Canada Mortgage and Housing Corporation, 2004).

Income and social status are the most important determinants of health. There is conclusive evidence that people at each level of the income scale are healthier and live longer than those at the level below. Moreover, countries in which incomes are more evenly distributed have a healthier population in terms of life expectancy, quality of life and mortality rates. Family income has a direct influence on children's health outcomes: inadequate income can negatively affect children's physical and mental health, cognitive and social development, and academic achievement.

-- *Health Canada, 1999*

Structural Solutions to Address Child Poverty

The persistence of child and family poverty in Canada challenges our core belief in Canada as a caring nation. It is fifteen years since the House of Commons unanimously adopted the -- as yet unfulfilled -- all-party resolution to end child poverty in Canada. Despite the fact that the rate has come down from the peaks reached in the mid-1990s, it has not yet fallen below the 14.9% mark set in 1989. Indeed, the rate has begun to climb again. Other countries have far fewer children and families struggling to pay the rent and feed the kids. What will it take for Canada to fulfill the promise to eliminate child poverty?

Together with partners in Campaign 2000, Citizens for Public Justice has studied the policy mix that works to substantially reduce child and family poverty. Campaign 2000's report, *Pathways to Progress: Structural Solutions to Address Child Poverty*, documents how well-paying jobs, strong child and family benefits, universal early learning and child

care, and public investments in affordable housing are the key ingredients for substantially and sustainably reducing child and family poverty.

We are encouraged that, after the setbacks of the 1990s, the federal government has taken steps in most of these areas in recent budgets. Investments in the Canada Child Tax Benefit, improved maternity and parental leave, a renewed federal presence in affordable housing, and federal investments in early childhood development, learning and care, together with an improved job market have helped bring child poverty rates down from the peaks of the mid-1990s.

Those initiatives must be seen as a starting point. We know that, despite being at the top of the business cycle, more than a million children and their families continue to live far below the poverty line. Clearly, there is more work to do in each of those policy areas in order to achieve a lasting reduction in child poverty in Canada.

Budget priorities for 2004-05

National Investments in Early Learning and Child Care and Affordable Housing

For budget 2004-05 Citizens for Public Justice recommends a focus on early learning and child care along with continued national investments in affordable housing.

The 2004 Liberal election platform contained proposals to invest \$5 billion over five years to build a national program of early learning and child care. It also included a pledge of \$1.5 billion over six years for affordable housing. CPJ sees those commitments as the bare minimum that must be included in budget 2004-05.

A Five-Year Fiscal Forecast

	2004-05	2005-06	2006-07	2007-08	2008-09
	\$ billions				
Projected surpluses (a)	\$8.9	\$4.5	\$5.9	\$9.2	\$14.0
Less Economic Prudence	\$0	\$1.0	\$2.0	\$3.0	\$3.5
Available Surplus	\$8.9	\$3.5	\$3.9	\$6.2	\$10.5

a) Finance Canada (2004c) The Economic and Fiscal Update: Annex to the Presentation, November 16, p. 76.

Note: CPJ recommends that the federal government end the practice of setting aside a \$3 billion annual contingency reserve for debt repayment and free that money for urgent public investments. This raises the available surplus by \$3 billion a year.

Reliable estimates place the annual cost of a national early learning and child care program at \$6 billion. Budget 2004-05 should ramp up spending annually toward that figure. Likewise, at least \$2 billion annually is needed in federal funding to address Canada's affordable housing needs (Freiler, Rothman and Barata, 2004).

2005 Budget Priorities	Recommended Annual Funding Levels by 2008 (\$ billions)
Early Learning and Child Care	\$ 6.0
Affordable Housing	\$ 2.0
Child and Family Benefits	\$ 4.0
Canada Social Transfer (to end National Child Benefit clawback)	\$ 0.5
Total Annual Expense	\$12.5

Targeted Tax Cuts? Raising the Canada Child Tax Benefit

Finance Minister Goodale has talked of targeted tax cuts to reduce the burden for middle- and lower-income Canadians (Finance Canada, 2004a). *Pathways to Progress* lays out a realistic plan for delivering such tax cuts through a renewed and enriched Canada Child Tax Benefit. Under the *Pathways to Progress* plan, all low- and middle income families are assured of receiving their full child benefit. The plan would also end the confusing interaction of child tax benefits with provincial welfare programs paving the way for meaningful welfare reform that can build opportunities for people to exit poverty.

CPJ recommends that the federal government increase the base of the Canada Social Transfer by \$500 million a year, specifically to enable provincial/territorial governments to end the clawback of the National Child Benefit Supplement from families receiving social assistance.¹ For provinces that have already phased out the clawback (Manitoba), have never implemented the clawback (New Brunswick), or have already restructured benefits for children (Nova Scotia, Newfoundland and Labrador), the addition to CST dollars would be available for programs and services for families with children.

Citizens for Public Justice opposes a further round of broad tax cuts. Such cuts are inequitable, as they deliver far greater tax relief to higher income households and exacerbate the growing divide between the rich and poor. Cross-the board tax cuts, like those in the 2000 federal budget, also erode the revenue based needed for the public investments Canada needs to make.

No Need for Rapid Debt Repayment

The federal government has set a ten-year time frame for bringing the debt-to-GDP ratio to 25%. This is the justification for budgeting \$3 billion dollars a year in annual debt repayment and for allocating any additional surplus to further paying down the debt.

¹ \$500 million is a rough estimate of what would be needed to offset reinvestment funds in those provinces that continue to claw back the National Child Benefit. In 2002-03, the province of Ontario with roughly 39% of the Canadian population, had \$202 million in reinvestment funds due to the clawback (National Child Benefit Progress Report: 2002 p.74). If the increase in the Canada Social Benefit were delivered on a per capita basis, based on Ontario's share of the population and the amount needed to offset reinvestment funds, it would total about \$518 million nationally.

Those debt payments have been sizeable since federal budget deficits came to an end in 1997.

As a result of the seven consecutive surpluses, Canada's federal public debt has been reduced by a total of \$61.4 billion from its peak in 1996–97. (Finance Canada, 2004 b)

More than \$61 billion has been allotted to paying down the debt over the past seven years. That is money that could have been spent on building more affordable housing, creating a national child care program, boosting funding for social services and post-secondary education or completing the Canada Child Tax Benefit. Instead, all of those programs and services remain fragmented.

Ironically, all that debt repayment has done little to accelerate the decline in the debt/GDP ratio. Indeed, by the government's own calculations, if we simply had balanced with no outright debt repayment, we would achieve the 25% debt/GDP in virtually the same time as we would by devoting \$3 billion a year to debt repayment (Finance Canada, 2004c, p. 19). That sum alone would eliminate Canada's annual affordable housing deficit, and then some.

The reality of declining debt/GDP ratio begs the question why debt repayment should take precedence over child and family poverty. Why should debt repayment take priority over food security for the 840,000 Canadians who must turn to foodbanks and soup kitchens every month to stave off hunger? Why should debt repayment take priority over creating decent, affordable homes for the 1.7 million households in core housing needs.

A budget really does demonstrate where our values lie. It may sound good to say that devoting billions of dollars a year to debt repayment will lighten the future fiscal burden on our children. But when nearly 320,000 children have only the foodbank between them and an empty stomach, today, what kind of future are we really creating for them?

Since the federal government practice has been to devote all year-end surplus to debt repayment, including the contingency reserve, debt repayment has become the defacto national fiscal priority. The era of growing deficits, which gave justification for the contingency reserves, has long since passed. The debt-to-GDP is already on a steady downward track, even without billions of dollars in debt repayment. Indeed, the government could even run a small deficit without jeopardizing the steady reduction in the debt-to-GDP ratio. Citizens for Public Justice, therefore, recommends that the federal government end the practice of setting aside a contingency reserve, therefore making those funds available for crucial public investments. Including a prudence factor for planning purposes (\$1 billion in 2005-06, \$2 billion in 2006-07, etc.) should be sufficient to guard against economic risks that could reduce projected surpluses.

Paying for our Proposals

The invitation to appear before the Finance Committee asked us to name ways to pay for our recommendations. Even with the large and growing surpluses the federal government expects to accumulate in the coming years, we recognize there are many claims on those dollars. The recent health deal -- \$41 billion over 10 years – and the agreement on equalization payments – some \$30 billion more over 10 years – illustrates well the many needs for federal funds.

The reality is that achieving the goal of eliminating child poverty is going to require more than wishful thinking and partial measures. While the policy mix need to achieve that goal is well understood, it requires substantial public investment – together with concerted efforts to increase the proportion of well-paid jobs in the economy.

For this reason, we have explored, with our Campaign 2000 partners, a variety of means to raise the public revenue needed to fund the full range of programs and services needed to sustainably reduce child poverty and improve the lives of children and families across Canada (Freiler et al, 2004; deGroot-Maggetti, 2003). Options include new income tax rates for high earners to restore equity to the system; designated surcharges on income tax for human development investments; modest increases in consumption taxes with corresponding enhanced credits for lower income earners; and converting Registered Retirement Savings Plan and Registered Pension Plan deductions into tax credits.

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