Contributing to the Common Good

Submission to the Standing Committee on Finance Pre-Budget Consultations

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CITIZENS *for* PUBLIC JUSTICE

Contributing to the Common Good

Summary

Paying taxes represents one very important way that we all contribute to the common good.

The tax system does a number of things. It is a means by which government(s) raise the revenue needed to fund public services. It is a means of reallocating income to reduce poverty and inequality. It is a means of influencing how resources are allocated.

The question then is how the tax system, along with other public policy tools, can support a comprehensive, sustainable and shared prosperity.

Potential changes to the tax system must be judged by their impact on the ability of the federal government to raise adequate revenue to pay for public infrastructure and services, by their impact on the distribution of income and by how they encourage socially, ecologically and economically sustainable development.

Citizens for Public Justice recommends that:

1. The Finance Committee undertake a study to evaluate the impact of recent and proposed changes to the tax system in terms of:
    a. raising adequate revenue to fund public infrastructure and services;
    b. reducing inequality in after-tax incomes;
    c. achieving specific public policy objectives toward shared and sustainable prosperity.
2. The federal government implement a poverty reduction strategy.
3. The federal government convert the personal and spousal credits into refundable credits as a step toward assuring all people a guaranteed adequate income.

Contributing to the Common Good

Introduction

Citizens for Public Justice is pleased to participate in the Finance Committee's pre-budget consultations. CPJ is a national, faith-based organization with more than 1,500 individual members and supporters. As a Christian organization, CPJ's work is rooted in the call to do justice and to love our neighbours. We understand that public justice is the *political* dimension of loving one's neighbour, caring for creation and achieving the common good, and is particularly the responsibility of government and citizens.

Public justice means that one of the roles of government is to create policies, programs and structures that reduce poverty and that equitably distribute resources in society so that all people and all parts of society can flourish and fulfill their callings, contributing to the common good.

So, Citizens for Public Justice welcomes the opportunity to reflect on the tax system which Canada needs for a shared and sustainable prosperity.

Seeking a shared and sustainable prosperity

It is important to have a clear understanding of what we mean by prosperity. For too long, prosperity has been reduced to meaning the nation's economic output as measured by Gross Domestic Product. The shortcomings of GDP as a measure of human well-being has been recognized since its inception, by no less than Simon Kuznets, the creator of the national system of accounts that gives us the GDP.[1]

There are several alternative measures of economic, social and environmental well-being that have been developed. Some of them are in use in Canada and in other countries. A survey of some of these measures can be found in (Sharpe, 1999). Many of these measures show that while GDP has risen substantially over the past thirty years, indicators of economic security and social well-being have not risen as much, indeed some have fallen.

There is clear evidence that, especially in rich nations like Canada, simply increasing GDP or per capita GDP will not lead to greater well-being. "There is no increase in average well-being if all incomes rise at the same percentage, and there is a fall in average well-being if there is a change in the income distribution that increases inequality. (Helliwell, 2002)" Reducing inequality, however, improves well-being and population health. There is conclusive evidence that "countries in which incomes are more evenly distributed have a healthier population in terms of life expectancy, quality of life and mortality rates (Health Canada, 1999)."

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[1] Simon Kuznets, the creator of the system of national accounts from which GDP is generated, was well-aware of its limitations as a measure of well-being. In an article on the development of GDP and alternative measures of well-being, Cobb et al. (Cobb, Halstead, & Rowe, 1995) document Kuznets' misgivings about how the measure he had created was being used.

> Simon Kuznets had deep reservations about the national accounts he helped to create. In his very first report to Congress, in 1934, he tried to warn the nation of the limitations of the new system. "The welfare of a nation," the report concluded, can "scarcely be inferred from a measurement of national income …."

By 1962 Kuznets was writing in the New Republic that the national accounting needed to be fundamentally rethought: "Distinctions must be kept in mind between quantity and quality of growth, between its costs and return, and between the short and the long run," he wrote. "Goals for 'more' growth should specify more growth of what and for what."

True prosperity must be comprehensive, sustainable and shared. Prosperity needs to be comprehensive – rather than GDP, it needs to be defined in fiscal, social and environmental ways, using both objective and subjective indicators. Prosperity needs to be sustainable – fiscal, social and environmental factors must be addressed in an integrated way and consistently over time. Prosperity needs to be shared – disparities of income, wealth, education and opportunity need to be reduced as a means of increasing human well-being and the common good.

The tax system does a number of things. It is a means by which government(s) raise the revenue needed to fund public services. It is a means of reallocating income to reduce poverty and inequality. It is a means of influencing how resources are allocated. The question then is how the tax system, along with other public policy tools, can support a comprehensive, sustainable and shared prosperity.

The Taxes We Pay Contribute to the Common Good

Citizens have social rights and responsibilities. Paying taxes represents one very important way that we all contribute to the common good.

Canadians have learned through experience that if we want all of our children to have real opportunity for an education, we need to pool our resources and fund public systems of education so that all children can have free, high quality education.

Canadians have learned, again through experience, that it is better to publicly fund a system of health insurance and medical care than to leave everyone to their own resources to purchase private health insurance.

Schools and the health care system are just two examples of crucial social infrastructure. We each contribute to the common good by paying the taxes that fund this crucial social infrastructure.

It is critical that we take that responsibility seriously and ensure that we raise enough revenue through the tax system to adequately fund the varied infrastructure that we need for a shared prosperity.

Consider some of the public services, provided by different levels of government, things like: publicly funded health care; publicly funded education, research and training; transportation systems; monetary system; telecommunication rules and regulations; police and fire protection; public funding to support arts, recreation, parks and civic spaces which make communities more livable and attractive; environmental protection.

Many public services provide benefits to individuals, businesses and communities. Publicly funded health care benefits individuals by assuring everyone access to basic medical services. The public system also reduces the cost of doing business in Canada both because the health system is more economically efficient than a for-profit system and costs are shared more equitably, reducing the cost to individual employers.

Likewise public funded education benefits individuals by building skills and knowledge, opening career opportunities and enhancing life. A well-educated population provides direct benefits to employers by increasing the pool of skilled workers.

It is important that the tax system raises enough revenue to pay for public services we need and value.

The tax system is also an important tool for reducing income inequality. In 2005, the richest 20% of Canadian households had $12.80 in market income for every dollar that the poorest 20% of households had. Yet, after taxes and transfers, that gap was reduced to $5.60 to $1. However, in the past decade, after tax income inequality has widened dramatically. “The gap between the top and bottom quintiles started at $83,800 in 1980, and fluctuated between $79,500 and $84,500 until 1996. By 2005, the gap had reached $105,400 (Statistics Canada, 2007)”

The tax system we need for a shared and sustainable prosperity

1. Criteria to guide federal decisions about tax changes:
    a. Changes should ensure that Canada has a tax system which raises enough revenue to fund the public infrastructure and services we need for a shared and sustainable prosperity. That means avoiding tax cuts that create structural deficits and undermine our public infrastructure and services.
    b. Changes should ensure a tax and transfer system that reduces disparities in market incomes to provide real opportunity for all people to live with dignity and be included in the life of their communities.
    c. Changes should reflect the differing financial abilities and needs of people in different circumstances.
    d. Where appropriate and effective, changes should encourage socially, ecologically and economically sustainable activities and discourage destructive activities.
2. Corporate taxation
    a. Corporations do two things with net earnings – they distribute some as income to their owners and they use some for new investments. Such new investments ensure the long term profitability of corporations. But corporations rely on the public investment that provides the physical, social and ecological infrastructure which creates the conditions for profitable private investment. Corporate taxes are the way corporations contribute to the public investments they need to remain profitable.
    b. When considering how Canada’s tax system contributes to corporate competitiveness, it is very important to take into account the public infrastructure which taxes make possible. Likewise, we need to remember that taxes are one factor among many in corporate decisions where to locate. So, questions of competitiveness should never be reduced to a simplistic comparison of corporate tax rates.
3. Personal taxation
    a. Taxes are one important way that Canadians contribute to the common good. As with corporate taxation, personal taxation helps fund the public investments and services we need for a shared and sustainable prosperity. Taxes from individuals should reflect people’s financial means (see Appendix A).
    b. As with the question of corporate competitiveness, personal taxation rates are only one factor influencing Canadians’ decisions on whether to stay in Canada or move to another country. The level and type of public services – such as public health care and lower post-secondary tuition rates, for example – are also important factors, as is the ability to find work in one’s field.

Recommendations

Evaluating the effectiveness of tax measures

Policy initiatives pursued through the tax system have to have clear objectives and must be monitored to evaluate their effectiveness. This applies to tax initiatives such as child benefits, education savings plan programs, incentives to purchase more fuel efficient vehicles, tax credits for child care corporate tax incentives for research and development as well as green taxes and credits, for example.

Likewise broad tax changes such as changes to corporate and personal income tax rates or excise taxes require evidence to justify their policy effectiveness.

It is important, then, that tax measures, along with other policy measures, be assessed in terms of their contribution to a shared and sustainable prosperity.

CPJ recommends that the Finance Committee undertake a study to evaluate the effectiveness of recent and proposed changes to the tax system in terms of:

- raising adequate revenue to fund public infrastructure and services;
- reducing inequality in after-tax incomes;
- achieving specific public policy objectives.

Canada needs a comprehensive strategy to eradicate poverty

Citizens for Public Justice has appeared before this committee for several years. Through our participation in national coalitions like Campaign 2000, we have recommended public investments and tax changes we believe are necessary for a comprehensive strategy to eradicate poverty in Canada and create a more inclusive country. We refer the committee to CPJ's 2006 budget brief and to Campaign 2000's budget briefs, report cards on child poverty and policy discussion papers for a list of those recommendations.

Guaranteeing a basic income for all people

Old age security and the guaranteed income supplement provide seniors with a basic guaranteed income. Likewise, the Canada Child Tax Benefit provides a basic guaranteed income for children. The personal and spousal credits in the personal income tax system reflect the fact that a certain level of income needed for basic needs should be exempt from personal taxation. However, as a tax credit it fails to include those with very low incomes. A step to assure that everyone can enjoy the basic rights like access to food, shelter and clothing would be to convert the personal credit into a guaranteed basic income.

Appendix A

Achieving tax fairness -- Reducing poverty and inequality

There are two main principles of tax equity – vertical and horizontal equity. Vertical equity means that those with greater economic resources contribute proportionately more. This is reflected in Canada's progressive income tax system, where higher marginal tax rates are applied at higher income levels.[2]

Horizontal equity means that people in similar circumstances be treated alike and those in different circumstances be treated differently. This is reflected in child benefits, where two couples with equal incomes will pay different tax rates when one couple with children receives a tax credit while the other couple with no children (or fewer children), and hence lower basic expenditures, pays a higher proportion of income tax.

Within a progressive income tax system, reductions, deductions and credits will have a different impact on achieving tax fairness.

- Across the board income tax reductions deepen inequality since they deliver proportionately higher benefits to those with higher incomes. Broad tax cuts also restrict resources to fund public services which equalize opportunities for all.
- Tax deductions, such as deductions for pension and Registered Retirement Savings Plans, disproportionately benefit those with higher incomes because the deduction from income reduces the taxes due at the highest marginal tax rate a person faces. Those with very low incomes receive no benefit.
- Tax credits are more equitable since everyone who owes income tax receives that same percentage reduction in income taxes. People with extremely low incomes who do not owe income tax, however, receive no benefit from tax credits.
- Refundable tax credits provide greater equity still by ensuring that those with extremely low incomes can receive the same amount of the value of the credit as those with higher incomes.
- Income tested refundable tax credits – like the GST credit and the Canada Child Tax Credit – do the most to reduce income inequality because the size of the benefit is greater the lower your level of income.

Given the importance of the tax system as a means to reduce income inequality, it is important to pay attention to the equity impacts of potential tax changes.

[2] It is important to recognize, however, that income taxes are but one part of Canada's tax system. When all taxes are included (e.g. sales, property and payroll taxes, etc.), Canada's overall tax system is actually very flat. Households at all levels contribute between 30 and 35% of their incomes in taxes (Brooks, 2005).

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