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Edmonton Social Planning Council

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Preamble

The Edmonton Social Planning Council is pleased to be invited to speak to the House Standing Committee on Finance. We congratulate the Government of Canada for its commitment to consultation, and particularly its preparedness to travel across Canada and hear perspectives from the different regions of a diverse country.

The Edmonton Social Planning Council is a leading human service and social policy organization in Alberta. We are involved in social and economic research, advocacy, and the testing of innovative models for service delivery. Our paid membership of 550 includes nearly 200 human service and health organizations.

Overview

The Council recognizes the need for fiscal responsibility and understands and supports the government's commitment to reduce budget deficits to three percent of gross domestic product.

At the same we have difficulty with strategies which focus exclusively upon expenditure reduction as a means to achieve this goal. Speculation that within this overall strategy, social programs for the neediest Canadians will be the source of the greatest cuts only serves to increase our doubts about the equity and efficacy of government plans.

This federal government was elected on a platform which contrasted sharply with that of the previous governing party. It emphasized social justice and the active role of government in ensuring the well-being of our citizens. It severely criticized the previous government for its "tendency to focus obsessively on one problem, such as the deficit or inflation, without understanding or caring about the consequences of their policies in other areas such as lost jobs, increased poverty, and dependence on social assistance. Social costs are real. They are measured in human suffering and hard dollars." [*Creating Opportunities, page 10*]

To recognize that government has spent beyond its revenues does not mean that this is the fault of the poorest Canadians, or that the resources to repay this overspending must come from them, the people least able to absorb a further decline in their standard of living. Indeed, throughout the time of growing deficits, it was middle and upper income Canadians who were responsible for the decisions leading us into this unfortunate cycle of growing debt so eloquently articulated in *Creating a Healthy Fiscal Climate*.

The net private wealth of Canadians has never been greater. Yet government, the public expression of our society, has never enjoyed such a deficit, both financially and morally. The most simple solution to this situation is to reduce the role of government in society and to let the neediest fend for themselves. Such a response was followed in the United States from 1980 until 1992, and continues in large measure under the current administration. It has created mass homelessness, urban insurrection, and a growing gulf between rich and poor, while incidentally also failing to achieve its supposed purpose, curbing the deficit. Such a strategy has also been followed in Alberta, where

thousands of welfare recipients have been shipped across the border to British Columbia, the health care system gutted, and the entire scope of civil society narrowed through introduction of user fees for a plethora of public goods and services.

Economic policy should have as a key goal the placing of *more* not less resources in the hands of the poorest citizens. Not only are these resources immediately recirculated within the economy, they are also circulated primarily within the local and national economy, rather than being bled off into foreign investments and foreign consumption.

A centrist or progressive government essentially guarantees its own demise in failing to challenge the current dominance of libertarian conservatives who see no role for government. For, if one is to support these policies, one may as well support a party which is consistent in advocating them rather than one which purports to promote other values. It is also clear from the American example that the advocates for shrinking of government are never satisfied; welfare rates are never low enough, there are always too many civil servants, *ad nauseam*. To begin to satisfy their agenda is to enter a wind tunnel which sucks one ever more rapidly into its vortex.

What is needed in Canada is not to destroy our social programs to repay the debt, but rather to rebuild the sense of civic responsibility each of us has to the community and the country. That responsibility includes assuming a fair share of the burden of supporting our weaker fellow citizens and maintaining the overall infrastructure of government and society.

We recognize that such a transition cannot take place in a vacuum. We sit next door to the most powerful nation in the world, where the individualist myth runs rampant, and whosoever chooses can cross our open border, avoiding the supposedly excessive burden of taxation and social responsibility in this country.

Yet for the great bulk of Canadians, even the great bulk of the middle classes, that is neither a practical nor a desirable option. For anyone who cannot afford their own private health care, who does not live in a walled compound, who does not wish to step over homeless AIDS victims in the subway, Canada has many advantages. It is a healthier, safer, and more human society. Let us be proud of these advantages and defend the public expenditures and concomitant progressive systems of taxation which make them possible.

Our specific proposals below are built upon this philosophic foundation and yet are practical within the current economic and social environment. We do not claim to have addressed all the potential sources of revenue, nor of expenditure reduction. Yet we believe they outline key elements of an economic policy which is both just and responsible.

Specific proposals

1. In common with the United States and most European countries, introduce an inheritance tax and companion gift tax. Within the next ten years the greatest inter-generational transfer of wealth ever to occur in this country will take place. Taxation of this transfer will allow those who have accumulated wealth at the same time as deficits have ballooned to help in the budget balancing process. Generous exemptions would be included, so that the family home and significant additional assets could be passed on without tax consequences. Introduction of these new revenue streams would generate significant resources without causing hardship to Canadians.
2. ***Secure additional revenues through better targeting of tax shelters and income deductions.***
 - Reduce the maximum annual tax deferral through pension plans and RRSP's to \$10,000 per annum. The existing maximum levels of income upon which tax can be deferred for Registered Retirement Savings Plans are unnecessarily high, resulting in loss of potential tax revenue. Current limits of eighteen percent of income up to \$13,400 per year allow persons with incomes up to \$74,000 to accumulate over a thirty year period estimated pensions in the range of \$50,000 per annum. A reduction in the maximum tax deferral to \$10,000 per annum would still permit tax deferred accrual of pension plans providing likely private pension income of approximately \$40,000.
 - Examine tax shelters and reduce or eliminate them where appropriate. Included in these areas are private family trusts, and shelters for certain types of investment.
3. ***Reform social programs, don't destroy them.*** We concur with the perspective of the Caledon Institute, which has warned the federal government that "it will be difficult if not impossible to succeed at true social security reform if the bottom line requires billions of dollars in cuts to social spending" [*Green Light, Red Flag, p2*]. It is unreasonable to expect the very poorest Canadians to carry the brunt of the burden of repaying past government profligacy. Huge social program cuts will simply result in the creation of a growing underclass, a development which is neither economically productive, nor socially justifiable.
4. ***Maintain national standards and principles in the delivery of social and health programs.*** It has been suggested by the Minister of Human Resources Development [*Improving Social Programs in Canada*] that current cost-sharing arrangements for the Canada Assistance Plan Act might be replaced with an unconditional block grant. Certain provinces, such as Alberta, would seize on that opportunity to eliminate social assistance entirely for segments of the population (e.g. single people) and to introduce humiliating 'workfare' schemes for others. Federal transfers to provinces, in whatever form, must assure adherence to standards or principles of program delivery. The end result of an attempt to secure provincial acceptance of reduced transfer payments in return for

greater provincial freedom in program design will result in a vicious downward spiral in the quality of provincial social and health programs, as provinces feel compelled to match program cuts to avoid influx of needy citizens from other, less generous provinces.

5. ***Continue to review the internal administration of government for duplication and inefficiency.*** We believe there are still examples within the federal government of unnecessary administrative costs and structures, savings from which could either reduce expenditures or improve services to Canadians.
6. ***Review seniors' programs.*** Given that transfers to elderly persons account for twenty billion dollars in annual spending, it is essential to review those programs in a manner consistent with the review of other social programs. As the government has proposed more effective targeting of programs in other areas (for example in the children's benefit), it seems reasonable to apply the same principle in this area. Savings from reduced benefits to upper income earners would be a strategy consistent with proposals in other areas (for example in the children's benefit program). A modest reduction in the current level at which 'clawback' of Old Age Security payments occurs, an increase in the rate at which incomes over this level reduce Old Age Security payments, and the reduction of family income at which clawback begins from 2.0 to 1.5 times single income would all reduce tax expenditures without causing hardship to those in need.
7. ***Significantly reduce defence expenditures.*** Given the absence of any realistic external threat to Canada's security, it seems unreasonable to continue spending in excess of ten billion dollars per year on defence. This is considerably more than the Government of Canada spends on cash transfers for health and post-secondary education. Defence expenditures could be reduced by at least 25% while maintaining a commitment to international peacekeeping efforts consistent with Canada's fiscal capacities.
8. ***Tax lottery and gaming winnings as income.*** The United States taxes these income sources without negative social consequences.
9. ***Reduce growing reliance upon user fees.*** User fees are the most regressive form of taxation. It is frequently a myth to argue that people can exercise choice and avoid paying. Frequently, they represent a narrowing of the boundaries of civil society. That which had previously been viewed as a right of citizenship (for example, enjoyment of Canada's open spaces) is subject to more and more onerous user charges, and thus closed to those who cannot afford to pay.
10. ***Rely more upon progressive taxation.*** Consumption taxation, unless targeted to non-essential items and/or accompanied with generous rebate systems for low-income earners also results in the poor paying a comparatively greater proportion of their income in taxation. Tax increases where necessary should be based upon the principle that the greatest burden should fall upon those with the greatest capacity to pay. Generally speaking, progressive income or wealth based taxation better fits this principle.