

Protecting Canadians at Greatest Risk: Economic Recession and Poverty Reduction

**Submission to Federal Pre-Budget Consultation
August 14, 2009**

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Economic Recession and Poverty Reduction

Overview

The Canadian Council on Social Development (CCSD) is a national, non-profit research organization representing over 700 members from across the country. Founded in 1920, our mission is to develop and promote progressive social policies inspired by social justice, equality and the empowerment of individuals and communities. Today, the CCSD convenes, connects, and champions a broad array of critically important issues. We thank you for the opportunity to present our views on the upcoming 2010 Budget.

The CCSD believes that a coordinated poverty reduction strategy should form the core of the federal government's efforts to combat the economic recession. Key components of such a strategy include the provision of adequate and accessible income support for the non-employed, with a focus on those groups with the highest rates of poverty; investments in public infrastructure and essential services; and investments in Canada's young people and the industries of the future.

Given the pressing needs of the poorest Canadians, the CCSD recommends:

- Expanding eligibility for Employment Insurance and improving benefit levels;
- Increasing Guaranteed Income Supplement benefits;
- Increasing funding for lifelong education/training programs for youth and working-age adults, with particular focus on income assistance recipients and other low income workers who are not eligible for EI training programs

Economic Recession

Canada is living through the most significant economic downturn since the 1930s. Since October, 2008, the number of full-time jobs that have been lost unemployed has jumped by over 400,000 – a number already greater than the rise in unemployment during the last recession.

Assets in the stock market and the precarious state of business threaten the employment and incomes of millions of Canadians. Consumer bankruptcies are on the rise; mortgage foreclosures and credit card defaults are on the horizon.

Real average wages have remained stagnant. Incomes of families at the bottom of the income ladder have made little progress since the early 1970s, despite the large scale influx of women into the labour market over this period.

Canadians are entering the recession with a flimsy or non-existent financial cushion. The average savings rate has plummeted from \$7,300 a year in 1990 to \$1,000 in 2006. Household debt is at a record high: by 2007, each Canadian owed \$1.27 on every dollar of income.

The social safety net has been considerably weakened since the early 1990s – through the significant erosion of provincial social assistance programs and the reform of unemployment insurance. In the last recession, 78% of the jobless received regular benefits. In 2008, just under half of Canadian workers were eligible – despite years of sustained contribution. The value of benefits has also dropped significantly for those who do qualify.

“Too Poor to Make the News”

As the negative economic news mounts, there is an understandable rush to identify the most effective monetary and fiscal measures for stimulating the economy. At the same time, it is important to understand how the recession is impacting communities and households.

The market meltdown has grabbed most of the headlines. But what is happening in the “real” economy? How are those who were already economically vulnerable coping with the economic downturn? What kind of supports are in place to assist low income Canadians weather the storm? A well designed strategy needs to tackle the recession from the bottom and the top.

Who is vulnerable?

- Those thrown out of jobs and into poverty: workers in sectors such as manufacturing, resources (i.e., forestry; fisheries), construction, and services.
- Men and women who currently struggle on low incomes, including the working poor and the “welfare” poor:
 - Significant numbers of Canadians working in precarious employment situations in sectors such as retail and personal services. The working poor are particularly vulnerable – but not always considered in policy discussions.
 - Others who depend on fixed incomes and/or income support programs including the majority of Canada’s seniors – who make up a sizable proportion of the poor and near-poor in Canada – need protection in terms of secured access to adequate income and essential public services.

A Plan of Action

Action to tackle the economic recession should both stimulate the economy through investments in hard and soft infrastructure and protect Canadians against loss of income and poverty.

To this end, the biggest return on investment results from measures that prevent and reduce poverty, strengthen systems of public infrastructure, and invest in forward looking, sustainable solutions to economic, environmental and social challenges (i.e., climate change, growing income inequality, population aging).

Tax cuts are not an effective approach to stimulating the economy or creating a platform for economic and social development. Tax cuts are of greatest benefit to high income Canadians –

who sock away these savings, spend on imports and/or reduce debt. A TD Bank study of U.S. tax rebates found that only 10% of their value resulted in actual stimulus to the economy.

By contrast, investments in public infrastructure and transfers to low income Canadians have a bigger impact on GDP than generalized tax cuts:

- For example, \$1billion in spending on municipal infrastructure creates roughly 11,000 jobs, boosting GDP by 0.13% (AFB – Informetrica study);
- Investing \$1Billion to boost incomes of the poor results in a 0.1% increase in real GDP and creates 7,100 jobs (CCPA, AFB Stimulus Plan, source IMF).

In sum: “Getting more funds into the hands of individuals who most need support should take priority over cutting taxes. ... Reducing tax rates is good medicine for “supply side” growth, but it is not the right prescription for an economy suffering from “demand side” deficiency. Incentives to work harder mean little when available jobs are shrinking. And incentives to save more are inappropriate when pocketbooks should be opened.” (Jon Kesselman, *Globe and Mail*, Dec. 23, 2008, p. A13)

Current challenges provide an opportunity to pick up the conversation that was taking place before the recession hit – with regard to sustainable economic and social development and poverty reduction. In particular, the recession will highlight in a graphic way the shortcomings of our current social security system and the modernization required to position Canada and Canadians for the future.

- Provide adequate and accessible income support for the non-employed, with a focus on those groups with higher poverty rates, such as Aboriginal people, people with disabilities and mental illness, recent immigrants and refugees, single mothers, and single senior women (i.e., Increase GIS payments; Reform EI – establish uniform entrance requirements, boost replacement rate, raise maximum insurable earnings; Increase and expand scope of WITB program; reform employment standards with a view to improving the quality of precarious employment).
- Strengthen public infrastructure and essential services (i.e., Increase funding for Homelessness Partnership Strategy; Expand affordable housing programs; Invest in education and economic development for Aboriginal peoples – those living on- and off-reserve; Expand residential and home care options for seniors; Stabilize the funding base of community non-profit service providers; Invest in newcomer settlement services; Invest in municipal infrastructure including public transportation, clean water, sanitation);
- Prepare for the future by investing in Canada’s young people and the industries of the future (i.e., Develop and fund a comprehensive plan for early child development and child care; Strengthen funding for post-secondary education and lifelong education/training programs for youth and working-age adults, with particular focus on

income assistance recipients and other low income workers who are not eligible for EI training programs).

Another proposal that has been put forward is to create a designated transfer to the provinces and territories to support the development of and implementation of poverty reduction strategies. This could take the form of providing cost-sharing for social assistance (abandoned in 1996), helping to cover the growth in caseloads and providing for higher benefits. The federal government should take action to support the development of Poverty Reduction Strategies across Canada by developing its own approach, working with all orders of government to pursue coordinated action to reduce poverty and mitigate its devastating consequences.

A carefully crafted budget can address pressing needs of the economy and Canada's social deficit – a deficit that curtails the life chances of millions of Canadians and the future prospects of the whole country. In the midst of economic crisis, it is even more crucial for governments to focus on the needs of those who will feel the greatest impact. Poverty reduction is a logical and essential component of a comprehensive plan to climb out of recession. Three provinces have already set out clear poverty reduction plans – with specific targets and timetables – and several others are working on their own strategies. Working in conjunction with the provinces and territories, the initiatives described above will help Canada weather the economic storm that it faces today, while building a foundation for a more just and sustainable future.