

Imagining a future of inclusion

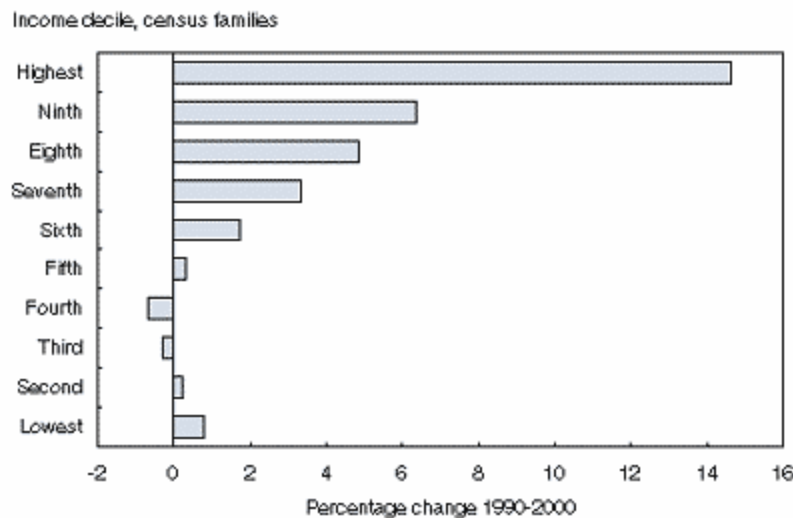
The Canadian Council on Social Development welcomes this opportunity to submit its views on the occasion of the House Of Commons Standing Committee On Finance 2003 Pre-Budget Consultations.

Introduction

Today Canada has the opportunity to put its ideals into practice. Having established ourselves as a strong economic performer in the challenging global economy, it is possible for us to imagine a country where all citizens share the benefits of our success. Our economic growth has led all of the G7 nations for several years, and we have had a continuous five year period of federal government budgetary surpluses. In 2001-2002, the federal/provincial/territorial governments possessed an aggregate surplus of \$8.2 billion.

We can now afford to set in place social policies that will knock down the shameful barriers of exclusion, and give everyone the chance to make the most of their abilities. Or we can squander this opportunity. The 2001 Census gives us cause for concern that we may choose the latter path. It showed incomes at the top of the ladder – where families bring home upwards of \$100,000 a year – booming over the last decade, while incomes of those in the middle of the ladder have remained virtually static. Those just below them, in the lower end of the middle class, have actually slipped downward by roughly \$350 a year (See figure 1). Most grimly, the bottom 10% in Canada, with incomes under \$19,000, saw an annual increase of about \$81 in a decade. That's less than what the average CEO spends on a round of golf!

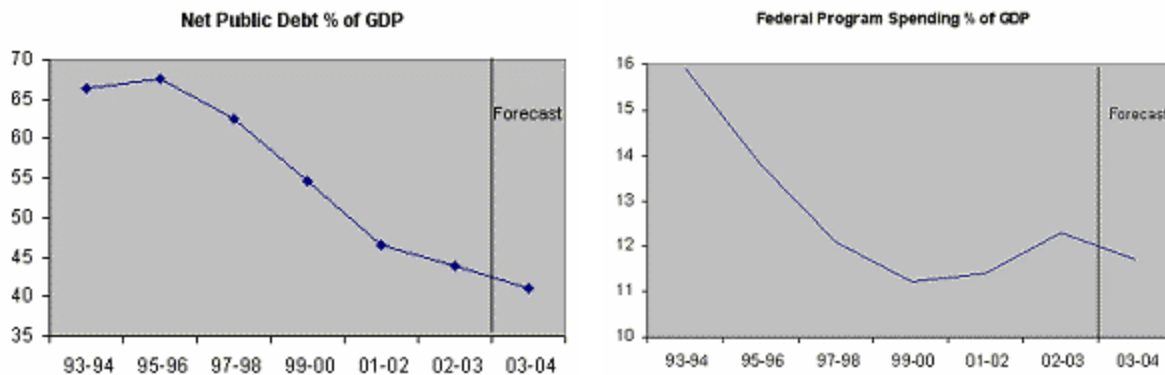
Change in average income, by income deciles, census families, Canada, 1990-2000



Note: The percentage change is calculated using constant 2000 dollars.

Instead of raising all boats in the tide of economic growth, Canada's top performance is leaving many in dry dock. The middle classes, which should have prospered over the last ten years, are instead anchored to their incomes of a decade ago – or drifting further from their financial goals. Young adults, recent immigrants and Aboriginal peoples have been stubbornly excluded from the rising economic tide.

As a society we have not tried hard enough to address the imbalances in our communities and overcome the barriers which exclude so many. Over the past years the government consistently underestimated eventual budgetary surpluses, and made decisions about government spending which were more limited than reality permitted. While prosperity and government surpluses increased from 1993/94 to 2001/02, federal program spending as a share of Gross Domestic Product actually fell by 4.5 percentage points—from 15.9 to 11.4 per cent, (Budget Plan, Annex 4, 2003).



Source: Department of Finance Canada.

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Living up to our promises

The government must live up to its repeated pledges to adopt an “activist agenda,” to end child poverty and to provide help for the less privileged. Past excuses for not investing effectively in these goals – that we lack sufficient funds, have other more urgent priorities - are no longer valid in the eyes of most Canadians. They repeatedly rank social issues and poverty reduction near the top of the priority list for immediate action with tax reduction deemed a far lower priority, (see *Maclean's* poll, December, 2002).

There's probably two reasons why Canadians prioritize social policy. Firstly, they have seen over the past decades how well-designed social policies can contribute to a healthy, productive and safe Canadian population – from cradle to grave. Quality early childhood education enhances the development of all children, and can turn the future around for children with learning difficulties or in families struggling to make ends meet. Well-designed recreation programs enhance the confidence, social aptitudes and academic performance of children and young adults from all walks of life. Affordable education makes dreams come true, both for students and for employers seeking qualified labour. Comprehensive employment insurance and training programs give adults another chance when they fall or are forced out of the labour market.

In fact, there is no better example of the powerful impact of investing in sound social policy than Canada's track record on dealing with poverty and seniors. In the mid 1970's we decided, as a country, to invest in the financial security of our seniors and we went from having the worst reputation among OECD countries on this issue, to having one of the best. Canada now has one of the lowest levels of seniors' poverty of any OECD country.

These long-term social policy investments not only minimize individual suffering, but also make the fabric of our whole society strong, resilient, and productive.

Canadians also see the urgency of the social problems confronting us in the midst of this period of prosperity. In this brief, the Canadian Council on Social Development will explore what it sees as four dangerous trends which require remedy:

1) Despite a commitment to end child poverty, and strong economic recovery in the late-90s, poverty rates in Canada have barely budged over the past decade

In 1989 Canada made a commitment to end child poverty. Instead governments have created ever more elaborate ways to measure it. With the introduction of the Market Basket Measure this year, we now have *six* poverty measures which all show the same thing: no matter how you count them, there are too many poor people in Canada. The most comprehensive survey of Canada's citizens, the 2001 Census, showed that poverty rates were roughly the same then as in 1990 and Canada continues to have one of the highest rates of child poverty among the industrial nations: approximately one in six children grows up in poverty.

Women continue to swell the ranks of the persistently poor. According to the 2001 Census, women in the year 2000 earned only 64 cents on every dollar men earned - an improvement over 52 cents in 1980, but still far too low. Particularly troubling is the fact that women working full-year, full-time earned just over 70 cents for every \$1 earned by men. This leaves female lone parents with poverty rates roughly twice as high as male lone parents: the 2001 figures show more than 40% of female lone parents living in poverty, compared to less than 20% of male lone parents. Grave problems are also evident when women reach their senior years: 21% of senior women were living in low income compared to 11% of senior men, and among those living alone 43% of senior women were living in poverty compared to 31% of senior men.

While it is true that the National Child Benefit is helping to bring down the poverty rate, it remains below the generally accepted target of \$4,400 per child – the amount needed to lift a significant number of children out of poverty. It also remains out of reach of most poor children whose parents receive welfare – and welfare rates remain far below the poverty line. Even the NCB's own study shows that declines attributable to the NCB remain insufficient to radically alter the overall portrait.

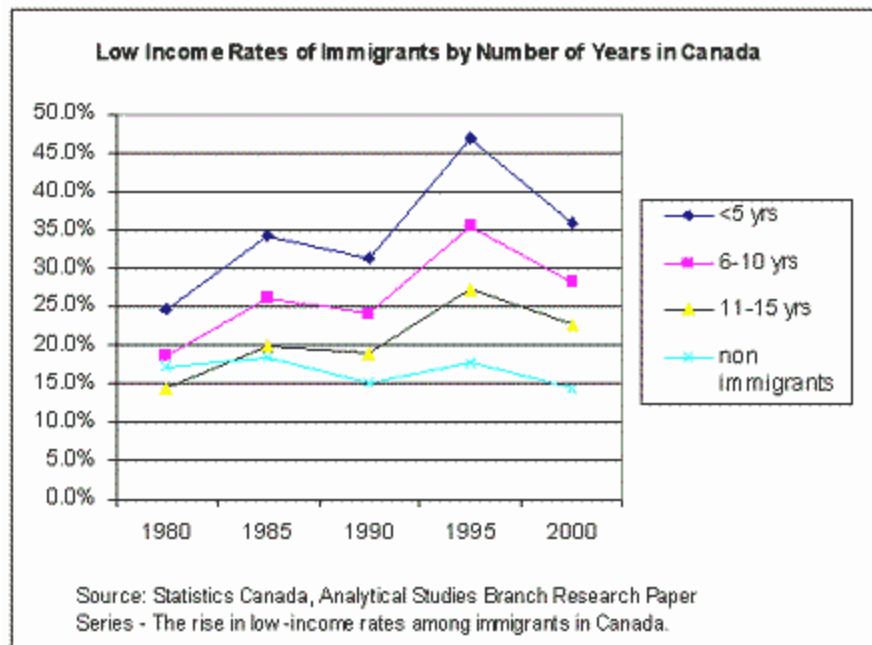
The 1990s have been, when we add up the positive and the negative, a lost decade for poverty reduction. We are exactly where we were in 1989 when the House of Commons resolution to end child poverty was passed.

2) For Canada's latest wave of immigrants, the news couldn't be bleaker

Canada is known for its ability to integrate newcomers from around the world, but new trends are seriously compromising that reputation. Not only did recent immigrants of a decade ago make less than their counterparts of earlier generations, but they kept losing ground. After 10 years, they're still well behind other Canadians and behind where previous generations of immigrants were after living here a decade. And their children are more likely to be living in poverty.

The 2001 Census figures show that the low-income rate among immigrants rose between 1980 and 2000 from 17.0% to 20.2%. For recent immigrants, the rise was even more dramatic: from 24.6% in 1980 to 35.8% in 2000 – and 39% of children of recent immigrants were living in poverty.

The failure of Canadian society to integrate these immigrants is once again, a lost opportunity. Instead of ensuring they can apply the skills and talents they bring to this country towards enhancing our society, we are allowing social segregation to creep into our communities and pockets of poverty to thrive in our largest cities - something Canada has for many years prided itself on avoiding. With the proportion of foreign-born Canadians at its highest in 70 years, this is a trend we can ill-afford.



3) Aboriginal Poverty remains at Third World Levels

Cindy Blackstock, an Aboriginal activist and Executive Director of the First Nations Child and Family Caring Society of Canada wrote in a recent study “*Same Country; Same Lands; 78 Countries Away*” that while Canada as a whole ranks near the top of the UN’s Human Development Index, Canada’s Aboriginal peoples would rank 78th on the same scale!

Those identifying as Aboriginal in 2000 reported a median pre-tax income of \$13,526, or 61% of the median income for all Canadians (\$22,120). In 1995, 55.6% of Aboriginal peoples living in Canadian cities were poor – and more Aboriginal peoples than ever (49% according to the 2001 Census) are living in urban environments.

In the absence of supportive policies, the future is bleak for the one third of the Aboriginal population which was, at the time of the 2001 Census, under the age of 15. Many are growing up in lone-parent families: 32% of those living on reserves and 46% of those living in cities. In fact, an increasing number of Aboriginal families are living in cities - 77% of the youngest Aboriginal children (aged 0-9) live off-reserve - but young Aboriginals have not been reaping the rewards of social advancement associated with moving to the city. According to the 2001 Census, Aboriginal youth have double the unemployment rate of non-Aboriginal youth and only 8% of Aboriginal Canadians aged 25-34 have a university degree, compared to 28% of other Canadians in the same age group.

4) Despite record high levels of education, young workers have fallen behind

There has not been much attention paid to the young adults who are struggling at the lower end of the income scale, a far different place than their counterparts from previous generations. Today’s younger generation followed their parents’ advice like never before, bringing school attendance of 16 to 24 year olds to an all-time high of 50% in 2001. In terms of credentials, the results have been impressive: in 2001, 61% of individuals between the ages of 25 and 34 years had qualifications beyond high school, an increase of 12 percentage points in just one decade. But young adults who entered the labour market during the 1980s and 1990s made less on average than their counterparts who took up employment in the 1970s.

A generational divide has opened up in the labour market, and this gives cause for concern for a number of reasons. Young adults under the age of 35 are inevitably the parents of the vast majority of young children, so their economic insecurity results in the economic insecurity of their children. The National Child Benefit has not, as mentioned before, gone far enough to alleviate this problem and likewise the national child care strategy, while an important initiative, is funded well below what is needed. The \$25 million committed by the federal government in the first year of the initiative and the \$75 million in the second year will not be sufficient to meet the needs of young families.

It has been estimated that the cost of a fully-funded program of early childhood education and care would cost some \$10 billion annually (about 1% of GDP).

Longer school attendance, declining levels of full-time employment among those not in school and lower relative earnings for those who are employed mean that young Canadians, especially young men, are reaching “economic maturity” much later than earlier generations. Low incomes among young workers also set the stage for economic insecurity down the road, especially in the senior years – and result in less taxable incomes to finance pensions and health care. Low incomes among young workers may also discourage them from having families, which has a number of negative effects on society as a whole.

Capitalizing on our Opportunities

While addressing the problems we have identified will require a complex mix of investments and well-crafted social policies, we feel the government is not capitalizing on the opportunities at hand to deal with these and other social development issues. We recommend the following three strategies to maximize the impact of resources devoted to social policy:

1. Using the Social Transfer

A key tool that could help moderate the above-cited trends is the Social Transfer, which will come into effect beginning in April 2004 when the multi-billion dollar Canadian Health and Social Transfer is split in two. The split was recommended by the Romanow report to keep better tabs on the \$23 billion in health money which is transferred from the federal to the provincial governments. But what will happen to the more than \$14.5 billion targeted for social spending and higher education in 2004-2005?

At present the provinces spend the social transfer money as they see fit – no receipts required. Why should this lack of accountability be tolerated for resources critical to correcting the social imbalances in our communities? And why only \$14.5 billion? Ottawa has moved to renovate the health care system with an infusion of new money, a set of priorities and guiding principles, and mechanisms to ensure greater accountability. Why should the same not be done for the systems which ensure social support for Canadians from infancy to old age?

We note that in the Bill to split the CHST, the door is left open for the Minister of Human Resources Development to “invite representatives of all the provinces to consult and work together to develop, through mutual consent, a set of shared principles and objectives for social programs that could underlie the Canada Social Transfer.” We believe that this latter objective is crucial and that we should accord a similar attention to the Social Transfer as we have to the Health Transfer. We need to take this opportunity to debate the overall goals and framework of the social transfer and the means to make it more transparent and accountable.

The process of developing a “set of shared principles and objectives” is one which should begin today and involve not only federal, provincial, territorial and Aboriginal governments, but also representatives from the voluntary and non-profit sector. The government should urgently convene a series of hearings across the country to discuss these issues. To ensure continued monitoring of the effectiveness of the Social Transfer, why would the government not consider establishing a Social Council with the same kind of role on social issues as the proposed Health Council is to have on health issues. This should at least be discussed.

2. Securing a strong Non-Profit and Voluntary Sector

The CCSD strongly believes that the only way for Canada to successfully address its social challenges is for governments to draw on the expertise of the nonprofit/voluntary sector. A recent study conducted by the CCSD in collaboration with the Coalition of National Voluntary Organizations (NVO) has concluded that the capacity of the nonprofit and voluntary sector is being undermined by new funding strategies which were, ironically, intended to increase accountability, self-sufficiency and competition in the sector. Those most at risk are the smallest, community-based organizations. This situation is all the more troubling since, in recent years, more and more of the delivery of social services has shifted to the voluntary sector.

The growing importance of the sector was acknowledged through the Voluntary Sector Initiative that resulted in the Voluntary Sector Accord – signed by the Prime Minister. However, these initiatives fell short of addressing the funding crisis which affects an increasing number of organizations.

If the voluntary/nonprofit sector is to successfully serve Canadians – especially society’s most vulnerable – all funders, including the federal government in a leadership role, must move beyond short-term project funding to multi-year, stable financing for the sector.

As Jim Travers so eloquently put it in his Toronto Star column (August 9, 2003):

The Prime Minister seemed to recognize that in December, 2001, when he praised the army of volunteers and credited non-profit organizations for strengthening the nation. Neither those warm words nor the promise of cold cash have yet made the needed difference.

Instead of making the sector stronger, more vibrant and competitive, the combination punch of cost-cutting and the imposition of not-always appropriate marketplace principles are making it more volatile, more risk-averse and far from certain about the future.

Those conditions are not sustainable and demand significant change.....

3. Drawing up a new Social Policy Architecture

For many years, commentators have spoken about the “crisis of the welfare state”. Poor economic performance through the latter half of the 1970s – notably the coincidence of high unemployment and rising inflation – undercut the fiscal base of post war social programs. Twenty years later, the amalgam of programs that make up welfare states have weathered the pressures of retrenchment, and are clearly here to stay. The question is not whether the welfare state will survive, but rather what form future welfare states will take.

Governments in Canada and elsewhere are grappling with this question, struggling to address challenges to their systems of social protection while at the same time aiming to be more innovative and competitive in the new global, knowledge-based economy. In Europe, population aging is fuelling the drive for a new and workable welfare state model that provides just and sustainable solutions to the problems of aging and retirement. Here in Canada, growing economic exclusion particularly among young families has been a key policy driver. To this we could well add other economic and demographic trends, for instance, the erosion of well-paid, moderately skilled employment in the manufacturing sector, the increasing marginalization of immigrants in the job market and the continuing marginalization of women and Aboriginal people, despite decades of attempted correctives.

These long-term structural problems are not likely to correct themselves on their own; and tinkering around the edges of individual policies and programs is similarly problematic in light of the depth and pace of both social and economic change. Rather a fundamental rethinking of the postwar welfare edifice is needed, a new “welfare architecture” to create an inclusive and prosperous Canada.

In recent years so much of our focus has been on how to modernize our health care system – a laudable goal most certainly, but one that has overshadowed the important debate that has to take place around the modernization of our social policy architecture. We now look to the federal government to spark just such a debate so as a nation, we can meet the social challenges of the 21st century.

What We Think Should Be Done:

While the CCSD believes the Government of Canada should move in the direction described above in tackling the dangerous trends we have outlined in this brief, the following is a concrete set of actions we would like to see undertaken:

1. Pursue a fair tax agenda.

The present government has already engaged in the most massive tax cut program in recent history; a \$100 billion program over five years which will benefit high-income Canadians much more than low-income ones. At the same time, the massive tax cuts have eroded our ability to deal with Canada’s social deficit. We believe that any further

changes to the income tax system must be limited to providing a *fairer* tax system. This means benefits must be targeted to low-income citizens.

The CCSD recommends:

- *the federal government increase the basic tax exemption to \$8,700 in 2004 and at least maintain full indexation to inflation thereafter. This would mean raising the deduction above the \$8,000 amount set by the government for 2004.*

[We have consistently recommended that the basic tax deduction be raised to assure that low-income Canadians pay less and less tax and that many are removed from the tax rolls completely.]

2. Build a living wage: Establish a higher, federal minimum wage.

We believe that in the final analysis *jobs* (and by that we mean decent work with good wages and benefits), are the best mechanism for helping people escape low income. However, in Canada, wages at the bottom end of the income scale are too low and have been frozen or only minimally increased in most provinces in recent years. [For example the Ontario minimum wage has been frozen at \$6.85 since 1995. If indexed to inflation this would now be worth \$8.10.]

Canadians working at minimum wage in most places in Canada earn below the Low-Income Cut-Off (LICO). This means that while they struggle to make ends meet, their options to improve their situation – upgrade their skills for example – are virtually nil.

The critics of a higher minimum wage have argued that raising the minimum wage will reduce the number of jobs. Research has clearly demonstrated that this is not the case.

There is mounting consensus in Canada that our minimum wage should be raised to a *living wage* of \$10.00 an hour, (an amount soon to be offered in Britain under their new minimum wage program). This would allow a worker living in one of our large cities at a rate of 37.5 hours per week, to earn \$19,500 per year or \$239 above the poverty line.

The CCSD recommends:

- *the federal government re-institute a federal minimum wage, (a policy it abandoned in 1996) and set the example for the provinces and territories by making it a **living federal minimum wage** of \$10 an hour.*

3. Raise EI pay-outs and increase eligibility.

Over the past decade the percentage of unemployed Canadians covered by EI has fallen from 57% in 1993 to 39% in 2002. Of the total \$15.2 billion in premiums paid in 2000, \$8 billion went into general revenues and only \$7 billion to the unemployed. The

government has now accumulated a surplus of \$45 billion which has been spent in general revenues.

The CCSD recommends:

- *the federal government increase access to and the benefit rates of Employment Insurance, as well as use the fund to provide enhanced training and education opportunities for persons who are unemployed.*

4. Follow through on the children's agenda.

While the CCSD welcomes the increase of the Canada Child Tax Benefit to a maximum of \$3,243 per child per year by 2007, this amount remains far from the \$4,400 needed to substantially reduce child poverty. The 2003 Federal Budget indicates that the clawback of the National Child Benefit Supplement from families on welfare should be stopped when the CCTB reaches \$2,500 per child. However, many provinces, including Ontario, Alberta and BC, continue to clawback. This means that most of Canada's poorest families do not receive any needed boost in their income from the National Child Benefit Supplement.

In addition, we are concerned that the new childcare component of the Early Childhood Education and Care (ECEC) initiative, which amounts to \$935 million over the next five years to increase access to quality child care and early learning opportunities, is not enough to meet the needs of Canada's children. In fact, only 12% of Canadian children ages 0-12 years have regulated childcare spaces – and the bulk of those are in Quebec where there is a regulated plan.

The CCSD recommends:

- *the federal government raise the CCTB to \$4,400 per child and further pressure provincial and territorial governments to end the clawback of the National Child Benefit Supplement from welfare families.*
- *the federal government commit substantially more money to the childcare component of the Early Childhood Education and Care (ECEC) initiative to reach the goal of a fully funded national plan, (which according to most estimates will cost around \$10 billion per year).*

5. Build a national housing agenda.

While the federal government has committed a total investment of \$1 billion by the end of 2007-08 towards affordable housing in this country, this money - combined with provincial funds - will only create 40,000 units over the next five years. This remains far below the annual target of 20,000 new and 10,000 renovated units as designated essential by the Federation of Canadian Municipalities.

The CCSD recommends:

- *the federal government does everything in its power to meet the target of 30,000 new and renovated units at a total cost of some \$1.6 billion a year, (an amount shared with the provinces).*

6. Improve income and other supports for people with disabilities through a national strategy.

Programs for people with disabilities remain a patchwork quilt of federal, provincial and municipal initiatives often woven together with the efforts of the voluntary sector. At the federal level, the CPP disability pension and the taxation system (through such measures as the Disability Tax Credit, the Medical Expense Tax Credit, the Child Disability Tax Credit, etc.), have significant flaws that give rise to concerns over ease of access, eligibility criteria and intrinsic value.

For example, recent CCSD research shows that the Medical Expense Tax Credit (METC) is not providing relief to those who need it most. The majority of persons with disabilities don't claim this tax credit. The credit is worth only a small fraction of the costs incurred and it is only relevant to people with taxable incomes. This raises questions as to whether the METC should be modified or replaced with other measures such as a national pharmacare program.

CCSD recommends:

- *the federal government re-examine its mechanisms for supporting people with disabilities (as mentioned above), to make them more accessible and more effective.*
- *consider and develop new mechanisms to address the needs of persons with disabilities. This could be done with the federal government taking the lead in developing a national income and support strategy with the provinces.*