We Need a Budget that will Make Poverty History

Submission to the Standing Committee on Finance
Pre-Budget Consultations

from the Canadian Make Poverty History campaign

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MAKE POVERTY HISTORY
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1. Lower deficit by fixing revenue problem, not just cutting spending

Governments in most developed countries, including Canada, are struggling with how to deal with debts and deficits that have resulted not only from the trillions of dollars they spent in response to the Global Financial and Economic Crisis that began in 2008, but also from the decline in tax revenue that was also caused by the economic crisis.

If deficit reduction is pursued primarily by spending cuts, especially for social programs and international aid, this could further harm the poor in Canada and the poorest and most vulnerable people in the developing world, who have already suffered most from a financial and economic crisis that they did nothing to cause.

Relying on austerity alone to reduce deficits also risks increasing unemployment and poverty in Canada and this could push Canada into another recession, with the Canadian economy already stressed from economic turmoil of its major trading partners. This could in turn reduce tax revenues, thereby undermining the chances of restoring the fiscal balance.

Deficit reduction strategies, if they are to be successful, also require measures to increase revenue. While increasing personal income taxes on middle and lower income Canadians could also undermine the weak economic recovery, there are other innovative tax measures that deserve consideration.
The Financial Transaction Tax, or the Robin Hood Tax as we have called it, could raise hundreds of billions of dollars globally that could be used to reduce deficits in developed countries as well as provide financing for poverty reduction and climate change adaptation in developing countries which donor countries seem increasingly hard pressed to come up with.

By imposing a very small fee (0.05%) on financial market transactions, the global financial sector, which benefitted most from the bail-outs and rescue packages, and who now pay far less taxes than other business sectors, will be made to contribute their fair share to a global recovery effort. The FTT would have the added advantage of discouraging excessive speculation that is continuing to destabilize the global economy today.

While applying a Financial Transaction Tax on some transactions such as foreign exchange and over-the-counter derivatives would likely need to be done at a global level, a Financial Transaction Tax could be applied to stock market trading without waiting for a global agreement. A transactions tax at 0.5% on shares traded on the TSX would generate an estimated $3.5 billion a year in revenues, assuming it led to a 50% decline in transaction volumes and values. This is equivalent to a tax of $5 on a transaction worth $1,000.[i]

Of all the revenue generating options that might be considered, a Financial Transaction Tax is one that could raise significant revenues without costing ordinary taxpayers much, if anything. Canada has an interst in encouraging other trading partners to persue a more balanced approach to debt and deficit reduction, since austerity strategies will harm economic recovery and demand for our exports. Canada should therefore support the French and German governments' proposal for a FTT at the upcoming G20 Summit in France. While a portion of funds raised could be used to deal with government deficits and domestic poverty reduction and job creation initiatives, at least 50% of revenues from a global Financial Transaction Tax should be applied to helping poor countries achieve the Millennium Development Goals and for climate change adaptation and mitigation.

2. Debt and deficits are the wrong diagnosis; Austerity the wrong medicine. Poverty and Unemployment need fix with a poverty reduction plan

Austerity is a bitter pill to swallow, especially for those who loose their jobs or who depend on the social programs that may be cut. But it is all the more galling when we realize that it is the wrong medicine. To cure our economic ills, we need a good diagnosis and the right medicine. The problem with the Canadian economy is not too much government debt or too big a deficit, but weak consumer demand and low productivity resulting from a growing gap in income distribution and too many people prevented from contributing to the economy to their full potential because of poverty and unemployment. Reducing poverty by implementing a poverty reduction plan, in collaboration with provincial and territorial governments, would not only help the economy, it would also help governments save money on some of their fastest growing expenses on health and prisons. It would also help us deal with an aging demographic that needs as many people as possible working to support them.

One of the most effective ways to deal with the challenges of poverty and unemployment is through implementation of a poverty reduction plan. A majority of provinces have now adopted comprehensive poverty reduction strategies. But provincial governments do not have jurisdiction over all of the policy tools required to reduce and eventually eradicate poverty. That is why governments at all levels, provincial and territorial as well as municipal and First Nations, need to be engaged. But we need leadership from the Federal Government to engage all level of government in the development of a comprehensive poverty reduction strategy for Canada.

That is why we Make Poverty History has been calling for the Federal Government to:

1. Design a federal poverty reduction plan that complements provincial and territorial initiatives in consultation with those living in poverty.
2. Adopt a federal anti-poverty act that ensures enduring federal commitment and provides accountability for results.
3. Commit sufficient federal funding to programs that would ensure a decent standard of living for all Canadians.

Poverty reduction strategies need to include a range of social and economic policies, including community economic development and job creation strategies, education and training programs, tax policies, as well as improvements to social programs.
Key parts of a poverty reduction strategy where the federal government could provide leadership include:

- implementing a national housing strategy that would involve building a minimum of 25,000 social housing units per year (this will likely require expenditures of $1.5 billion annually);
- implementing a national child care and early childhood education program, which will especially help low-income single parents in their ability to get jobs;
- improving the Employment Insurance program so that more of those who become unemployed can qualify for benefits and are prevented from falling into poverty, from which it can be difficult to escape;
- reinstating a federal minimum wage and setting it at $10.25 an hour and indexing it to inflation to ensure that someone working full-time will be able to escape poverty;
- creating a national pharmacare plan that would provide first-dollar coverage for prescription drugs, removing a major barrier to employment for those on welfare.
- Implementing a plan to reduce First Nations and Aboriginal poverty.

Investment in poverty reduction and supporting participation in the labour market through positive incentives will yield many economic and social benefits, including boosting productivity, improving population health and lowering the costs of health care, and boosting the labour market supply to help address labour shortages that could arise from an aging workforce.
The report titled, Federal Poverty Reduction Plan: Working in Partnership Towards Reducing Poverty in Canada issued last year by the Standing Committee on Human Resources, Skills and Social Development and the Status of Persons with Disabilities recommended action on many of these measures as well and deserves to be reviewed and acted upon.

3. Don't reduce deficit on the backs of the poorest; increase aid, not freeze it

Deficit reduction should not be done on the backs of the poorst people in the world. Yet that is what the Canadian government is doing in freezing the aid budget after many years of annual 8% increases.

Even in these difficult economic times there is strong public support for Canada to do more to make poverty history globally. Over 300,000 Canadians have signed-on in support of the Make Poverty History campaign's call for more and better aid, trade justice, debt cancellation and an end to child poverty in Canada.An Angus Reid poll conducted for Make Poverty History and released June 23, 2010, found that 61% of Canadians believe their country should increase the amount of money spent on international aid. 62% of Canadians also think it is not realistic for Canada to freeze its aid budget and still expect to keep its international commitments.[ii]

There is a global plan to reduce extreme poverty by half by the year 2015. In 2000, world leaders adopted the Millennium Development Goals (MDGs) and promised to "spare no effort" in the fight to end poverty. The MDGs are minimum standards that are attainable by the target date of 2015.

In the decade since these goals were adopted, significant progress has been made. But with only 4 years left before the target date of 2015, progress to date is now threatened by the food price crisis, climate change and the global financial and economic crisis. Unless we significantly scale up our efforts, we will not achieve these goals —with tragic consequences for the world's most vulnerable people.

But our Canadian Millennium Development Report 2010 concluded that Canada's contribution falls short of what is needed on achieving universal primary education (Goal 2), improving maternal health (Goal 5), and ensuring environmental sustainability (Goal 7). On its contribution to global partnership for development (Goal 8), Canada also compares very poorly with other developed countries on its foreign aid spending as a percentage of its national income. It currently ranks 14th out of 23 donor countries and is stuck at less than half way to the UN 0.7% aid target. The Report warns that the announced freezing of aid at the 2010 level will worsen this situation.[iii]

4. Recommendations

The 2011 Federal Budget should:

1. Support the Financial Transaction Tax as a way to recover money spent by governments on bail outs and stimulus programs and for generating badly needed funds globally to achieve the Millennium Development Goals and help developing countries cope with climate change.

2. Commit to designing and implementing a federal poverty reduction plan that complements

provincial and territorial initiatives in consultation with those living in poverty.

3. Include a timetable of 15% annual increases for official development assistance to reach the UN aid target of 0.7% of GNI within ten years so that Canada can contribute its fair share to achieving the MDGs by 2015.

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i Sanger, Toby, **Fair Shares, How Banks, Brokers and the Financial Industry Can Pay Fair Taxes**, Canadian Centre for Policy Alternatives, April 2011.

ii Poll shows canadians support increasing foreign aid and want canada to show leadership on child and maternal health , June 23, 2010.

iii Make Poverty History, Canadian Millennium Development Goals Report 2010 , June 2010