

# **Achieving a Sustained Economic Recovery: Combating Inequality and Poverty**

Brief on the federal government's priorities for the pre-budget consultations  
**Submitted to the House of Commons Standing Committee on Finance**



August 2011

Brief produced for:



6226 rue Saint-Hubert  
Montreal, Quebec H2S 2M2  
Telephone: 514 521-6820  
Toll-free: 1 888 521-6820  
Facsimile: 514 521-0736  
[union@consommateur.qc.ca](mailto:union@consommateur.qc.ca)  
[www.consommateur.qc.ca/union](http://www.consommateur.qc.ca/union)

**Members of the Union des consommateurs**

ACEF Abitibi-Témiscamingue  
ACEF Amiante – Beauce – Etchemins  
ACEF de l'Est de Montréal  
ACEF de l'Île-Jésus  
ACEF de Lanaudière  
ACEF Estrie  
ACEF Grand-Portage  
ACEF Montérégie-est  
ACEF du Nord de Montréal  
ACEF Rive-Sud de Québec  
Association des consommateurs  
pour la qualité dans la construction  
Individual members

**Report prepared by**

- Elisabeth Gibeau, social and tax policy analyst

**With the collaboration of**

- Social and tax policy committee



Union des consommateurs is a member of Consumers International (CI), a federation composed of 234 members from 113 countries.

## **Union des consommateurs, *strength in numbers***

---

The Union des consommateurs (UC) is a not-for-profit organization comprising several family economics cooperative associations (ACEF), the Association des consommateurs pour la qualité dans la construction (ACQC) and individual members.

The UC's mission is to act as a consumer rights representative and advocate, with a focus on the interests of middle-income households. The UC's work is driven by the values that are dear to its members: solidarity, equity and social justice, and improving the economic, social, political and environmental circumstances of consumers' lives.

The UC's structure enables it to maintain a broad vision of consumer issues while developing significant expertise in specific areas, primarily through its research on emerging consumer problems; its province-wide initiatives are supported and validated by field work and its member associations' roots in their community.

The UC works primarily at the provincial level, representing the interests of consumers in a variety of political, regulatory and judicial forums and also to the general public. Some of its main areas of research, action and advocacy are family budgeting and debt, energy, telephone service, broadcasting, financial products and services, business practices and social and fiscal policy.

With markets becoming increasingly globalized, the UC works with a number of consumer groups in English Canada and abroad. It is a member of Consumers International (CI), a body recognized by the United Nations.

## 1. Summary

---

Our presentation will focus on the first issue identified by the Committee. To achieve a sustained economic recovery, we believe it is important to put efforts into one priority: combating inequality and poverty. The costs associated with poverty are enormous and if nothing is done to improve the living conditions of people with low incomes the human and financial consequences will only become more severe.

Incidentally, the most prosperous societies are those that have succeeded in reducing income disparities between their wealthiest and poorest taxpayers to the extent possible. This means effective redistribution of wealth that is created, thus ensuring social peace and economic prosperity.

It seems to us that Canada is moving farther and farther away from that formula. The Union des consommateurs (UC) is very concerned about the record levels of debt among members of the public observed in recent years. We see this as the evidence that Canadians are finding it increasingly difficult to make ends meet without using some form of credit, in particular because of wage stagnation over the last 25 years.

People who place absolute trust in the virtues of the “market” would do well to note this phenomenon; otherwise, they risk paying the price. As Centraide Québec says: [TRANSLATION] “Wealth without equity creates exclusion, and this means that in the shorter or longer term, the costs of poverty, exclusion and social inequality may seriously jeopardize or even cancel out the efforts and achievements we have made.”<sup>1</sup> To avoid this and guarantee a sustained economic recovery, we recommend that (1) access to employment insurance benefits be improved; (2) existing social program funding, legislation and transfers be maintained; and (3) action be taken against the fierce tax competition currently underway at the international level.

---

<sup>1</sup> Centraide Québec. *Une société qui se tire dans le pied, lettre ouverte aux personnes qui ne se sentent pas concernées par la pauvreté... et à toutes les autres – Deuxième document de réflexion sur la pauvreté*, September 2000. [On line] <http://www.atigiffard-montmorency.com/images/upload/1282245588.pdf>

## 1. Introduction

---

The Standing Committee on Finance has invited Canadians to participate in its annual pre-budget consultations in order to learn their views on four subjects in particular: how to achieve a sustained economic recovery in Canada, how to create quality sustainable jobs, how to ensure relatively low rates of taxation and how to achieve a balanced budget.

Our presentation will focus on the Committee's first subject. To achieve a sustained economic recovery, we believe it is important to put our efforts into one priority: combating inequality and poverty. As we will see, this means talking not about the lowest possible rates of taxation, but about a tax system that is both reasonable and equitable, that is, one that takes into account taxpayers' ability to pay and what each person gets in exchange for their contribution to the pot.

## 2. Importance of combating inequality and poverty

---

It is important to note that the costs associated with poverty are enormous and if nothing is done to improve the living conditions of people with low incomes the human and financial consequences will only become more severe. In the fall of 2008, the Ontario Association of Food Banks released a study showing that poverty cost the province between \$32 and \$38 billion a year (5.5% to 6.6% of GDP).<sup>2</sup> This example shows that providing Canadians with a decent standard of living is not just necessary as a matter of fairness but also economically beneficial for society as a whole.

The most prosperous and peaceful societies (such as the Scandinavian countries) are incidentally the ones that have managed to reduce income disparities between their wealthiest and poorest classes of taxpayers to the extent possible. Effective redistribution of wealth is what ensures both social peace and economic prosperity.

It seems to us that Canada is moving farther and farther away from that formula. UC is very concerned about the record levels of debt observed in recent years. We see this as the evidence that Canadians are finding it increasingly difficult to make ends meet without using some form of credit. In February 2011, the Vanier Institute of the Family said: "... the debt-to-income ratio, which measures household debt against income, stands at a record 150%, meaning that for every thousand dollars in after-tax income, Canadian families owe one thousand five hundred dollars."<sup>3</sup>

That statistic, coupled with figures showing that wages have stagnated in the last 30 years, confirms the stagnation of Canadians' purchasing power and its effects on their standard of living. The purchasing power of working Canadians has risen by \$53 ... in 25 years!<sup>4</sup> The 20% of workers who make up the bottom quintile of income from employment who have been hit hardest, seeing their earnings decline by no less than 20% in 25 years, while the earnings of workers in the wealthiest quintile have risen by 16.5%. This situation is confirmed by a recent Conference Board study that also concludes that the gap between rich and poor continues to grow in Canada.

---

<sup>2</sup> Ontario Association of Food Banks, *Fighting Poverty, the best way to beat recession*, March 2009. [On line] <http://www.oafb.ca/assets/pdfs/FightingPoverty.pdf>

<sup>3</sup> Vanier Institute of the Family. *A Six Figure Family Day*, Ottawa, February 17, 2011.

<sup>4</sup> According to 2006 census data

As the Institut de recherche et d'informations socio-économiques (IRIS) writes: [TRANSLATION] "The promise that a prosperous economy and the will to succeed were going to improve their collective situation energized the people of Quebec for years. Quebecers worked harder and the province's economy grew by 71% between 1976 and 2006, but not all families in the province benefited. A majority of the earnings increases went to the wealthiest 10%, while the poorest 70% saw their share of the economic pie decline. ... As a result, the earnings gap between the rich and the rest of the population is at its highest point in 30 years in Quebec.<sup>5</sup> IRIS added that earnings declined for a majority of the population despite the fact that in 2006, Quebec families worked 321 hours more per year than in 1996 (the equivalent of 8 weeks full-time).

However, when we consider the median income (employment + investments + government benefits), the situation is more encouraging and allows us to measure the real importance of government programs for Canadian families, in particular low-income families. In Quebec, between 1980 and 2005, families of two or more saw their median incomes rise by 7.5%. The lowest quintile even experienced an increase of 23%. Overall, 70% of Quebec families saw their situations improve as a result of tax and other government transfers.<sup>6</sup> Government is thus demonstrably more effective than the market at ensuring equality among individuals.

People who place absolute trust in the virtues of the "market" would do well to note this phenomenon; otherwise, they risk paying the price. As Centraide Québec says: [TRANSLATION] "Wealth without equity creates exclusion, and this means that in the shorter or longer term, the costs of poverty, exclusion and social inequality may seriously jeopardize or even cancel out the efforts and achievements we have made."<sup>7</sup> To avoid this and guarantee a sustained economic recovery, we recommend that (1) access to employment insurance benefits be improved; (2) existing social program funding, legislation and transfers be maintained; and (3) action be taken against the fierce tax competition currently underway at the international level.

### **3. Improve access to employment insurance benefits**

---

Fewer than half of workers who have lost their jobs are currently eligible to receive employment insurance benefits (43.6% in 2010 and 90% in 1990), even though all workers pay into the employment insurance fund.

**UC is calling for** a major improvement in the coverage of the benefits of the scheme:

- set the number of hours of employment required for eligibility for benefits at 360;
- extend the benefit period by a minimum of 35 weeks;
- set the employment insurance benefits at 60% of earnings;
- limit the penalty-related exclusions to six weeks at a maximum;
- eliminate the two-week waiting period (before receipt of the first cheque);
- extend the period of sick benefits; and
- improve compassionate benefits.

---

<sup>5</sup> SCHEPPER, Bertrand and Eve-Lyne Couturier. *Qui s'enrichit, qui s'appauvrit -1976-2006*, IRIS-CCPA, May 19, 2010, pp. 5 and 6. [On line] [http://www.iris-recherche.qc.ca/publications/qui\\_s8217enrichit\\_qui\\_s8217appauvrit\\_-1976-2006](http://www.iris-recherche.qc.ca/publications/qui_s8217enrichit_qui_s8217appauvrit_-1976-2006)

<sup>6</sup> Ibid.

<sup>7</sup> Centraide Québec. *Une société qui se tire dans le pied, lettre ouverte aux personnes qui ne se sentent pas concernées par la pauvreté... et à toutes les autres – Deuxième document de réflexion sur la pauvreté*, September 2000. [On line] <http://www.atigiffard-montmorency.com/images/upload/1282245588.pdf>

It is also essential that the money accumulated through workers' and employers' contributions be returned to them in the form of benefits where needed. The Coalition des sans-chemise states that from 1996 to 2009, \$57 billion was taken from the employment insurance fund to be used for other purposes.<sup>8</sup> This diversion of funds will probably continue, since according to a former chief actuary of the Employment Insurance program, [TRANSLATION] "between 2012 and 2016, the government plans to take new surpluses of about \$12 to \$13 billion out of the employment insurance premiums paid by employees and employers." Those premiums are thus being used to fill the coffers of the federal government instead of to serve the workers who paid them. Fairness would demand that they be held in reserve.

#### **4. Maintain existing social program funding, legislation and transfers**

---

##### **Canada Social Transfer**

We think it is important to continue to improve the Canada Social Transfer. The many cuts to payments to the provinces since the 1990s have hurt funding for a number of social programs, which suffer from chronic underfunding, often while the demand is growing. The quality of these services has obviously suffered. It is high time to enable the provinces to reinvest massively in postsecondary education, for example. The Association of Colleges of Applied Arts and Technology of Ontario said in 2004 that investment in Ontario colleges provided an annual return of 12.1%<sup>9</sup> (revenue from graduates, better health, lower government transfers, lower unemployment and crime rates). By comparison, repaying the federal debt provides an annual return of 5.5%. If we take into account what a school drop-out costs society,<sup>10</sup> up to \$500,000, according to economist Pierre Fortin,<sup>11</sup> the importance of massive investment in postsecondary education is even clearer.

Accordingly, **UC is calling for** the same amounts to be reinvested in the Canadian Social Transfer (CST) as in 1994-95, at a minimum, and with indexation.

---

<sup>8</sup> Coalition nationale des Sans-chemise. *Assurance-emploi – la CSN et la FTQ contestent la disparition des surplus devant les tribunaux*, CNW, April 21, 2011. [On line]

[http://www.comitechomage.qc.ca/SC/Couverture\\_mediatique.php](http://www.comitechomage.qc.ca/SC/Couverture_mediatique.php)

<sup>9</sup> Association of Colleges of Applied Arts and Technologies of Ontario. *Canada's Most Important Economic Investment: Increasing Access to College Education and Training*, September 2004, p. 4. [On line]

<http://www.debt101.ca/research-library/canada/association-of-colleges-of-applied-arts-and-technology-of-ontario-acaato>

<sup>10</sup> Hankivsky, Olena. *Cost Estimates of Dropping out of High School in Canada*, Canadian Council on Learning, February 4, 2009. [On line] <http://www.ccl-cca.ca/ccl/Reports/OtherReports/20090203CostofDroppingOut-2.html>

<sup>11</sup> Dion-Viens, Daphnée. *Un décrocheur coûte 500 000\$*, Cyberpresse, October 25, 2008. [On line]

<http://www.cyberpresse.ca/le-soleil/actualites/education/200810/24/01-32717-un-decrocheur-coute-500-000.php>

## Tax policy

We believe that Canadian tax policy needs to be reformed in order to achieve a sustainable economic recovery. Our proposals include the following.

- **UC is calling for** the Canadian taxation system for individuals to be more progressive. To that end, it is important to restore the tax brackets. In addition, income tax must be the basis of the taxation system and the base exemption must be raised to better reflect taxpayers' real cost of living;
- **UC is calling for** consumption taxes to be adjusted to reflect the nature of the goods purchased ;
- **UC is calling for** the GST to be eliminated on essential goods and services, including electricity, heating fuel, basic telephone service, children's clothing and school supplies, and also on food and health products;
- **UC is calling for** a tax to be applied on international financial transactions (Tobin tax).

## Importance of compliance with the Canada Health Act

We would also stress the importance of enforcing the Canada Health Act. Chronic underfunding of the public network encourages the development of two-tier medicine, where wealthier people (or those who have supplementary insurance) can gain speedy access to private care, while the others have to join waiting lists. This parallel private medicine system compels its users to spend large amounts of money for MRIs, ECGs, physiotherapy and blood tests. In addition, private medicine develops at the expense of the public plan, which loses its personnel and sometimes even has to reimburse patients for certain medical services at private clinics that in fact bill their patients for their fees.

Accordingly, **UC is calling for** the federal government to enforce all of the principles in the Canada Health Act: public administration, comprehensiveness, universality, portability and accessibility.

## 5. Take action against international tax competition

In Canada, corporate tax rates have declined by 50% since 2000, the largest tax reduction in all member countries of the Organization for Economic Cooperation and Development (OECD). The result is that corporations are contributing less and less to government tax revenues. Certainly, in a free market economy, countries have to attract and retain businesses. One of the methods available to them is to offer an advantageous tax system. This new fact of life in globalization means that multinationals can shop for a tax system, at the same time generating fierce competition among countries and a drastic decline in corporate tax rates.

The direct consequence is to seriously undermine public finances. The OECD has issued an alert: "... we could be on the verge of a global tax crisis that could hurt economic activity. The tax burden cannot be carried by labour and consumption alone. The upshot of inaction would be a loss of revenue for governments and a downward spiral in economic activity."<sup>12</sup>

---

<sup>12</sup> *OECD Observer*, May 2007



It is therefore urgent that Canada raise corporate taxes, or at least make sure that corporations pay their share of what they have been given. As tax expert Brigitte Alepin wrote in *La crise fiscale qui vient* (2011): [TRANSLATION] “In less than 10 years, taxation systems have been attacked by globalization corporate tax optimization, by the growing popularity of tax havens and electronic commerce, and by the explosion in charitable foundations. Each of these factors alone would be enough to undermine tax systems. Together, they are pushing them into bankruptcy.”

The solution calls for cooperation on the part of all countries to work together to find a set of mechanisms for taxing multinationals, such as by agreeing on a minimum tax rate for large corporations. Every country also has a responsibility to ensure that the middle class is not bearing the tax burden, as is the case today. This is a matter of fairness to everyone.

Accordingly, **UC is calling for** tax reform that will provide for a revision of corporate tax rates and combat tax evasion and tax avoidance.

## Conclusion

The limits placed on briefs submitted for the current pre-budget consultations (maximum of 5 pages and 3 recommendations) meant that we are unable to expand on our proposals and provide more substantial argument. We could, for example, have proposed other areas where the government could make cuts. For example, it might be suggested that it cut the subsidies granted to pharmaceutical companies now that it has been shown that for several years that industry has not honoured its promises to reinvest 10% of its profits in R&D (see the figures in the 2010 annual report of the Patent Medicine Prices Review Board). The federal government could also take action to reduce the cost of prescription drugs, knowing that Canadians pay 30% more than the average price in OECD countries. And the Canadian public has made its disagreement plain when it comes to the billions that the government plans to invest in military equipment over the next few years.

In the view of the Union des consommateurs, investing to combat inequality and poverty is a priority if we want a sustained economic recovery. This is how to create the conditions for economic prosperity that will secure social peace and sustainable development.