



FACE OF POVERTY CONSULTATION
A Faith-Based Coalition Working to Eliminate Poverty

Brief to the House of Commons Finance Committee
2015-16 Budget Consultations

Budgets and Morality

As a multi-faith group we share common concerns about morality and government policies. All major faiths have a directive comparable to the “golden rule” – “do unto others as you would have them do unto you”. We expect government policies to respect this dictum. Even budgets, or perhaps especially budgets, should be “moral”, i.e., increase society’s capacity to help the less fortunate, not as charity, but as justice. Budgets reflect a government’s priorities in terms of the programmes supported and of who finances those programmes through taxes, fees, and other levies.

It is unconscionable when budgeting focuses on balanced budgets, with cuts to programmes when there is a deficit, but uses surpluses to finance further tax cuts to individuals and corporations. The immorality arises because the programme cuts often cause the most harm to the poorest Canadians while the tax reductions over several decades benefitted the wealthiest. Indeed, since 1990, the tax system has increased the tax level of the bottom 20 percent while lowering it for everyone else, especially the top one percent. By 2005, the ratio of taxes to income for the bottom 20 per cent was about 0.31 but only 0.30 for the top one per cent, and around .34 for middle incomesⁱ.

Cuts to social programmes are often justified by the claim that social spending created an unsustainable debt.

These programmes were introduced or enhanced in the 1950s and 1960s, when per capita incomes in Canada increased by about 85 per cent. From 1971 to 1991, per capita incomes increased by “only” 50 per cent. Thus, in 1991, per capita incomes were over two and a half times as high as in 1951.

If, on average, we were almost three times as rich in 1991, how is it we could no longer afford programmes built up since 1951? A Statistics Canada report shows that over 90 percent of the deficits were caused by tax cuts (on corporations and individuals) and by high interest rates to fight inflation. The rest of the deficit was due to (1) increased unemployment insurance payments and social assistance to people affected by the recession caused by the high interest rates; and (2) further decreases in tax revenues, caused by the recessionⁱⁱ.

Progressive taxes, regressive “reforms”

Tax policies do recognize morality – in the last century there was a move to more progressive taxes, primarily personal and corporate taxes with higher rates for higher levels of income. However the progressivity of the tax system has been dramatically eroded by the removal of higher rates, the withdrawal of the federal government from estate taxation, and the introduction of tax benefits which only the wealthy can fully afford to use.

The bias to the wealthy of these tax “reforms” is captured by the Registered Retirement Savings Programme, RRSP, which allows RRSP contributions to be deducted from taxable incomes. This is a “social programme” for the wealthy, as they have enough discretionary income to fully use RRSPs to delay paying taxes. The RRSP limits have been increased even as other programmes, of more value to the rest of Canadians, were cut.

A particularly regressive tax cut, in 2000, reduced the “inclusion rate” for capital gains from 75 to 50 per cent. Now only half the income from capital gains, including from stock options, is reported as taxable income. The bulk of this reduction in taxable income goes to the top 10 percent of Canadians, and their share of the tax savings is even higher. The total annual loss of revenue to the federal government is about \$20 billion, or enough to end poverty in Canada. Because provinces (except Quebec) set their taxable income at the federal level, they lose billions in tax revenue because of this federal gift to the wealthy.

To talk about morality and deficits, we must recognize that the deficits are the result of tax cuts for high income recipients. Moreover, these are the same people who benefitted from growth in the economyⁱⁱⁱ while most Canadians’ incomes barely kept up with the inflation.

Further, there is growing evidence that greater equality in a society assists social inclusion, greater achievement, and solidarity. People are healthier, better educated, and more productive – at all levels of income - when income is more equally distributed. Thus the economy tends to grow faster^{iv}.

It is immoral to give tax cuts to those most capable of paying more and to cut programmes which benefit everyone, but are of greatest assistance to those living in poverty.

To make any substantial cuts to operating expenditures, government must cut into its largest programmes - health, education, and social assistance. These are all investments in people, now and in their future possibilities. Should we pass on the burden of poorer health, lower quality education, and both helplessness and hopelessness to future generations and not feel any moral twinges? Should we do all this to protect the wealthiest in our society?

Programme cuts mean future generations will have a lower debt, but have less capacity to support themselves. Delaying infrastructure expenditures endangers lives, increases the cost of doing business, and means higher repair and reconstruction bills in the future. Will future families and businesses thank us if we do not repair/replace the bridges which need repairs now? Will they thank us if hospitals and schools are understaffed and their physical plant falling apart?

The investments we make now - in people, in our built infrastructure, and in protecting and repairing the environment - pay financial and social dividends for future generations.

Calls for cuts to government relate to two other aspects – the sustainability of the debt and the expansionary effects of government spending.

The federal government does not have an unsustainable debt. The debt relative to our means to pay, the Gross Domestic Product, is low and falling as the economy grows faster than deficits. We are not “living beyond our means” – governments have reduced their means by unnecessary – and ineffective – tax cuts.^v The sky is not falling – but taxes on the wealthiest are.

Second, cuts to government programmes cause further job losses and higher unemployment, directly for those who lose their government jobs, and indirectly through the induced unemployment as former government employees reduce spending, leading to more job losses. The other side of the coin is that expanded government expenditures - particularly in labour-intensive services such as health, education, and income support - expand employment, with more people taking an active role in the economy, thus raising their incomes and their sense of self-worth.

Finally, the expansionary effects of government spending mean that some of the cost of government are offset by the taxes raised from their “multiplier” effects in the economy. In Quebec, for instance, for every \$1 of government subsidy to early childhood education, the province received \$1.05 in additional income and sales taxes and the federal government got an additional \$0.45!^{vi} The expansion of subsidised child-care allows more people (primarily women) to work to provide that child-care, and mothers are freed-up to enter the paid workforce and provide more basics for their families, which generates more jobs (and tax revenues) throughout the economy.

Conclusion and Recommendations

There are many moral issues embedded in economic policy. One is the impact of taxation and expenditure decisions - who pays the taxes and who benefits from the expenditures. Our economy has an inherent tendency to exacerbate inequality and progressive taxes are necessary to slow the increase in inequality and to finance programmes. Economic growth is not good in itself; it must provide more opportunities for everyone to achieve their full potential.

Given the biased nature of tax cuts, our tax system is regressive at the top end; to argue that we cannot afford to do more to end poverty is to argue that the rich cannot afford to pay their fair share of the taxes.

To have an economy that meets everyone's needs, progressive fiscal policies should be the focus of the federal government; it is at the national level that the majority of detrimental tax and programme cuts have been made. Our recommendations reflect some of the possibilities to restore the tax system and the government's capacity to provide needed services:

1. Treat capital gains the same as other incomes - keeping existing exemptions for small businesses, farms, and primary residence - in calculating total income on the federal tax form.
2. Define "taxable income" on the tax form as the "total income" (and convert the current deductions (which have the greatest value to those in the top income brackets) to tax credits, at the lowest tax bracket rate.
3. Make tax credits refundable so that all tax filers get the same advantage from them, even those so poor they do not owe taxes sufficient to use all their tax credits.
4. Allow the provincial governments to define "taxable income" on their tax form as the "total income" on the federal tax form.
5. Restore transfer payments to the provinces to support health, education, and social assistance programmes, as recommended by a UN report.^{vii}

Adam Smith, the father of market economics, was a moral philosopher and understood that our economic system must operate within a moral set of principles and institutions. We expect the budgeting process to do the same.

To visit our website, please go to

<http://users.eastlink.ca/~lutheranchurch/Poverty.html>

ⁱ (Lee, Marc, 2007. *ERODING TAX FAIRNESS -Tax Incidence in Canada, 1990 to 2005*. Canadian Centre for Policy Alternatives)

ⁱⁱ Mimoto, H. and Cross, P, 1991. "The Growth of the Federal Debt". Canadian Economic Observer. Ottawa: Statistics Canada, June: 3.1 - 3.18

ⁱⁱⁱ Osberg, L., Instability implications of increasing inequality: Evidence from North America, *Economic Modelling* (2013), <http://dx.doi.org/10.1016/j.econmod.2013.06.039>

^{iv} Pickett, Kate and Richard Wilkinson, 2010. *The Spirit Level*. Penguin,

^v Shome, Parthasarathi, 1993. "The Taxation of High-Income Earners", *International Monetary Fund, Papers on Policy Analysis and Assessment*, No. 93/19.

^{vi} Fortin, Pierre, Luc Godbout, and Suzie St-Cerny, 2011. "Economic Consequences of Quebec's Educational Childcare Policy," presentation to Early Years Economics Forum, June 22,, Toronto, ON. http://www.oise.utoronto.ca/atkinson/UserFiles/File/EarlyLearningEconomicForum_Fortin.pdf

^{vii} UN Special Rapporteur on the Right to Food, Mission to Canada 2012 ohchr.org/Documents/HRBodies/HRCouncil/RegularSession/Session22/AHRC2250Add.1_English.pdf