caledon commentary

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Guiding principles for social policy budgets

No one is anticipating a social policy document when the federal government tables its 2013 Budget. Other than measures for Aboriginal Canadians, there are few expectations for new or improved social programs.

The Finance Minister made sure to lower our collective sights in a statement he made on November 22, 2012. He told the business crowd not to expect any "risky new spending schemes." Ottawa does not intend to reduce transfers to the provinces and territories for education, social services and health care, which comprise about 24 percent of total program expenses. Nor will the government touch spending to individuals like seniors, the unemployed and children, another 30 percent of federal program spending.

Even in light of a tight fiscal environment, the Caledon Institute believes that it is possible to proceed with proposals for improvements to social policy. We recently published *As the fiscal chill thaws: social policy ideas for the medium term* in which we proposed changes to 12 social program areas. These include enhancements to the Canada Child Tax Benefit, Working Income Tax Benefit, disability income, Employment Insurance, Canada Pension Plan retirement benefit, Aboriginal education, supports for caregivers and infrastructure investment.

Why issue a list of proposals when we know that the spending environment is not receptive at this time? The economy will eventually recover from the fiscal blues. It always does. If we wish to avoid ad hoc and opportunistic social spending in the next few years, and look instead to effective improvements to our social programs, we need to start planning now for then.

There are several guiding principles that shape Caledon's work on social policy. We believe that these are worth restating – now more than ever when social policy tends to drop to the bottom of the 'to do' list.

These can be summed up as follows:

- Social program expenditures play a vital economic role because they act as both shock absorbers and fiscal stimulus. Rather than a drain on the economy, social programs have been crucial in ensuring that Canada's economy has remained reasonably stable throughout the recent turbulence. Maintaining and improving social programs can be equally important for the economic recovery.

- There is room for spending on new measures or improvements to existing programs by reassigning expenditure away from measures and programs that primarily benefit high-income Canadians or that are not warranted by current evidence.

- Even in tough economic times, it is possible to introduce fundamental reforms through new measures or substantial modifications to existing programs. So long as the aim of fundamental reform is well articulated and a clear pathway toward its attainment is laid out, it is possible to reach the end goal through a series of incremental steps.

We set out these principles here in the hope that they can help guide future Budget deliberations.

i. Social programs as fiscal stimulus

Social programs that pay income benefits play two crucial roles in the economy. First, they act as *shock absorbers* when times are tough for individual households. Programs such as Employment Insurance, child benefits, public pensions and welfare are intended to ensure that the unemployed, families with children, seniors and people living in poverty have at least some money to pay for necessities such as food, clothing and shelter (however lacking such programs may be in practice).

Second, they act as *fiscal stimulus* during periods of economic slump: Social programs put money directly into the hands of large numbers of Canadians whose collective spending can help restart and sustain the economic motor.

Ottawa currently has at its disposal several effective social programs that play an important economic stimulus role. Boosting three geared-to-income programs – the Canada Child Tax Benefit, refundable GST/HST credit and Working Income Tax Benefit – would put additional money into the hands of lower- and modest-income households that are most likely to spend it immediately.

Beyond tackling poverty, social programs in the form of income benefits help address the growing problem of income inequality. Inequality has been identified by many of the world's most important economic agencies, including the Organisation for Economic Co-operation and Development, World Economic Forum and the World Bank, as one of the top global economic and social challenges.

Many economists are arguing that robust economic recovery is near impossible in the face of current high levels of inequality. Extreme disparity among income groups effectively restrains economic growth.

ii. Reassignment of existing spending

As a general principle, public expenditure is usually inappropriate if the primary or sole beneficiaries are higher-income households, unless there are clear benefits for all. Several recent policy initiatives confer financial benefits mainly on wealthy Canadians, without any consequent public good. This spending could be far better directed toward low- and modest-income households.

Over the past few years, for example, the federal government has introduced five new income tax breaks worth an estimated $535 million. These are the Children's Arts Tax Credit, Children's Fitness Tax Credit, Family Caregiver Tax Credit, Volunteer Firefighters Tax Credit and Home Buyers Tax Credit. Half a billion dollars is a sizeable sum and difficult to justify, given that these tax credits do nothing for low-income households and bestow their greatest benefit on the well-off who do not need them.

In 2006, Ottawa introduced pension income splitting, a $925 million (in 2011) bonanza almost all of which goes to wealthy seniors. These funds could have been far better spent on increasing the Guaranteed Income Supplement for low-income single seniors by $1,000. Further incremental increases to the Guaranteed Income Supplement for single seniors are required over the years. This approach links to our third core guiding principle related to fundamental reform through incremental action, discussed below.

In 2006 and 2007, the federal government brought in the Universal Child Care Benefit and the non-refundable child tax credit, respectively. These two benefits together cost about $3.6 billion. Those funds could be far better spent to help pay for an increase in the well-designed Canada Child Tax Benefit from the current maximum $3,582 to the target of $5,300 per child.

The two new child benefits are poorly designed. Despite its name, the Universal Child Care Benefit (which is not indexed and thus loses value every year) does little to help families offset child care costs. It is unfair in that single parents pay no income tax on their Universal Child Care Benefit whereas couples do pay tax on theirs, thus reducing its value. Families with children 5 and under, at all income levels – low, middle and high – receive the Universal Child Care Benefit, which is the proverbial drop in the bucket for upper-income households. The child tax credit pays an equal amount to families at all income levels (the rich included) – except for the poor, who get nothing. The two programs combined make a mess of what had been a child benefits system carefully redesigned to ensure the efficient use of public money. This is a classic example of misguided public spending.

Caledon has also argued for public expenditure on the basis of evidence. The excessive attention to punishment and prisons is not supported by the available data.

Statistics Canada reports that the overall volume of police-reported crime and the severity of crime continued a long-term downward trend. Both measures declined six percent in 2011 from 2010. Despite the falling crime rate over the past decade and an austerity agenda, the government has announced its intention to introduce more tough-on-crime bills in the upcoming

Budget. This will continue the extreme pressure on corrections budgets and put Canada in the position of spending more and more in the coming decades on prisons. Ironically, in the US where the policy of ever-longer and tougher prison sentences was pioneered, even hard-core conservatives are rethinking their approach.

iii. Fundamental reform through incremental action

Any fundamental social reforms, especially to income security programs, require a major restructuring of current benefits. These reforms – as well as enhancements to existing programs – typically come with big price tags. The cost is usually enough for governments to back away from substantial change, whether in the form of improvements to existing programs or deep restructuring of the income security architecture.

In our view, this 'can't-do' attitude is the wrong approach. We have been proponents of big visions with clear long-term objectives and carefully designed steps along the way. Incrementalism is the means to the goal of fundamental reform. It is *absolutely possible to proceed with major reforms in a responsible and practicable fashion*.

Fundamental reform through incremental action was the underlying principle that guided the introduction of the National Child Benefit in 1993. It is the principle that Caledon has proposed in order to effect substantial improvements to the Working Income Tax Benefit and the Guaranteed Income Supplement. It is the principle underlying our proposal for a new federal disability benefit that would help people with severe and prolonged disabilities move off welfare programs steeped in poverty, with the resulting provincial and territorial savings redirected toward a robust system of badly-needed disability supports.

The bottom line

Budget 2013 doubtless will pay little attention to most social programs. But it is possible to plan now for the resumption of reform in coming federal Budgets as the economy and federal finances improve. Core guiding principles with clear economic and social benefits make reform both feasible with respect to implementation and doable in terms of cost.

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