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The Social-Policy-Is-Back Budget

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Canada is back! So declared the newly-elected Prime Minister Trudeau at his first international meetings following smack on the heels of the October electoral sweep.

And with it, social policy. The 2016 Budget is full of substantial announcements that will have a positive impact on social well-being.

Caledon assesses the quality of any given Budget from the perspective of two lenses: the attention it pays to social well-being, in general, and the degree to which it helps lower- and modest-income Canadians with respect to income security, in particular. By contrast, when it comes to public investment in services, such as education and health care, we recognize the need to ensure access to high-quality services for all.

The past ten years were largely a social policy wasteland when assessed against our core guiding principles. The introduction of the Registered Disability Savings Plan, the coming of the Working Income Tax Benefit, the Labour Market Agreements (subsequently cancelled as discussed in our section on skills and training below) and financial support for Housing First initiatives throughout the country were notable exceptions. Most of the other social policy measures were of primary benefit to upper-middle and higher-income households – i.e., the proposed income splitting for families and the raft of boutique tax credits that reduced income taxes for well-off households.

The 2016 Budget stands in stark contrast to the federal Budgets of the last ten years in which the social policy well had been largely dry. Last year, we published *The Deficit-of-Ideas Budget* to point out just how empty the glass was when it came to progressive social policy.

Our Budget assessments of the past decade included not just a critique of the announced measures. We also used them as an opportunity to put forward a set of practicable proposals on a wide range of social policy areas.

March 2016 marked a significant turning point in the country. Social policy is back! It comprises, once again, a vital component of Canada's DNA.

Fortunately, we do not need to focus our 2016 Budget reply on making the case for social investment. In fact, the Liberals incorporated in their election platform many of the policy options that the Caledon Institute has recommended for some time.

We are particularly pleased with the announcement of the Canada Child Benefit. Caledon had proposed this model for years: eliminating the Universal Child Care Benefit, withdrawing the Child Tax Credit (which the Conservatives had already announced in 2015) and building upon the well-designed Canada Child Tax Benefit that had been in place since 1998.

The next four years will see the introduction of a range of other important social measures, including investment in affordable housing and other components of social infrastructure, home care and support for caregivers, investment for Indigenous peoples, financial assistance for seniors including Canada Pension Plan reform, and the dismantling of selected boutique tax credits. Our *Social-Policy-Is-Back* analysis supports the directions of these measures.

We do have a concern, however, regarding one major policy plank highlighted in both the Liberal platform and the 2016 Budget. In our view, the distributional impact of the middle class tax cut is problematic. We discuss this further below.

But first, the good news.

Canada Child Benefit

We were pleased to see the announcement of the Canada Child Benefit in the 2016 federal Budget. The Liberal Government is to be applauded for its bold move to significantly reduce the low-income rate for families in Canada. The new benefit is slated to lift an estimated 300,000 children out of poverty.

Over the years, Caledon had proposed that the government keep building on the existing Canada Child Tax Benefit because of its positive features. We had revealed the numerous weaknesses in the design of the Universal Child Care Benefit introduced by the Conservatives in 2006. It was not really tied to child care, was insufficient in value and was subject to income taxation. The Universal Child Care Benefit was essentially an inadequate and poorly designed child benefit [Battle 2015a].

The new Canada Child Benefit, like its predecessor the Canada Child Tax Benefit, builds on two core objectives. Its parental recognition objective (horizontal equity) provides some money to the great majority of Canadian families with children. Only very high-income households with incomes over $200,000 will receive no benefit.

However, the poverty reduction component (vertical equity) of the new Canada Child Benefit will be especially powerful. It pays far more money to lower- and modest-income households than it does to higher-income households.

The new Canada Child Benefit will amount to:

- $6,400 for one child age 0-5 in a low-income family with income of $15,000
- $5,350 at $45,000
- $3,150 at $90,000
- $1,550 at $140,000
- $0 at $200,000

Figure 1
Child benefits, family with one child under 6, old and new systems, 2016

household income	Canada Child Benefit	old system	$ gain, new minus old	% gain, new minus old
$15,000	$6,400	$5,822	$578	9.9
$45,000	$5,350	$3,368	$1,982	58.8
$90,000	$3,150	$2,125	$1,025	48.2
$140,000	$1,550	$1,498	$52	3.5
$200,000	$0	$1,421		

Figure 1 gives details on the new Canada Child Benefit and how it compares to the old child benefit system under the Harper government. We look at families with one child age 5 and under.

The maximum Canada Child Benefit pays $6,400 or a relatively small amount ($578) more than the old system's payment of $5,822. The gain under the new system comes to a modest 9.9 percent.

But non-poor families gain much more in relative terms from the new Canada Child Benefit, which is much more progressive for modest- and middle-income families. Modest-income families with incomes of $45,000 receive $1,982 more from the Canada Child Benefit than the old program – a sizeable gain of 58.8 percent. Middle-income families with income of $90,000 gain $1,025 or 48.2 percent. Higher-income families with income of $140,000 get just $52 or 3.5 percent more from the Canada Child Benefit. Note that high-income families at the $200,000 level do not qualify for the Canada Child Benefit, whereas they would get $1,421 in child benefits from the previous government.

Figure 2
Child benefits, family with two children (one age 5 and under, one 6-17), old and new systems, 2016

household income	Canada Child Benefit	old system	$ gain, new minus old	% gain, new minus old
$15,000	$11,800	$10,169	$1,631	16.0
$45,000	$9,775	$5,864	$3,911	66.7
$90,000	$5,650	$3,345	$2,305	68.9
$140,000	$2,800	$2,059	$741	36.0
$200,000	$0	$1,954		

Figure 2 gives child benefits for families with two children (one age 5 and under, the other 6-17). The distribution of benefits is clearly progressive at middle-income levels. Low-income families with household income of $15,000 see an increase of $1,631 or 16.0 percent more than the old system.

But the gains are much larger for non-poor families – 66.7 percent for those with income of $45,000, 68.9 percent for those at $90,000 and 36.0 percent for families with incomes of $140,000. While high-income families with incomes of $200,000 do not qualify for the new Canada Child Benefit, under the old system they would have received $1,954.

The Canada Child Benefit has a number of positive features for which Caledon has long argued. It is a single large program, replacing previous multiple benefits that conflicted in design and impact. It is progressive, gearing the amount of benefits to need as measured by family income. Low-income families get the most and payments decline as incomes rise.

The Canada Child Benefit pays the same amount to all families with the same income, regardless of the sources of that income, place of residence or family type. Benefits are not taxed, so what you see is what you get. The program is portable, providing a stable and assured monthly supplement to income no matter where families live or move [Battle and Torjman 2015].

It will be essential to ensure that the Canada Child Benefit is indexed in order to maintain its value over time. If the benefit is unindexed, its $6,400 value in 2016 will drop to an estimated $5,900 in real terms by 2020.

While the Canada Child Benefit will lift 300,000 children out of poverty, there is still significant work to do. Statistics Canada reported that 755,000 million children – 11.2 percent of all children – lived in poverty at last count (2013). This means that a substantial 455,000 children in the country will remain poor even after the new measure takes effect.[1]

At the same time, however, middle-income households will be in line for modest benefit increases. As noted, child benefits for a middle-class family with two children and $90,000 in household income will go from $3,345 under the old system to $5,650 with the Canada Child Benefit, for a boost of $2,305. That family may also gain from the middle class tax cut.

By contrast, a low-income family with two children and a household income of $15,000 will see its child benefits rise from $10,169 under the current configuration to $11,800 under the Canada Child Benefit, an increase of $1,631. And that family will not derive any gain from the middle class tax cut.

Caledon recommends that the Liberal government take a serious look at the distributional impact of the Canada Child Benefit and the associated middle class tax cut. Over time, it will be important to ensure that the new Canada Child Benefit take a much larger punch out of poverty. This goal should be a top priority for the National Poverty Strategy on which the government has promised to embark over the course of its mandate.

National Poverty Strategy

A welcome announcement came in November 2015 as part of the mandate letter of the Minister of Families, Children and Social Development. His responsibilities include the development of a National Poverty Strategy. While Budget 2016 actually used the word "poverty" several times (it had been extricated from public policy discussions over the past decade), there was no reference to the National Poverty Strategy commitment.

We are hoping that Ottawa will proceed right away with this vital work. Caledon fully supports the need for such an approach, having called for such a strategy in a *Globe and Mail* op ed published in October 2015. Other groups have also advocated such an approach.

We noted had that every province and territory has a poverty reduction strategy (with the curious exception of British Columbia). Many cities and towns have also adopted a poverty reduction plan. The missing player, until now, had been our national government. Ottawa is responsible for more than three-quarters of income security payments – through programs such as Old Age Security, the Guaranteed Income Supplement, the Canada Pension Plan, Employment Insurance and child benefits.

We acknowledge that a formal poverty reduction strategy is no panacea for this tough and complex problem. But while poverty will not be eliminated by legislation, a designated strategy will help set goals, establish mechanisms to monitor progress and improve the coordination of the government departments and non-governmental organizations involved in the multiple routes to poverty reduction – from training and literacy programs to affordable housing and reformed social assistance.

As noted, the implementation of the new Canada Child Benefit will boost child payments for low- and modest-income families, enabling an estimated 300,000 children to escape poverty. But there is much more to be done on this front. The Canada Child Benefit provides a solid foundation to lift even more children off low income.

At the other end of the age spectrum, we argued that further increases to the Guaranteed Income Supplement for single seniors would help reduce persistent poverty among unattached women and men age 65 and over. The Budget did introduce a welcome 10 percent increase to the Guaranteed Income supplement for single seniors, discussed below.

Our op ed also noted three other significant pieces of unfinished poverty reduction business. First, the Working Income Tax Benefit should be strengthened and expanded. This measure, which was created by the previous Conservative government but initially proposed by the Liberals in their 2005 fiscal update, helps the working poor and employable welfare recipients.

Currently, the Working Income Tax Benefit remains a very modest program. In 2016, maximum benefits are $1,115 per year for a single person and $1,844 per family (single parent or couple). Eligibility for payments ends when net income is only $18,292 for singles and $28,209 for families. The federal government should monitor the development of the Working Income Tax Benefit to see who receives it in terms of gender, age, location, family and other characteristics, and what percentage of those who apply for the program actually qualify for it.

Second, the federal minimum wage should increase to serve as a target for the provinces and territories. A rate of $12.00 would be a good place to start.

In 2015, minimum wages went from a low of $10.28 an hour in Saskatchewan to $10.30 in New Brunswick, $10.31 in Newfoundland and Labrador, $10.32 in British Columbia, $10.43 in Prince Edward Island, $10.45 in Alberta, $10.48 in Quebec, $10.55 in Nova Scotia, $10.83 in Yukon, $11.00 in Nunavut, $11.06 in Manitoba and Ontario, and $11.49 in the Northwest Territories.

Measured as a percentage of average earnings, minimum wages vary widely from one part of Canada to another. However, they are all very modest, ranging from a low of 29.0 percent in the Northwest Territories to a high of 52.5 percent in Prince Edward Island [Battle 2015b].

Third, the federal and provincial/territorial governments should work together to tackle poverty among Canadians with disabilities. A federal basic income program, modelled on the Guaranteed Income Supplement, could replace welfare for low-income persons with disabilities, with resulting savings for the provinces and territories to be reinvested, on the basis of a negotiated agreement, in disability supports and services [Mendelson, Battle, Torjman and Lightman 2010]. The work could start by making the Disability Tax Credit refundable [Mendelson 2015].

We proposed that Canada establish broad principles and reporting requirements for its poverty reduction strategy in an Act of Parliament. In order to monitor and track progress in its poverty reduction efforts, Ottawa will require rich and relevant data – the lifeblood of sound public policy and good government.

Unfortunately, information had been under attack by the former federal government. The decision in 2010 to abolish the mandatory long-form Census and replace it with an inferior voluntary version, the National Household Survey, reduced Canada's ability to assess progress in achieving important goals. Caledon was pleased to see the new federal government reinstate the long-form Census as soon as it took office.

Income security for seniors

The 2016 Budget introduced three significant income security measures that will help reduce poverty among seniors.

First, Budget 2016 followed through on the campaign promise to boost the Guaranteed Income Supplement for Canada's poorest single seniors. The Guaranteed Income Supplement for single seniors will rise by 10 percent from its current maximum amount of $773.60 per month ($9,284 annually) to an estimated $850.96 as of July 2016 or $10,212 per year. The measure will cost more than $670 million annually and will improve income security for about 900,000 single seniors.

The Guaranteed Income Supplement is an income-tested program. Single seniors with annual income (other than Old Age Security and Guaranteed Income Supplement) of about $4,600 or less with get the full increase of $947 a year. Above this level, the amount of the enhanced benefit will gradually be reduced and phased out at about $8,400.

Old Age Security and the Guaranteed Income Supplement are indexed to the cost of living on a quarterly basis.

The 2016 Budget also confirmed the Liberal Platform promise to withdraw the scheduled increase in the retirement age for seniors' benefits (Old Age Security, the Guaranteed Income Supplement and the Allowance) from 65 to 67. We had voiced our opposition to this measure, when the former Prime Minister unexpectedly announced in 2012 – far from the House of Commons – while attending the World Economic Forum in Davos, Switzerland. We presented a detailed and lengthy critique of the regressive scheme to raise the age of eligibility for seniors' benefits [Battle, Torjman and Mendelson 2012b].

Our chief concern was the negative impact raising the age of retirement from 65 to 67 would have on low-income seniors, especially single people: They rely most on Old Age Security for their income and would suffer most if the program were *de facto* cut by reducing the number of years that seniors can collect benefits.

Low-income Canadians typically work in non-standard jobs that are low paid, unstable, often part time, tedious and even dangerous, lacking in employer-provided benefits such as private pensions and supplementary health care. When they reach 65, low-income workers see an improvement in their standard of living as they transition from the work force to Old Age Security.

The same applies to social assistance recipients. Their welfare incomes are meagre, so raising the age of retirement by two years would compel them to stay on welfare for an extra two years. The provinces and territories, which operate social assistance, would see an increase in their welfare caseloads and costs. On the other hand, Ottawa would save money on its seniors' benefits.

Low-income seniors generally receive Old Age Security for a shorter time than middle- and upper-income seniors because the poor have the shortest lifespan. Raising the age of eligibility for seniors' benefits would further reduce the number of years that low-income seniors can draw Old Age Security.

If Ottawa had decided to proceed with its plan to raise the age of eligibility for Old Age Security from 65 to 67, the Caledon Institute had a fall-back proposal. The federal government should create an income-tested benefit for low-income seniors ages 65 and 66. Fortunately, the new federal government did the right thing and left alone the age of eligibility for Old Age Security.

Finally, the Budget pointed to the talks currently under way to strengthen the Canada Pension Plan. In December 2015, the federal Finance Minister began discussions with his provincial and territorial counterparts on enhancing the Canada Pension Plan, with the goal of coming to a joint decision prior to the end of 2016. The Budget also noted the Government's intention to undertake public consultations on this important public policy challenge. Caledon fully supports these efforts and we have put forward practicable improvements to the Canada Pension Plan, discussed below.

All three measures announced in the 2016 Budget are significant within the broader context of Canada's income retirement income system, which has two main aims. Its anti-poverty objective seeks to ensure that no senior lives in poverty. Its earnings replacement objective seeks to maintain in retirement the standard of living to which Canadians have been accustomed during their working years.

To pursue these linked goals, Canada has built a multi-tier pension system over the years which has been praised internationally. Unfortunately, the system's performance has fallen short of its promise.

The foundation of the retirement income system is the federal Old Age Security, Guaranteed Income Supplement and Allowance programs. Some provinces and territories also offer income supplements for the elderly poor.

While these public programs, along with the Canada and Quebec Plans, have led to a substantial decline in poverty among elderly Canadians, they have not yet managed to reduce the low-income rate to zero. Far from it, one in ten single seniors (10.7 percent) remain poor at last count (2013).[2]

The second tier of the retirement income system consists of the Canada Pension Plan and Quebec Pension Plan, geared to the earnings replacement objective. These parallel public programs have several key features.

The Canada/Quebec Pension Plans cover the entire labour force, both employees and the self-employed. They are fully portable – all workers and the self-employed contribute to the plans throughout their working life no matter what jobs they have and where in Canada they live. Benefits are indexed to protect them from inflation. The programs were put on a solid financial footing during the last round of pension reform in the mid-1990s. And they are relatively inexpensive to administer.

The third, private tier of the retirement income system is directed to the earnings replacement objective. It consists of employer-sponsored plans (Registered Pension Plans or RPPs) and individual retirement savings, notably Registered Retirement Savings Plans (RRSPs). There are two kinds of Registered Pension Plans.

'Defined benefit plans' pay a specific benefit, generally based on earnings and years of service. Members of defined benefit plans can find out exactly how their pension will be calculated and how much it will be.

'Defined contribution plans,' by contrast, pay benefits according to accumulated contributions and investment returns. The workers in these plans know only the amount they are contributing. What they actually will get upon retirement depends on the performance of the plans over the years.

Here's the problem. When the Canada and Quebec Pension Plans were created in the mid-1960s, they were deliberately designed to pay relatively modest benefits. The maximum amount is one-quarter of average earnings, which in 2016 means a maximum annual CPP retirement payment of only $13,110.

The private tier of employer-sponsored pension plans and individual savings plans was supposed to comprise the lion's share of the earnings replacement objective for middle- and upper-income Canadians. The Canada and Quebec Pension Plans would play a secondary role – except in the case of low- and modest-income recipients, for whom the two public tiers provide all or most of their earnings replacement.

Unfortunately, things did not work out according to plan. The weakness of Canada's retirement income system is that private pension and savings plans never grew sufficiently to properly serve the earnings replacement objective for many Canadians. Coverage of employer-sponsored pensions actually has fallen significantly over the years – from 46 percent of the employed workforce in 1977 to just 38 percent by 2013.

While most employees in public sector jobs belong to employer-sponsored pension plans, only about one in three workers in the private sector have them. Coverage of RRSPs is also weak. At last count (2013), only 23.4 percent of tax filers contributed to an RRSP.

We have pointed out that the Canada Pension Plan's superior design suffers none of the failings of private pension plans. But it cannot, in its current form, make up for the weaknesses of the third tier because its benefits are so low. The answer, in our view, is to boost the Canada Pension Plan's earnings replacement power.

Caledon was pleased to learn that the possibility of expanding the Canada Pension Plan is back on the table. For years, we have been proposing a '1.5 solution' for its expansion in which both the Year's Maximum Pensionable Earnings and the earnings replacement rate would rise by 50 percent [Battle, Torjman and Mendelson 2012a].

The Caledon proposal would enhance the Canada Pension Plan by changing two key features of its design. We would raise the Year's Maximum Pensionable Earnings level from its current $54,900 in 2016 to $82,350 – an increase of one-half. The earnings replacement rate would go from 25 to 37.5 percent – also an increase of 50 percent. As a result, the maximum CPP retirement payment would more than double, from $13,110 to $30,881.

We hope that the 1.5 solution will be on the table as the federal and provincial/territorial governments consider possible options for reforming the Canada Pension Plan.

Indigenous affairs

For the first time in Canadian history, Indigenous issues are a core theme of a federal Budget – and, perhaps more materially, among its largest financial commitments. The Budget provides the means to back up Ottawa's promise to renew Canada's relationship with its Indigenous peoples. Full plaudits to the new government for setting the stage to address substantively Canada's gravest failure – and possibly begin to realize one of our greatest opportunities in the unrealized capacities of Indigenous peoples.

Now the hard part begins.

How and who will get additional funds may be equally important as the amount. For example, in the area of education where most money is rightly being dedicated, it is little appreciated that much of the money now paid by Ottawa for students who are resident on reserve goes, in fact, to provincial school systems off reserve in the form of tuition payments.

The tuition paid to provincial school systems in some instances (such as Northern Manitoba) seems to be twice as much as the amount provided for schools on reserve. How much of the next five year's added education funds will and should go to provincial school systems via increased tuition? How will the hundreds of decisions reflected in each tuition agreement be made?

Among on reserve schools, some schools are drastically underfunded, while others may already be funded at levels comparable or close to comparable to provincial schools. Which on reserve schools will get additional funds and, again, who decides and how will this be decided? What amounts will go to secondary level education services, such as speech therapy, and to tertiary services, such as curriculum development? Again, who and how will these decisions be made?

In the current First Nations education financing system, most of the funding is directed toward the Department of Indigenous Peoples and Northern Affairs' regional offices in broad 'envelopes.' In practice, each region's funding is historically based – i.e., next year's regional budget is created by adjusting last year's regional budget.

The regions then dole out the money to First Nations, again mainly through adjustment of last year's allotment, but with the region using its knowledge of the local situation to add a little here or subtract a little there and keep the whole squeaky mechanism working. The region might take a bit out of one area and use it for another to put out local 'fires.'

On the one hand, this funding system has allowed the Department to manage increasingly stretched budgets every year, without too many politically embarrassing blow-ups relative to the scale of social and economic deprivation on reserves. But on the other hand, this financing system places all the power in the hands of the Department.

If First Nations are dissatisfied with the funding for their school, their only recourse is complaint, cajoling and sometimes demonstrating. There is no law or administrative rule that requires or permits an objective assessment of the amount of funding that ought to be provided, because there is no standard against which to measure the funding. The Department has no obligation and First Nations have no entitlement.

Much of the funding in the 2016 Budget is 'back-end loaded.' This means that for many of the areas, but especially for education and child welfare, the amounts provided increase substantially in the later years of the five-year projections in the Budget.

In the case of education operating costs, the 2016-17 allocation provides for a healthy increase of $287.5 million, but by 2020-21 this is projected to rise to $801 million. Moreover, capital expenditure for vitally needed repair and maintenance of schools climbs from $96.6 million in the first year to $208.8 million in the fifth year.

Our expectation is that the next year or two before the biggest increases take effect will be spent reforming the 'who and how' of on reserve financing, and this is indeed what the Budget, implicitly at least, is promising. In order to achieve meaningful gains in education outcomes for First Nations, Budget 2016 proposes "the transformation of the current on reserve education system through a respectful process of consultation and partnership with First Nations."

Throughout the Budget's section on Indigenous peoples, there is provision to carry on a careful process of dialogue with Indigenous organizations and peoples.

In the case of education in particular, the dialogue must at minimum result in establishing some administrative mechanism setting out the level of Ottawa's positive obligation. For example, this mechanism might require the federal government to provide funding sufficient to permit First Nations' schools to offer a quality of education equivalent to provincial schools in similar circumstances. It might also provide a neutral mechanism to arbitrate when there are disagreements. But arbitration is not possible without a clear standard as to what funding levels should be.

'Equivalent services' seem to be the standard adopted by the Canadian Human Rights Tribunal in its recent decision on child welfare services. In our view, such a rule would also reflect a modern interpretation of the educational commitments undertaken by the Crown through its Treaties with First Nations.

Caledon has argued in previous reports that the entitlement of First Nations should be set out in a law passed by the Parliament of Canada and that First Nations financing should be a statutory obligation stemming from that law. Others have made the same argument [Metallic and Grammond 2016].

This form of financing commitment is the most powerful and certain means of changing the treatment of First Nations from that of supplicant to valued service provider. Other, albeit less effective, mechanisms might be possible, such as building a standard of funding into Treasury authorities. Our point here is that the process of detailed, real and, as the Budget says, respectful discussions must now urgently begin with First Nations to decide on the 'who and how' of the new financing provided by the Budget.

Affordable housing and social infrastructure

The Liberal platform was clear in its promise of deficit financing in order to support infrastructure investment. There are two major benefits to this spending: the immediate creation of jobs for shovel-ready projects, and the long-term economic and social gains that derive from renewing the essential hardware of cities and communities.

In the past, Caledon had expressed concern about the fact that the discussion of infrastructure had been fairly narrow, focusing on roads, sewers, water systems and basic elements that form the physical plant of cities and communities. We argued that it is all too easy to forget the social components of infrastructure – affordable housing, child care centres, libraries, and recreation centres and programs that contribute immeasurably to community well-being but often get overlooked in the mix [Torjman 2009].

We were pleased that the federal government announced that the social infrastructure work would begin literally at home. Far too many Canadians live in sub-standard housing that seriously threatens their physical and mental health.

The most common way to improve the availability of high-quality, affordable housing is to enhance its supply, which usually involves increasing the number of reasonably priced housing units in any given neighbourhood or community. A related approach to bolstering the supply of affordable housing involves the repair or retrofit of the current housing stock.

Budget 2016 announced $1.4 billion of new spending for housing in 2016-17 and $960 million in 2017-18. This is the single largest item of expenditure in the new government's infrastructure initiative.

The housing commitments include:

- $504 million for new and existing affordable housing with matching funds from provinces and territories, which will be largely responsible for deciding how these funds will be spent
- $200 million for affordable housing for seniors
- $574 million for energy and water efficiency retrofits to existing social housing
- $30 million to help providers maintain rent-geared-to-income units in co-op buildings at least for the next two years while a longer-term plan is worked out
- $208 million over five years for a new Affordable Rental Housing Innovation Fund to test innovative approaches to lowering the costs of building affordable housing
- $90 million for the construction and renovation of shelters and transition houses for victims of family violence
- $111 million for the Homelessness Partnering Strategy which goes to local communities to help fund their homelessness strategies
- $739 million for housing in First Nations, Inuit and northern communities.

Much of the spending in 2016-17 – $500 million – is for energy and water efficiency retrofits and renovations to existing social housing. Another $360 million in 'year one' goes for First Nations, Inuit and northern housing, much of which will likely also be for renovations.

This money can and will be spent quickly. It will allow much of the huge backlog in deferred maintenance to be addressed. At the same time, it will increase energy efficiency and reduce future operating costs. Most important, it will make social housing more attractive and improve living conditions for tenants.

Overall, the $860 million for these immediate renovations and upgrades in 2016-17 is a first-rate example of effective use of today's extraordinarily minimal borrowing costs to lower future costs while eliminating some of the 'social deficit' which has accumulated over the last decade. To portray borrowing these funds as 'adding to the debt' is therefore shortsighted in the extreme. This is money which would unavoidably have had to be spent some day anyway.

Over the longer term of five to ten years, this spending is at least debt neutral. We just do not see the neutrality because we do not have an accounting system that records future liabilities and which would have noted that this spending removes a future liability. In reality, spending this money now likely *reduces* future debt since it decreases costs over the next several years while also eliminating a liability.

While the federal government's commitment to affordable housing represents a tangible and long-needed restart of Ottawa's engagement in the sector, there are two questions about the Budget's housing policy.

First, the number of added units that the initiatives will create seems to be out of whack with reality. For example, the $200 million for senior's housing is forecast "to help improve housing conditions for more than 5,000 low-income senior households." That amounts to $40,000 per unit. But a new unit of seniors' housing costs at the very minimum $100,000 and likely well over $200,000 in the big cities where most people live and housing is most needed.

Even 500 units of new housing would eat up most of the money, so the 'help' to the other 4,500 households might end up being pretty minimal. Similar calculation could be made of some of the other forecast outcomes in the Budget.

Second, and more substantively, social housing represents only 14 percent of Canada's rental market and only about 4 percent of all households in Canada. With our growing population, the relative number of social housing units in Canada is likely going to continue to decline – not increase – despite the large amount of financing in this Budget.

This illustrates the dilemma of using social housing as an answer to the problem of ensuring affordable housing for low-income households. There is not enough of it and it would take a lot of money to build enough of it. In the meantime, the program does little to improve affordability for the 86 percent of households not in social housing.

Ottawa says that: "To ensure that investments reflect the needs of Canadians and Canadian communities, the Government of Canada will consult with stakeholders in the coming months to determine where future investments in social infrastructure should be made." We would urge that the government look beyond social housing, towards improving affordability in the private market, as part of these future consultations.

Early learning and child care represent another vital component of social infrastructure. Countless studies in Canada and throughout the world have documented the value of good child care for the healthy growth and development of children. High-quality early childhood education and child care contribute fundamentally to their physical, emotional, social, linguistic and intellectual development.

Accessible and affordable child care is also a smart investment in a competitive economy. Without it, parents cannot participate fully in the labour force. Good child care supports education, training and working. It is essential to promoting women's equality by enabling them to train for paid work, find work and keep working. The Liberals clearly must pay attention over the course of their mandate to investing in this vital policy domain.

The 2016 Budget made a preliminary step by promising to invest $500 million in 2017-18 on the development of a National Framework on Early Learning and Child Care. Of that total, $100 million will be allocated toward Indigenous child care and early learning on reserve.

There is no stated plan for this Framework identified in the Budget, which basically just signals the government's intent to pursue this policy area. The Framework will be formulated in partnership with the provinces, territories and Indigenous peoples. The Budget notes that funds for this purpose will begin to flow in 2017-18. They can't come soon enough.

In 2000, Caledon formulated a model framework for early childhood development services within the National Children's Agenda [Battle and Torjman 2000]. We proposed that the receipt of federal dollars require compliance with a clear set of principles: comprehensiveness, universality, accessibility, quality and accountability. Governments would be required to develop annual plans and make public reports of their progress. The framework subsequently became the basis for a series of federal-provincial/territorial agreements on early childhood development and child care.

Canada's history of action in this vital policy area has been nothing short of a long and winding road. It's time to move more quickly and directly on this front.

Every family in Canada should have access to high-quality affordable child care. Some interpret this goal to mean one-size-cookie-cutter institutional care. They are incorrect. A single goal does not necessarily translate into a single practice. To the contrary, guiding principles set the stage for a range of child care options with quality – not single practice – as the unifying design feature.

A government concerned with the middle class should take an active leadership role on this file and rigorously advance this agenda.

We were pleased to see the third component of social infrastructure, which included a sum for cultural and recreational programs. Caledon had argued the need for this broader community investment rather than in the form of tax breaks only for participation in cultural and recreational programs. We discuss this issue below in the section on boutique tax credits.

The Government recognized accessibility as a core component of healthy communities that enable full participation. Budget 2016 proposes to provide an additional $4 million over two years, starting in 2016-17, for the existing Enabling Accessibility Fund. The new monies will support the capital costs of construction and renovation related to improving physical accessibility and safety for people with disabilities in the community.

But obstacles to the full participation of persons with disabilities go well beyond physical obstruction. They are rooted largely in policy and attitudinal barriers. True to its platform commitment, the Liberal Government will undertake a process of consultation with provinces/territories, municipalities and stakeholders in order to introduce a *Canadians with Disabilities Act*. The Budget allocates $2 million over two years, starting in 2016-17, to support the engagement of Canadians with disabilities in this effort.

While this measure is important, we hope that the ensuing process will not put a brake on all action and stop the Government from advancing the disability agenda. There are significant gaps to fill – particularly with respect to income security and disability supports, which are vital to active participation and social inclusion.

Employment Insurance

Employment Insurance (EI) is one of Canada's most important, but troubled, programs. Over the years, Ottawa has broken the social insurance contract that Canada's social policy pioneers cherished as a crucial element of a modern social security system.

Virtually all employees pay EI premiums but fewer than half – in 2015, 39.9 percent – qualify for benefits if they become unemployed. EI tends to exclude the self-employed and precarious workers – the long-term unemployed, new workers, part-time workers (including persons with disabilities and those working part time due to family care responsibilities).

Alberta's economy has been hit hardest, with ballooning unemployment the result. The number of unemployed rose from 111,000 in January of 2015 to 164,100 in December 2015. That jump represents an increase of 53,100 jobless Albertans or 47.8 percent. The number of recipients of regular Employment Insurance benefits went from 37,720 in January of 2015 to 62,630 in December of 2015 – a hefty rise of 24,910 or 66.0 percent. Nonetheless, only 34.0 percent of unemployed workers in Alberta qualified for regular EI benefits in 2015.

The Achilles heel of Employment Insurance is its regional variability structure. The program varies both work requirements and maximum duration of benefits according to regional unemployment rates, of which there are no fewer than 58 across Canada. The result is significant variation in work requirements and maximum duration of benefits from one local unemployment rate to another.

This regional feature leads to inequities. For example, two jobless Canadians with the same work record but living in regions with different unemployment rates can receive very different benefits. One claimant may receive EI benefits for a shorter period than the other worker or, at the extreme, no benefits at all.

Yet, the overall level of unemployment in a small region of Canada is at best only one indicator of how difficult it is for an unemployed worker in that region to find a job. And local unemployment levels have become increasingly irrelevant as the work force becomes more mobile and work itself becomes increasingly portable.

Caledon has long argued that Ottawa should fix Employment Insurance. Employment Insurance should operate under a uniform set of rules for work requirements and duration of benefits for all working Canadians, wherever they live and work. The federal government should raise the program's earnings replacement from the current 55 percent of insurable earnings to 70 percent. The federal government should also explore the idea of a new geared-to-income temporary program for unemployed workers who are not eligible for EI, as the old model no longer fits well with many workers in our modern flexible labour market [Mendelson and Battle 2011].

While not going all the way with full throttle reform of EI, the Liberal platform proposed and the 2016 Budget did announce a number of important improvements to Employment Insurance that will at least go some way towards addressing the shortfalls of the existing system.

The federal government will fix the rule that built in discrimination against new workers and those re-entering the work force by requiring them to accumulate more (at least 910) hours of work to qualify for EI benefits, including training. Starting July 2016, new entrants and re-entrants will face the same eligibility requirements as other claimants in the region where they live. The Budget calculates that 50,000 additional claimants will become eligible for EI payments as a result. This change will help some of the workers who contribute to EI – only to find themselves ineligible upon becoming unemployed.

Some EI recipients have a tough time waiting for benefits because there is a two-week waiting period. From January 2017, the waiting period for benefits to begin will be halved from two weeks to one.

Ottawa has been operating a pilot project called Working on Claim. The purpose of this project is to keep workers connected to the labour force by ensuring that claimants always are better off if they accept work. Claimants can keep 50 percent of their benefits for every dollar they earn, up to a maximum of 90 percent of their weekly insurable earnings used to calculate their EI benefit.

The new government proposes to extend this experiment until August 2018 to allow evaluation. We would urge that a rigorous and objective evaluation be commissioned from a neutral third party, with the data and the evaluation report being made public. The evaluation should look not only at the effect on individual workers but also the systemic effects, such as the impact on the labour market (e.g., does it suppress wages or lead to EI 'gaming' to minimize labour costs?).

Ottawa will reverse some or all of the 2012 changes in EI that specified the type of jobs that unemployed workers are expected to search for and accept. These measures forced some unemployed workers to commute from their communities and take poorly-paid jobs. The 2016 Budget plans to "reverse those changes that strictly define the job search responsibilities of unemployed workers. The Government will also ensure that there are fair and flexible supports to assist EI claimants train and find new employment."

It would also be useful for future informed debate for the government to undertake a retrospective evaluation (rigorous and objective by a neutral third party) of what the 2012 rules actually accomplished. It could be that they did very little in practice beyond inflicting a bit of added misery on a scattering of unemployed. Some empirical evidence would be helpful as these kinds of rule changes are bound to be proposed again at some point.

Budget 2016 announced changes that will extend EI regular benefits in certain affected regions. Currently, the program automatically adjusts to worsening economic conditions by gradually increasing accessibility and benefits as regional unemployment rate rise. But, as the Budget noted, the dramatic drop in global oil prices since late 2014 created sharp and sustained unemployment shocks in commodity-based regions.

In response to this challenge, Budget 2016 will extend the duration of EI regular benefits by five weeks, up to a maximum 50 weeks, for all eligible claimants in the 12 EI economic regions that have been hardest hit by the rise in unemployment. Extended benefits will be available for one year as of July 2016, with the change being applied retroactively to all eligible claims as of January 4, 2015.

Also available will be an additional 20 weeks of regular EI benefits for long-tenured workers in the same 12 EI economic regions, up to a maximum 70 weeks of benefits. Extended benefits for long-tenured workers will be available for one year as of July 2016, applied retroactively to all eligible claims as of January 4, 2015.

The 12 EI economic regions that have been hard hit and thus eligible for extended EI benefits are: Newfoundland and Labrador, Sudbury, Northern Ontario, Northern Manitoba, Saskatoon, Northern Saskatchewan, Calgary, Northern Alberta, Southern Alberta, Northern British Columbia, Whitehorse and Nunavut. The formula used to determine which economic regions qualify for extended EI is that "the unemployment rate increased by two percentage points or more for a sustained period between March 2015 and February 2016, compared to its lowest point between December 2014 and February 2015, without showing significant signs of recovery."

The changes to extended EI benefits rules are proving controversial. The Saskatchewan Premier has decried the seemingly unfair EI changes that miss the southeast and southwest of its oil patch, while the Alberta Finance Minister has questioned the omission of Edmonton.

Caledon has responded to the controversy by reinforcing the need to fundamentally reform EI, pointing out that these kinds of anomalies are an unavoidable result of having different rules applying to the 58 geographic EI regions. "The rules should be the same across the country, with robust enough benefits that could deal with a sudden precipitous drop in employment in any region. The whole concept of geographic definition is problematic, especially as we become more and more mobile" [Michael Mendelson in Younglai and Blackwell 2016].

The Budget plans to extend the maximum duration of Work-Sharing agreements from 38 weeks to 76 weeks across the country. Work-Sharing offers income support to employees eligible for EI benefits who work a temporarily reduced schedule while their employer recovers. Work-Sharing helps workers and employers avoid layoffs due to a temporary reduction in the normal level of business activity that is beyond the control of the employer.

Extended Work-Sharing agreements will help employers retain skilled employees and avoid the costs of recruiting and training new workers when business resumes. Employees can keep working and maintaining their skills while supplementing their wages with EI benefits for the days they are not working.

We see this measure as a positive development for Canada. A form of work-sharing was applied extensively in Germany during the 2008 slowdown and was one of the factors allowing it to recover so quickly. The new rules should be accompanied by additional on-the-ground support for employers who may be unfamiliar with this alternative – to make them aware of it as an option and to assist in implementation should an employer wish to proceed.

Some of this added on-the-ground support might be available due to Budget 2016's improvements to the administration of EI. The program will provide $19 million in 2016-17 to enable Service Canada to meet the increased demand for claims processing. Another $73 million over two years will improve access to EI Call Centres.

Taken together, the EI reforms in the 2016 Budget amount to a substantial response both to today's economic conditions and to some of the failings of the EI program. However, these adjustments fall far short of the needed careful, long look at the EI system as a whole. We would urge the new government to initiate such a review.

Skills and training

For many decades, the Conservatives had, as one of their fundamental policy positions, respect for the primacy of the provinces and territories in their areas of Constitutional jurisdiction. In the early years of the Harper government, they followed up on this policy by designing Labour Market Agreements, which provided financing to the provinces and territories for training and skills development but left it up to the provinces and territories to design and implement the programs.

The federal government went so far as to include sections in the Labour Market Agreements underlying provincial primacy:

"WHEREAS Canada and [name of province] agree that primary responsibility for the design and delivery of labour market programs for individuals to support the creation of a skilled, productive, mobile, inclusive and adaptable labour force in [name of province] rests with [name of province]…"

Lo and behold, the new Agreements worked pretty well. The provinces and territories responded to the challenge and, after some years of designing and redesigning, came up with well-adapted programs that seemed to be working. The Labour Market Agreements were one of the few areas of social policy where the previous government could point to success and supportive consensus among advocates and other stakeholders.

It came as quite a surprise, therefore, when the 2013 Budget announced the unilateral cancellation of the Labour Market Agreements and their replacement with a new skills and training scheme designed in Ottawa called the Canada Job Grant – a scheme that was to be applied rigidly and uniformly across Canada. It turned out that the only thing ready to go about the Canada Job Grant was television advertising (paid for by taxpayers of course) in time for the hockey play-offs. The program had all the signs of being designed on the back of an envelope one long night right before the Budget was released.

Over a year later and with the appointment of a new Minister and much compromise, cajoling and threats, some version of the Canada Job Grant got rolling across Canada with a series of Canada Job Fund Agreements.

No one knows what is really happening today under the Canada Job Fund Agreements. Some anecdotal reports say that almost all the training under the program is going to workers who are currently employed, so that the program effectively functions as a training-subsidy program for large corporations. Reportedly, little or no training is being funded under the Agreements to assist disadvantaged persons to get back into the labour force. The problem is that we have no data, let alone good, objective data.

In the 2016 Budget, the new government has promised a $50 million increase for the Canada Job Fund Agreements in the 2016-17 fiscal year. There are also relatively modest enhancements in other skills and training programs, including the Labour Market Development Agreements, which fund employment services primarily for workers who are eligible for Employment Insurance, through the Employment Insurance fund.

As with many other areas in the Budget, these measures seem to be mainly a holding action while the government undertakes "broad-based consultations with provinces, territories and stakeholders in 2016-17 to identify ways to improve these agreements and guide future investments to strengthen labour market programming."

We concur with this approach. But what will be absolutely necessary for any sensible discussion of new labour market programming is a good picture of what is actually going on right now.

Ottawa needs to investigate and report publicly on what is being achieved in labour market programs, especially what is being accomplished under the Canada Job Fund Agreements. As one of Caledon's contributions to this forthcoming consultation, we will soon be publishing a retrospective study of the Labour Market Agreements that were displaced by the Canada Job Fund Agreements [Wood and Hayes forthcoming].

Post-secondary education

Budget 2016 provides greater support for post-secondary education through enhancements to the Canada Student Grant amounts by 50 percent. The grants will go from $2,000 to $3,000 per year for students from low-income families, and will rise from $800 to $1,200 per year for students from middle-income families. They will increase from $1,200 to $1,800 per year for part-time students.

Another positive announcement was Ottawa's intention to work with the provinces and territories to expand eligibility for Canada Student Grants so that more students can receive non-repayable assistance. The loan repayment threshold under the Canada Student Loans Program's Repayment Assistance Plan will also increase to ensure that no student will have to repay a Canada Student Loan until earning at least $25,000 per year.

Home care

Budget 2016 recognized that Canada's aging population will require additional and immediate investments in home care. The rapidly rising incidence of chronic disease is another significant driver that will create pressures on the long-term care system.

The Public Health Agency of Canada estimates that three in five Canadians age 20 or older have a chronic disease and four out of five are at risk. When 80 percent of adult Canadians are at risk of experiencing one or more chronic health conditions, it is impossible to ignore these policy red flags.

All provinces and territories have in place various programs for delivering long-term care. However, federal leadership and investment had been largely missing from the policy equation.

Over the past decade, there had been no national conversation, let alone plan, to ensure that all Canadians have access to a standard baseline of community-based home supports. Fortunately, governmental relationships are improving. The federal Health Minister met with her provincial/territorial counterparts in January 2016 and subsequent discussions are being planned.

In fact, the mandate letter of the Health Minister tasks her with engaging the provinces and territories in developing a multi-year Health Accord, which will focus on four key areas. First, it must support the delivery of more and better home care services. Second, a new Health Accord must advance pan-Canadian collaboration on health innovation to encourage the adoption of digital health technologies. Third, there must be improved access to necessary prescription medications. Finally, high-quality mental health services must be more available to Canadians who need them.

Budget 2016 provides immediate investment to support innovations in health care technology. It notes that negotiations in the other identified priority areas are under way.

Supports for caregivers

In addition to home care, there are several measures announced in Budget 2016 that will directly help caregivers. More than one in four Canadian adults provide care that complements the formal health care and social service systems. But only limited and inconsistent supports are available to help these caregivers. The lack of supports places a burden on the economy and negatively affects the physical, emotional and financial health of both caregivers and care receivers.

Budget 2016 flagged the Government's intention to make Compassionate Care Benefits within Employment Insurance easier to access, more flexible and more inclusive for those who provide care for seriously ill family members. Caledon supports this intent and, in fact, had recommended over the years that its tight eligibility criteria be significantly eased [Torjman 2015b].

The Government also plans to ensure more flexibility in parental leave benefits to better accommodate unique family and work situations. These objectives will be advanced over the course of its mandate.

The Budget announced as well Ottawa's intention to explore ways to ensure that federally regulated employees are better able to manage the demands of paid work and their personal and family responsibilities outside of work.

Flexible work arrangements represent a positive step. Because of their caregiving responsibilities, employed caregivers often must arrive late to work late, have to leave early or take time off during the day to care for their ill family member or friend. In 2012 (latest available data), an estimated 1.6 million caregivers took leave from work; nearly 600,000 reduced their work hours; 160,000 turned down paid employment; and 390,000 had quit their jobs to provide care [Employer Panel 2015: 9].

These consequences have an impact not only on caregivers but on Canadian employers and society more generally. The Conference Board of Canada pegged the estimated annual cost of lost productivity to Canadian employers at $1.3 billion dollars [Chenier, Hoganson and Thorpe 2012].

But the initiative announced in the Budget, while important, will affect only federally regulated employees. Other countries, notably the UK, Australia and New Zealand, have taken far bolder steps in support of their caregivers – including the introduction of wide-ranging strategies that provide a coherent package of measures intended for all caregiving employees.

Boutique tax credits

We were pleased to see that the Liberal government took the sensible step of dismantling selected tax breaks that cost a considerable amount but have questionable results. One of the most egregious areas of tax expenditures, in our view, involves wasteful so-called boutique tax credits.

Over the past few few years, the Harper Government had introduced a grab-bag of tax credits for social purposes, such as the Children's Fitness Tax Credit in 2007 and the Children's Arts Tax Credit in 2011. Caledon has written extensively about our concerns with this form of public expenditure.

The 2016 Budget announced the reduction by half of maximum eligible expenses for the Children's Fitness and Arts Tax Credits for this year, with both credits to be eliminated by 2017. The Government contends that its measures for families with children, combined with the new middle class tax cut, will provide these households with additional after-tax benefits of an estimated $14 billion from 2015-16 to 2020-21.

Granted, the expenditure for these individual measures had been modest. Projected spending for 2014 included $130 million for the Children's Fitness Tax Credit and $42 million for the Children's Arts Tax Credit. But adding together several boutique tax measures results in a substantial sum. We have argued that these funds could be applied toward positive social purposes, such as continued poverty reduction and additional social infrastructure investment.

Moreover, non-refundable tax credits mean that individuals must first owe income tax in order to gain any benefit. As a result, these credits leave out households that are too poor to pay income tax and provide a meagre benefit to taxpayers who pay relatively little income tax. Ironically, these are precisely the people who would benefit most from this financial assistance.

In the 2015 Budget, the Harper Government acknowledged this flaw by announcing that the Children's Fitness Tax Credit would be converted to a refundable tax credit – a change that Caledon had recommended. Low-income families with children in approved physical activities would receive their benefit in the form of a cash payment rather than a tax reduction.

But even with refundability, we noted that other design problems remain. Households must first pay for specific goods and services. The Children's Fitness Tax Credit, which was both doubled and made refundable in 2015, still requires the individual to pay in order to play. The up-front payment is a problem for low-income households [Battle and Torjman 2014].

We have argued that it is preferable to invest in recreational infrastructure nation-wide in order to benefit all Canadians rather than pad the pocketbooks of the wealthy. Private households cannot possibly build and maintain through their individual contributions the facilities and programs that communities require.

In addition to design issues, we have raised philosophical questions regarding the provision of non-refundable tax credits for social purposes. Complex challenges like meeting the needs of Canada's aging population, caregivers or persons with disabilities cannot be adequately addressed by reducing the costs of selected households through non-refundable credits, such as the infirm dependent credit, caregiver tax credit or disability tax credit. Scarce public funds are far better spent on making investments that benefit the entire population [Torjman 2015a].

A burgeoning literature is pointing, for example, to the value of recreation for all ages for both physical and mental well-being. It documents the vital role of exercise in helping to remediate and prevent cardiovascular illnesses, neurological conditions and even dementia. Canada is facing an astoundingly high and rising incidence of chronic disease.

Given what we know about the value of active living and recreation, Caledon has called for investment in recreational programs and amenities available to Canadians of all ages and income levels.

Budget 2016 includes recreational facilities and programs as part of its social infrastructure umbrella. We hope to see continued social infrastructure investment in recreation-related community amenities.

The Child Care Expense Deduction is another item that should be scrutinized by the Liberals. Rather than continuing to hold it in place or remove it entirely, the Harper Government actually boosted contribution limits last year by $1,000, making the program even more regressive and disproportionately favouring the well-off.

The measure is not only regressive in terms of its distribution because it provides the greatest benefit in the form of tax cuts to higher-income households. Equally important, its substantial amount – a projected $1.05 billion in 2014 – could be better spent on expanding the supply of high-quality, affordable child care in Canada.

All this to say, the income tax system had evolved, in recent years, into the proverbial dog's breakfast. Canada was spending way too much on special interests and regressive measures.

Budget 2016 at least begins to cauterize this funding bleed. In a tough fiscal context, governments should leave no stone – or boutique tax measure – unturned.

We were pleased to see that, in the coming year, the Government will undertake a review of the tax system to determine whether it works well for Canadians, with a view to eliminating poorly targeted and inefficient tax measures.

We also hope for a remedy to redress the inherent weaknesses in the middle class tax cut.

Middle class tax cut

A tax cut for the middle class was one of the first announcements of the Liberal campaign. Budget 2016 confirmed the promise to reduce the rate on the income tax bracket between $45,000 and $90,000 from 22 percent and 20.5 percent. The Liberals also made a commitment to increase the rate on income over $200,000 from 29 percent to 33 percent.

One implication of the 1.5 percentage point tax rate reduction is that the amount of the tax savings will increase with taxable income in the targeted tax bracket. A taxpayer with taxable income of $45,283 receives no benefit, while a taxpayer with income of $90,563 will get the maximum tax savings of $679.

When the Liberal Party proposed the two income tax changes, it stated that the combined effect would be revenue neutral. Subsequently, the government reported that these changes would result in a deficit of about $1.4 billion in 2016-17.

Recently, the Office of the Parliamentary Budget Officer reported that the estimated cost of the two tax measures would be even greater, about $1.6 billion in in the 2016-17 fiscal year. The cost of the tax savings for higher-income taxpayers is about the same as the estimated revenue loss of $1.6 billion for the two tax measures in 2016.

The resulting tax reductions tend to favour higher-income Canadians. The estimated 1.6 million families making between $48,000 and $62,000 will see their tax bills trimmed, on average, by just $51. By contrast, those making $62,000 to $78,000 will save $117 [Macdonald 2015].

The tax savings rise steadily with family income, to $521 on average for families in the $124,000 to $166,000 range, and $813 for those making $166,000 to $211,000 – in the top 10 percent of Canadian earners. The families that will benefit most from the new measure fall into the upper strata of the middle-class income range.

A critique of the middle class tax break by a former Finance Canada official concluded that the combined impact of the income tax changes and the new child benefit produces several problems [Zuker 2016]. The tax reduction, based on taxable income, is a costly and ineffective method to target the middle class with a tax break.

The middle class tax cut is generally regressive because it gives the biggest tax break to the highest-income taxpayers. The tax reduction has uneven impacts on family units depending on the division of income between earners. The increases in child benefits favour middle-income families, but are regressive with respect to low-income families.

How to remedy these shortcomings? The easiest solution would have been not to proceed with the middle class tax cut and create, instead, a refundable tax credit for low- and modest-income families.[3] But the middle class tax cut is the foundation of the new government's tax policy and, in fact, had already been implemented.

There is a "quick fix" that could help reduce the regressivity of the middle class tax cut. The marginal tax rate in the 26 percent tax bracket (taxable incomes ranging from $90,564 to $140,388) could be raised by 1 percentage point to 27 percent. This change would result in a gradually increasing offset to the $679 tax reduction applying to taxpayers in that range [Zuker 2016].

Budget 2016 proceeded with the original plan. Future federal Budgets should include a remedy to the distributional problem.

Conclusion

The Liberals acknowledged up-front that their wide-ranging promises would require deficit financing. There was no way that current revenues could support their myriad proposed investments. They are now juggling the challenges rooted in both the optics and practical realities of a higher deficit and debt.

But despite the fiscal tightrope, the Liberals know that their social agenda is helping to distinguish them from their predecessors. The fiscal times may be tough. But the political times would be much tougher had the Government retreated too much on its social commitments. Besides, it appears that they truly appreciate the value of social investment.

For the next few years at least, social policy is back!

Endnotes

1. These estimates are based on after-tax Low Income Cut-offs (LICOs). Using the after-tax Low Income Measure (LIM), there were at last count 1,114,000 children or 16.5 percent of all children living on low income.

2. These figures are based on LICOs. The LIM-based results are very different: The poverty rate for total single seniors was 27.1 percent in 2013.

3. Alternatively, the federal government could boost the existing GST/HST credit.

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