CALEDON INSTITUTE OF SOCIAL POLICY

The Down Payment Budget

by

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The Down Payment Budget

The 1997 federal Budget takes an historic step in moving from rhetoric into action on the 1989 Commons' Resolution "to seek to achieve the goal of eliminating poverty among Canadian children by the year 2000."

Child poverty is too deep and pervasive to be eliminated within the next three years. But governments can and must do much more to "seek to achieve" the 1989 Resolution.

The improvements in federal child benefits announced in the 1997 Budget, along with comparable actions by the provincial and territorial governments, promise to create a powerful new weapon to combat child poverty - a National Child Benefit System.

A National Child Benefit System has the potential to be the most important social policy innovation since medicare.

But the 1997 federal Budget is only a down payment, and only from one of the partners: To build a strong National Child Benefit System, both levels of government must continue to work together and must devote additional resources and energies over the next several years.

The true test of the 1997 federal Budget is whether it will prove to have advanced progress in the coming years towards a new National Child Benefit System - one that replaces welfare payments for children with a common system of income support extended to *all* low-income families with children, including the working poor.

Otherwise, the Budget will represent only an incremental improvement to one part of our social security system. While not unwelcome, an increase in the federal Child Tax Benefit in itself will go only a relatively short distance towards tackling the tragedy of child poverty.

Ottawa cannot do it alone. The provinces and territories - which have called for the creation of a National Child Benefit and played an invaluable role in placing it on the federal political agenda - must do their part as well in the months and years to come.

National Child Benefit

federal down payment

The 1997 Budget announces an enrichment and restructuring of the federal Child Tax Benefit. Ottawa will make a substantial down payment on a National Child Benefit System in two installments, at a total cost of $850 million ($250 million of which was announced in last year's Budget) in additional spending over and above the current federal expenditure of $5.1 billion: - restructure the Working Income Supplement from a per family to a per child payment. The maximum benefit will increase from the 1996 level of $500 per family to $605 for the first child, $405 for the second child and $330 for the third and each additional child, effective July 1997. - move to a simplified and enhanced federal Canada Child Tax Benefit which incorporates the amended Working Income Supplement *for working poor families only* into the Child Tax Benefit *for all low-income families*. Effective July 1998, low-income families will be eligible for a maximum Canada Child Tax Benefit of $1,625 for the first child and $1,425 for the second and each additional child. The existing supplement of $213 for each child under age 7 for families without child care expenses will be maintained, bringing the maximum Canada Child Tax Benefit for children under age 7 to $1,838 for the first child and $1,638 for the second and each additional child. Maximum benefits will go to families with net incomes up to $20,921.

The 1997 changes to the Working Income Supplement will add $195 million to the federal child benefits system, benefitting 720,000 families (one-third of them single-parent) with 1.3 million children. In July 1998, when the new Canada Child Tax Benefit comes on stream, another $655 million will be added to the system. As a result, 1.4 million families with 2.5 million children - 44 percent of all families and children currently receiving the Child Tax Benefit - will see an increase in their federal payments, although families on provincial welfare likely will see no increase in their total (i.e., federal and provincial/territorial) child benefits. Families with incomes above $25,921 will continue to receive the same amount of child benefits as they do under the current system. No family's current amount of child benefits will be reduced as a result of the reforms.

Under the present system, the maximum Child Tax Benefit for a low-income family with one child is $1,020. That amount will increase to $1,625 under the Canada Child Tax Benefit in 1998 - a $605 or 59 percent increase. A working poor family which also receives the Working Income Supplement currently gets a maximum total benefit of $1,520 for one child and will see its benefits rise to the same $1,625 as other low-income families (e.g., those on welfare) - a $105 or 7 percent increase.

Maximum benefits for a low-income family that does not receive the Working Income Supplement and has two children will go from $2,040 to $3,050 - a $1,010 or 49 percent increase. For a working poor family with two children that currently qualifies for the maximum Working Income Supplement, federal child benefits will rise from $2,540 to $3,050 - a $510 or 20 percent improvement.

The $850 million increase in federal spending is a serious down payment: It represents 42 percent of the estimated $2 billion infusion of new funds required to finance a mature National Child Benefit System

The Finance Minister went further and stated in his Budget speech that the federal government "will provide additional resources [to develop a National Child Benefit System] - as soon as we can afford it." The federal government can afford it, and must increase its investment over the next several years to build a new child benefit system with the provinces and territories.

building a National Child Benefit System

The federal government currently spends $5.1 billion on the Child Tax Benefit for low-income and middle-income families with children. The provinces and territories deliver in the order of $2 billion to some low-income children, mainly those in families receiving welfare. However, Canada's patchwork of uncoordinated federal and provincial/territorial child benefits is a relatively weak and ineffectual anti-poverty weapon.

The 1997 federal Budget announcement is much more than simply an incremental increase to the Child Tax Benefit. This reform represents a significant financial commitment on the part of the federal government to begin the construction - in close concert with the provincial and territorial governments - of a new National Child Benefit System that will better serve all low-income families with children.

A National Child Benefit will replace the mixed bag of apples-and-oranges federal and provincial/territorial child benefits with a harmonized system that will provide *all* low-income children within each province and territory a similar level of benefits. Welfare payments for children, which are expensive to administer as well as stigmatizing to their recipients, eventually would be replaced by more efficient, non-stigmatizing, income-tested programs for all low-income families with children in every province and territory - whatever their major source of income (employment, social programs such as welfare or Employment Insurance, or some combination thereof).

A National Child Benefit System will go a long way to breaking down the 'welfare wall' that results in working poor families receiving smaller child benefits than families on welfare. Families on social assistance no longer would receive child benefits from welfare, but rather from an income-tested system outside the welfare system. Working poor families would receive their child benefits from the same system, and would enjoy a significant increase in payments.

A National Child Benefit will be neither a federal nor a provincial/territorial program, but rather a system jointly created and operated by both levels of government. The federal government will provide a common foundation of benefits for all low- and middle-income families with children. The provinces and territories will build upon the federal foundation their own geared-to-income child benefits for poor families tailored to each jurisdiction's needs, priorities and resources.

In theory, a National Child Benefit could be a uniform program providing the same benefits to all low-income families with children - a sort of super-Child Tax Benefit. In reality, benefits are likely to vary from one province and territory to another. While the federal government will provide a uniform foundation, total child benefits will vary somewhat across Canada to the extent that each province and territory designs programs with different benefit levels and structures.

provincial child benefit initiatives

The improvement in federal child benefits announced in the 1997 Budget advances the work already under way jointly by both levels of government to create a National Child Benefit System. Moreover, several provinces already have launched or have announced significant child benefit initiatives which will move Canada closer to the goal of a National Child Benefit System:

- British Columbia was the first province to replace welfare benefits for children with an income-tested program - the BC Family Bonus - for all low-income families, whether they are on welfare or in the workforce.

-Alberta has announced the Alberta Family Employment Tax Credit to supplement the earnings of working poor families with children.

- Saskatchewan has proposed two new programs - the Saskatchewan Child Benefit that would replace welfare benefits for children and extend income support to the province's working poor families with children, and the Employment and Maintenance Supplement to bolster employment earnings and child support payments.

- Quebec is undertaking a major redesign of its child-related benefits as part of its new family policy. An integrated child allowance payable to all low-income families with children, including the working poor, will provide for the essential needs of low-income children. The new program will replace welfare benefits for children and Quebec Family Allowances. The Parental Wage Assistance Program will continue in modified form.

- New Brunswick will introduce the New Brunswick Child Tax Benefit and Working Income Supplement.

far-ranging advantages of a National Child Benefit

A National Child Benefit cannot in and of itself cure the scourge of child poverty: The problem is too complex and too deeply-rooted in Canada's economy and society to admit to single or simple solutions. But a National Child Benefit System can be a powerful weapon against child poverty and promises a number of economic and political advantages that extend beyond the realm of social policy:

- reduce the depth of poverty among working poor families with children and, over time, ease Canada's high rate of child poverty

- remedy the unequal treatment of welfare families (which get both provincial and federal income benefits for their children) and working poor families (which generally receive federal child benefits only) by providing similar levels of child benefit to all low-income families in each province and territory, regardless of their source(s) of income

- help break down the 'welfare wall' that prevents many families from moving off social assistance and into the workforce. Parents on welfare who manage to find a job must contend with the loss of thousands of dollars in cash benefits (and in some cases supplementary health care) for their children; incur employment-related expenses (e.g., child care, transportation and clothing) which some welfare systems cover to encourage recipients to take part-time work; and have their wages reduced by income tax, Canada Pension Plan or Quebec Pension Plan contributions and Employment Insurance premiums

- bolster and complement minimum wage policy, since wages (including minimum wages) do not adjust for family size

- provide a significant economic incentive for working poor parents to remain in the labour force rather than turning or returning to welfare

- begin the process of dismantling the stigmatizing and unpopular welfare system by replacing welfare for children with a new program serving all low-income families with children, which over time will win more political support for improving benefits and thus further reduce child poverty

- provide a solid foundation of income security benefits for low-income families with children to complement child-related health and social services

- harmonize the current complex, inefficient system of uncoordinated federal and provincial income benefits for children

- increase the purchasing power of low-income families with children, stimulating consumer demand and thus employment; in economic downturns, act as an 'automatic stabilizer' to help maintain consumer demand and ease the severity of recession

- by working together as equal partners to develop and co-manage a National Child Benefit System to combat one of Canada's most enduring social and economic problems - child poverty - Ottawa and the provinces will demonstrate that federalism can be made to work better

- a National Child Benefit System could be flexible and asymmetrical, respecting provincial differences and Quebec's demands for a strong role in its own social policy, yet at the same time strengthening a key federal role in social policy.

work has only begun

The Caledon Institute's strong support for the 1997 Budget's changes to federal child benefits is fully consistent with our past considerable work in this area. Caledon is a principal proponent and architect of the National Child Benefit.

In 1993, Caledon proposed a National Child Benefit as one of the major ideas for social policy reform in a report commissioned by the Minister of Human Resources Development Canada. In 1994, we were instrumental in persuading the federal government to include the idea in its discussion paper, *Improving Social Security in Canada*. The Caledon Institute was the first to publish a costed proposal for a National Child Benefit in our 1994 study *One Way To Fight Child Poverty*. We welcomed the provinces' and territories' call in their 1995 *Report of the Ministerial Council on Social Policy Reform and Renewal* for the federal government to work with them in building a National Child Benefit System.

The 1997 federal Budget is a big step - but only one step - towards a National Child Benefit System. Much work remains to be done, by both levels of government, individually and together. **A strong and effective National Child Benefit System must meet a number of tests and requirements**, including:

- additional investments are required over the next several years by both the federal and provincial/territorial governments to reach the estimated $2 billion or more (over and above current combined spending of approximately $7 billion) to fund a mature National Child Benefit System

- by increasing the national base, the federal government will free up resources that the provinces/territories currently spend on welfare for children. All provinces and territories, in turn, must re-allocate these savings to help fund their own programs for low-income families with children such as income-tested child benefits, earnings supplements and related services like pharmacare and child care

- neither welfare families nor middle-income families should lose income security benefits (e.g., as a result of financing improvements to child benefits by reducing welfare benefits for adults or Canada Child Tax Benefit payments to middle-income families)

- working poor families should see substantial increases in child benefits to raise them to the level of welfare families' child benefits - eventually, welfare benefits for children should be fully replaced by income-tested benefits serving *all* low-income families with children - families on welfare, Employment Insurance or in the workforce

- both levels of government should fully index their child benefit programs (both benefits and thresholds) to protect them from inflation

- both levels of government must make publicly available data and other information required for social groups and non-governmental experts to independently monitor and evaluate progress towards a National Child Benefit System, and should create an institutional mechanism whereby such groups' views can be made known to policy-makers, administrators and the media

- a National Child Benefit System is one essential element of a broader strategy to combat poverty in Canada: The 1997 Budget also announced $100 million in increased funding over the next three years for Health Canada's Community Action Program for Children and the Canada Prenatal Nutrition

Program. The federal and provincial/territorial governments, in concert with children's groups and other social organizations as well as representatives of business, labour and the educational system, should develop a comprehensive policy framework laying out a wide range of public and private actions to fight child poverty.

Persons With Disabilities

In the Summer of 1996, the federal government appointed a Task Force on Disability Issues to explore the many and diverse issues around which action could be taken to improve the lives of persons with disabilities. In its October report, the Task Force put forward 52 recommendations for legislative reform and for changes to the federal approach to disability issues, labour market integration, disability income programs and the tax treatment of disability-related costs. There was also a special set of recommendations pertaining to aboriginal Canadians with disabilities.

This is not the first federal report on disability. There have been many since 1981, the International Year of Disabled Persons, that have set out clear roles and recommendations for federal initiatives. Today's Budget announces some modest disability-related measures worth a total of $100 million.

Opportunities Fund

The Vocational Rehabilitation of Disabled Persons (VRDP) Act will be extended for one more year. VRDP is the only remaining 50-50 federal-provincial cost-sharing arrangement. This act allows Ottawa to match provincial investments in vocational rehabilitation services.

The Budget introduces a new Opportunities Fund worth $30 million a year for three years. The Fund is intended to promote the development of strategies to reduce barriers to participation.

While this measure is a positive development, we would hope that it will not be used for further research on this issue. The problems with respect to barriers to training, employment and independent living in communities have been studied exhaustively and documented in countless federal reports. The money should be directed towards concrete initiatives spearheaded by groups of persons with disabilities that can invest the money directly in their work as well as use it to lever additional resources from the community, provinces and the private sector. The federal government should commit resources to the documentation and dissemination of successful projects to ensure that the learning is widely shared.

Caledon *is* concerned, however, that the labour market agreements which Ottawa is currently negotiating with the provinces include no disability requirements or designated targets. **The federal government is missing a crucial opportunity to encourage and support the development of employment programs for persons with disabilities.**

tax measures

The Budget also announces several tax measures worth $70 million for Canadians facing significant medical costs. Audiologists will now be permitted to carry out certification for eligibility for the disability tax credit. The medical expense tax credit will be expanded to allow certain items that formerly had been excluded from consideration. These include 50 percent of the cost of an air conditioner required for severe chronic ailments; the expenses incurred for moves from inaccessible to accessible housing; 20 percent of the cost of a van that is adapted or will be adapted within six months for the transportation of an individual using a wheelchair, up to a maximum $5,000; sign language interpreter fees; and reasonable expenses relating to alterations of the driveway of the principal place of residence of an individual with a severe and prolonged mobility impairment, to facilitate access to a bus. These small, but important, improvements will ease the cost burden of certain disability-related goods and services for many Canadians.

The Budget also doubles from $5,000 to $10,000 the limit on part-time attendant care expenses. It eliminates entirely the $5,000 limit on the deduction for attendant care expenses currently available for disabled earners. These measures no doubt will provide additional tax relief for those able to pay these costs on their own. While we support these changes, we are also concerned that these tax enhancements could provide an incentive for provinces to reduce their spending on attendant care services.

In addition, the Budget announces that the existing medical expense tax credit will be supplemented by a refundable tax credit for low-income working Canadians with high medical expenses. The maximum credit will be the lesser of $500 and 25 percent of eligible medical expenses. Individuals must have at least $2,000 in earnings to qualify. The measure will also be targeted to those with very low incomes; the benefit will be reduced by five percent of net family income in excess of $16,069.

This new supplement is intended to recognize the fact that many people with health-related expenses do not derive any benefit from the current medical expense tax credit because it is non-refundable and therefore of no value to persons too poor to pay income tax.

However, the new measure will apply only to those who are working. This assistance is important because employed individuals may not be eligible for many health-related goods and services available through provincial welfare systems and must pay these costs on their own. But the measure will be of no benefit to recipients of private pensions or the CPP disability benefit who also must pay these (often very high) costs with no outside help. Moreover, the refundable supplement will apply to all Canadians who claim the medical expense tax credit - far more than simply persons with disabilities.

might-have-beens

Ottawa could have moved further in recognizing disability-related costs. The Task Force on Disability Issues had recommended that, for the 1998 tax year, a disability expense credit should be introduced to replace the current disability tax credit and the medical expense tax credit. The federal government could have removed the taxable status of the Special Opportunities Grants for students with disabilities under the Canada Student Loans Program. The Finance Minister could have announced a commitment to carry out a regular review of the medical expense credit to ensure that the goods and services which qualify as deductions are keeping pace with scientific and technological changes.

Moreover, if the federal government truly had wanted to provide work incentives for persons with disabilities, it should have supported the Task Force's recommendation for a refundable Work Income Supplement worth $1,000 for those eligible for the disability tax credit or could have introduced an employment expense credit for disability-related equipment and services.

There were many other areas in which Ottawa could have moved to respond to the Task Force recommendations. It could have designated a Minister or Secretary of State with Responsibility for Disability Issues. This position would help ensure that the wide range of issues which affect persons with disabilities - including human rights, employment, income, communications and transportation - are effectively coordinated.

Ottawa could have announced that it was taking the leadership to begin a dialogue with the provinces on the problems associated with disability income programs. In their *Report of the Ministerial Council on*

Social Policy Reform and Renewal, the provinces called for discussions on an integrated system of income security for persons with disabilities. **The federal government should respond to this invitation for dialogue**.

Even if the government did not move in any of these areas, it could have stated its intention to keep alive the vision sparked by its own Task Force report. The report made clear that persons with disabilities want a government that demonstrates vision and leadership - that expresses common principles and values on disability issues. While we fully support all the disability-related measures put forward in the Budget, they can be considered only a modest down payment relative to the wide range of areas in which Ottawa could have and should have acted.

We were heartened, however, by the proposed Budget measures to renew the federal commitment to medicare and to support pilot projects that would explore better ways to provide home care and medically necessary drugs. Improvements in these areas will be of immeasurable value to persons with disabilities.

Health

In January 1997, the National Forum on Health Care released its final report entitled *Canada Health Action: Building on the Legacy*. The report presents a wide range of recommendations for ensuring the future well-being of the health care system, and, more importantly, helping Canadians to become and stay healthier.

Caledon believes that a continuing strong federal role is absolutely crucial to protect medicare. This role is once again confirmed by the federal government in this Budget. But that does not mean that the status quo is acceptable.

Like the National Forum, we believe the time has come to begin the expansion of medicare to encompass all medically necessary services, including prescription drugs and home care services. We also support increased and urgent investment in early childhood programs, good parenting and other programs to address the crucial first years of development that are so critical in determining future health as an adult. In this Budget, Ottawa has taken a small and tentative step towards beginning the long multi-year job of implementing the recommendations of the National Forum on Health.

The Budget's Health Transition Fund of $150 million over the next three years is a modest start towards enhancing the medicare system. The Fund will be used to support pilot projects investigating "new and better approaches to health care" possibly including "better ways to provide medically necessary drugs and home care." The pilot projects represent only a small amount of money in a system which costs many billions of dollars. However, new money dedicated to exploring the enhancement of medicare has been very scarce. If the funds are indeed used for this purpose, they may be able to lever large changes far out of proportion to the modest sums involved.

The new funds for children's programs (the Community Action Program for Children and the Canada Prenatal Nutrition Program) are welcome, although $100 million over three years is again extremely modest given the urgency of the need. However, the National Child Benefit System, when fully put in place also will free up hundreds of millions of dollars more for provinces to put into children's programs, so together these initiatives may begin to have some real impact on Canada's children.

Perhaps as important as the specific health initiatives is the federal government's determined efforts to work cooperatively with the provinces on the health agenda, just as they have been working cooperatively in regard to the National Child Benefit. Like it or not, Canada's health care system is now inextricably a federal-provincial system and, increasingly, an interprovincial system as well. If we are ever to see real improvements in medicare, they will happen only by the provinces and territories working together with the federal government.

By stating clearly that the Transitions Fund will be allocated on an "equal-per-capita basis, with decisions...made jointly by Canada's ministers of health," Ottawa has taken an important step towards a much better and more equitable way of working with the provinces. The federal government has relinquished the role of the big sugar daddy making bilateral deals with provinces willing to toe its line. Instead, the Transitions Fund will be a cooperative venture with pre-established allocations. Now the ball is in the provinces' court, and they must show that they can rise above parochial interests and use the Fund to meet the national goal of improving medicare.

Job Creation

The Budget includes $255 million over two years for a Youth Employment Strategy. This is an important program given the 17 percent overall youth unemployment rate, which is even higher for young people who have not finished high school. The program is expected to produce thousands of summer jobs and internships for young people - only a small, but nonetheless welcome, start.

We recognize that the private sector is the primary engine of job creation. In the case of youth, however, there is substantial room for more public investment in job creation initiatives to help provide young people with work experience and hone their skills for future jobs or self-employment. While we are concerned about providing assistance for youth who lack education and skills, we nonetheless support the government's investment in the high-skill segment of the labour market - an area that must be grown in the knowledge economy.

Similarly, we support the infrastructure program to upgrade research facilities at teaching hospitals and universities. This is an important investment in the high-wage economy.

The additional $425 million (for a total of $600 million in 1997-98) to extend the existing infrastructure program is also a positive measure. The extra spending recognizes that the roads, sewers and bridges of the country need to be refurbished to sustain the health of local economies.

But we have heard concerns from organizations representing women that little of the money directed towards this form of infrastructure financing has helped generate employment for women. Caledon encourages the federal government to ensure that projects supported with this money provide sufficient opportunities for women. In addition, public funds used for infrastructure programs must include projects that promote accessibility for persons with disabilities - a recommendation put forward by the Task Force on Disability Issues.

As the government itself has recognized, the notion of infrastructure means far more than the physical 'hardware' of communities. Local communities require investment in their economic and social infrastructure to build their capacity for revitalization and self-reliance. The federal government can help build this capacity by supporting excellence and investment in the social economy.

In its December 1996 report, the Finance Committee recommended that consultations be undertaken by Revenue Canada and that clear guidelines be established to ensure that support for community economic development is considered a valid charitable purpose. We would have liked to have seen the Budget include a commitment to pursue this measure.

The Budget also proposes that the ceiling for the Small Business Loans Act be raised from $12 billion to $14 billion to support the financing of small business. This represents far too modest an amount, given the fact that loans for small businesses, in particular, represent a small proportion of overall lending.

Charitable Donations

The Budget reduces the income inclusion rate on capital gains of gifts to charitable organizations other than private charitable foundations. Prior to the Budget announcement, taxpayers who made a gift of capital property that had increased in value, such as company shares, real estate or works of art, had to pay tax on the capital gains - i.e., the difference between the previous value of the property and the value when it was donated.

There is precedent for the new capital gains exemption in the US - which allows an exemption from capital gains tax on gifts of appreciated securities or real estate. The introduction of this measure in 1984 resulted in a dramatic growth of American foundations.

In preparation for the Budget, Ottawa had been exploring a range of possible tax breaks to promote charitable giving. The cuts that took effect in April 1996 as part of the Canada Health and Social Transfer (CHST) are now working their way through provincial capitals and, in some cases, local governments. The cumulative impact from cuts at all levels are being felt in health care, postsecondary education, welfare and social services. The federal government recognizes that it can temper the impact of the problem it helped create by encouraging private donations to health, education and social agencies.

The Budget announcement follows the recommendations of the Voluntary Sector Roundtable which had proposed the exemption on capital gains directed towards charitable organizations. The Standing Committee on Finance carried forward this proposal in its December 1996 report to Parliament.

The Caledon Institute supports the tax exemption in recognition of the need to sustain and enhance the voluntary sector. The fact that the gifts can take only the form of securities listed on prescribed stock exchanges will reduce problems in the valuation of these properties. But this exemption must be carefully enforced to prevent its misuse for tax avoidance purposes. Moreover, a five-year sunset period is too long to wait for taking action if this measure proves unworkable or ineffective.

We are also concerned that this measure will primarily assist large organizations, such as hospitals and postsecondary educational institutions, which admittedly require substantial sums to maintain their physical plant. Yet the measure will do little to help smaller social service agencies and charitable organizations, many of which operate on shoestring budgets and receive most of their funding from smaller donations. The second proposal of the Voluntary Sector Roundtable would have helped respond to this problem.

The second measure has been called the 'stretch' initiative. It refers to a higher tax credit on donations that exceed the taxpayer's or spouse's maximum contribution to a charitable organization in any prior year. Revenue Canada could advise taxpayers annually of their threshold for this credit on their Notice of Assessment, as they now do regarding RRSP limits.

The purpose of the stretch initiative is to encourage charitable giving by 'smaller donors,' whose contributions generally are directed towards smaller social service and community agencies. Their contributions would be encouraged by rewarding incremental donations.

The federal government has taken an important step by supporting charitable giving through the capital gains exemption. But there are areas in which it could have moved further - such as the stretch initiative - to ensure more widespread support for a broader range of voluntary organizations. The Budget identified the potential problems in this measure; we would encourage the Finance Department to develop alternative solutions.

Fiscal Policy

Like all Canadians, we are pleased to see the deficit falling. The Finance Minister and the government deserve credit for getting public finances under control. But this does not mean that even lower deficit targets are now justified. The Canadian economy needs the {\i right }dose of medicine, not an ever-increasing dose. If fiscal policy is too tight, it can have as negative an effect on the economy as a high deficit.

We support the government's deficit target for 1997-98, as set out in the March 1996 Budget Plan and, rhetorically at least, reaffirmed in this Budget. The target was "2 percent of GDP, or $17 billion, for 1997-98." (In fact, this target is even tougher than it sounds. If calculated on an internationally comparable basis, this deficit target is actually about $6 billion or 0.7 percent of GDP, the lowest level among all G-7 countries.) This was an ambitious but sensible path to deficit reduction, without turning the screws too tight.

However, the 1997 Budget has clearly overstated the expected deficit for 1997-98. Having overestimated the 1996-97 deficit by at least $5.3 billion, there is every reason to expect that the Finance Minister will once again substantially 'overestimate' the 1997-98 deficit. Overestimating once is a mistake, twice is a plan.

According to the 1997 Budget, total revenue will increase by only 1.7 percent in 1997-98, despite expected growth in GDP of 4.7 percent. The Contingency Reserve has been increased from $2.5 to $3.0 billion. The Budget's economic assumptions are substantially more conservative than those of the private sector. As a result of these and other factors, knowledgeable observers are expecting the actual deficit for 1997-98 to be several billion dollars or more lower than set out in the 1997 Budget.

Whether it is acknowledged or not, the *real* deficit targets have therefore now been reset. They are the unstated but much lower new targets that are the actual expected outcomes of this Budget. The 1997 Budget fails to adjust spending or revenue in order to stick to the previous fiscal plan. The result will be a slower decrease in unemployment and a reduced ability to finance social reconstruction and needed public investment.

Most people will assume that if getting the deficit down is a good idea, then getting it down even more quickly must be better. But if two hours at 350\'b0 makes a perfect cake, this does not mean that one hour at 700 degrees is just the same except faster. The result instead is one burnt cake.

The objective of fiscal policy must be to reduce and eventually eliminate the deficit with the minimum economic pain possible. This means leaving room for some economic growth, recovery of incomes and progress against unemployment and poverty.

By setting actual deficit targets even lower than in the 1996 Budget, the Minister of Finance will be dampening economic activity below the levels necessary to achieve reasonable fiscal goals. While we have made much progress on the deficit, Canada has managed to reduce unemployment rates by about only two percentage points over the whole period of economic recovery - from 11.3 percent in 1993 to

9.4 percent in 1996. Moreover, much of the burden of our fiscal policy has fallen on the poor and unemployed, cuts in social transfers to the provinces and the territories, reductions in Unemployment Insurance and cuts in social programs at the provincial level. What is needed is better balance between the two objectives of reducing the deficit and reducing unemployment.

The Finance Minister should, indeed, have stuck to his targets - namely, the ones he set out in last year's Budget and pretended to establish for this year's Budget. That would allow the federal government to make a larger investment over the next few years in building an effective National Child Benefit System with the provinces and territories, improving supports for persons with disabilities, beginning the enhancement of our medicare system and financing other vital initiatives required to refurbish and strengthen Canada's social programs.

Conclusion

The 1997 Budget makes a substantial down payment towards a National Child Benefit System, modest improvements in disability-related measures and a renewed commitment to medicare, amongst a variety of worthwhile initiatives. But the federal government must follow through next year and in the years to come on the Finance Minister's commitment "to provide additional resources - as soon as we can afford it" to build the National Child Benefit. The same can be said for the other investments announced in this Budget.

Ottawa is ahead of its deficit-reduction target by $5 billion in 1996-97. Its four Budgets between 1994 and 1997 will cut in total an estimated $78 billion from federal program spending between 1994-95 and 1998-99. It's time to reinvest.

March 1997