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## **Pre-Budget Submission**

**Submitted to:  
House of Commons Standing Committee on Finance**

**Submitted by:  
First Call: BC Child and Youth Advocacy Coalition**

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This submission includes:

Executive summary  
Introduction  
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First Call appreciates the opportunity to submit this brief and we would be pleased to appear before the Standing Committee on Finance should they hold hearings in Vancouver.

## **EXECUTIVE SUMMARY**

First Call: the BC Child and Youth Advocacy Coalition is a coalition of provincial and regional organizations, smaller groups, individuals and mobilized communities that share the common belief that children and youth should have “first call” on the resources of government.

Given the “graying” of our population, First Call believes that our future prosperity will be greatly influenced by how Canada promotes the best outcomes possible for all of our children.

We recommend the following federal tax and program spending measures to the Committee to bolster Canada’s future prosperity.

- Establish a poverty reduction strategy with the target of reducing child poverty by 25% by 2012 and by 50% by 2017.
- Increase the Federal minimum wage to at least \$10 an hour (in 2005 dollars) and increase the minimum wage annually by at least the annual increase in the cost of living. Advocate that the provinces do the same.
- Increase the total Canada Child Tax Benefit to \$5,100 per child 18 and younger and ensure that the entire benefit goes to all families regardless of their source of income.
- Increase federal government funding for the construction and operation of 25,000 new social housing units for each of the next 5 years.
- Increase federal government funding for a pan-Canadian system of regulated community-based child care for children less than 12 years of age.
- Make post-secondary education affordable for all who qualify by requiring a freeze on tuition fees as a condition of additional federal funding to post secondary institutions.
- Change the personal income tax system to make it substantially more progressive and review wasteful tax expenditures - including for example the practice of providing tax deductions rather than tax credits for contributions to registered retirement savings plans.

## **INTRODUCTION**

First Call: BC Child and Youth Advocacy Coalition is a coalition of provincial and regional organizations, smaller groups, individuals and mobilized communities that share the common belief that children and youth should have “first call” on the resources of government.

The Committee’s title for this year’s consultation concerns “the tax system the country needs for a prosperous future”. While several questions are asked about the balance between individual and corporate tax levels, the paper requesting submissions does not define what is meant by “prosperous”, thus assuming that there is a common understanding of what a prosperous future would look like.

## **WHAT IS PROSPERITY**

Prosperity often refers to being successful, especially in terms of earning or producing great wealth. For others, prosperous means being successful or producing good results. One view of prosperity would look at how well off individuals are financially. Thus, a primary measure of prosperity would be GDP per person. We would suggest, however, that GDP per person is a rather weak or simplistic measure of a prosperous country.

In our view, a prosperous country would not only have a high level of GDP per person but would also have a host of other positive outcomes such as low infant mortality rates, low crime rates (especially murders), high years of life expectancy, and high scores in literacy and numeracy. And we believe that all countries strive for such positive outcomes.

A recent report by Neil Brooks and Thaddeus Hwong would provide interesting reading for the Committee. They provided data from the OECD and the World Economic Forum to compare outcomes in OECD countries. They wanted to examine if relatively high taxing countries had similar or different economic and social outcomes compared to relatively low taxing countries.

The first thing we learn is that there is no direct relationship between levels of taxation and economic competitiveness. The very high taxing Nordic countries (Finland, Denmark, Norway and Sweden) rank higher on the World Economic Forum’s Global Competitiveness Index than the US (a very low taxing country) even though the US has a higher GDP per person. All five, however, rank in the top 10 countries in terms of global competitiveness. Canada, on the other hand, was ranked 16<sup>th</sup> in the latest report.

There were however noticeable differences in other key outcomes reported by Brooks and Hwong. Perhaps most helpful for the Committee are the comparisons between Canada, the US and Finland as shown in Table 1.

**Table 1**  
**Outcome Measures of Prosperity**

<b>Measure</b>	<b>Canada</b>	<b>US</b>	<b>Finland</b>
Life Expectancy Males	77.2	74.5	75.1
Life Expectancy Females	82.1	79.9	81.8
Infant mortality per 1,000 live births	5.4	6.9	3.1
PISA Scores - Reading	528	495	543
PISA Scores - Science	519	491	548
PISA Scores - Math	532	483	544
Homicides per 100,000 population	1.5	7.1	2.5
Poverty Rates – all	10.5	17.1	6.4
Child Poverty Rates	13.6	21.7	3.4
Elderly Poverty	4.3	24.6	10.6
Ratio richest 10% to poorest 10%	10.1	15.9	5.6
Number of billionaires	23	419	0
Annual Average Tax Revenues as a percentage of GDP	35.7	28.0	46.2
Global Competitiveness Ranking	16	6	2

Source: Findings as reported in Neil Brooks and Thaddeus Hwong, December 2006. The Social Benefits and Economic Costs of Taxation; A Comparison of High- and Low-Tax Countries except for the number of billionaires see: [http://www.forbes.com/lists/2007/10/07billionaires\\_The-Worlds-Billionaires\\_CountryOfCitizen.html](http://www.forbes.com/lists/2007/10/07billionaires_The-Worlds-Billionaires_CountryOfCitizen.html)

The outcomes in table 1 are similar for the three other Nordic countries. Sweden had the highest tax rates at 50.5% of GDP. At the same time, there were 8 billionaires in Sweden. Sweden therefore, had a slighter higher ratio of billionaires per 100,000 population (0.089) compared to Canada (0.072).

The findings in Table 1 show that Canada does well on some measures but has room for significant improvement in others. For example, Canada does very well in terms of the poverty rate for seniors but has a high rate of child poverty. Finland does well on almost all the measures affecting children. They have the lowest infant mortality rates by a significant margin compared to Canada and the US and they have the highest reading, science and math score on the PISA tests.

The US, on the other had, does poorly on all of the health and social measures having lower life expectancies, higher infant mortality, significantly higher homicides, the lowest reading, science and math scores, and significantly higher poverty rates of the three countries. The US does have the lowest annual average tax revenues, has the most billionaires (0.139 per 100,000 population), and the highest ratio of incomes between the richest and poorest 10% of the population.

The populations in all three countries, of course, are graying. We would therefore argue that future prosperity would be greatly influenced by how Canada promotes the best outcomes possible for all of our children. In this regard, it may be wisest to follow the outcomes of Finland and the other Nordic countries, compared to the United States.

## **WHAT WE NEED TO DO**

While Canada has been exemplary in how it has addressed poverty among seniors, we have a long way to go before the same is the case for children. Poverty among seniors was dramatically reduced because there was the political commitment to do so. Canada therefore needs the political commitment to reduce and eventually eradicate poverty among our children. A commitment begins with a plan, and the plan should have firm and measurable targets that it hopes to achieve. For example, the United Kingdom has made the eradication of child poverty a driving vision for the future of the UK. The 1999 UK initiative targeted a 25% reduction in child poverty by 2004 (largely achieved) and a 50% reduction by 2010. They have also set a long-term goal of being among the lowest two or three countries by 2020 (which would mean child poverty levels at or below the Nordic countries).

The Provincial Governments would also need to become involved if Canada were to strive to achieve similar results. Fortunately, both Quebec and Newfoundland and Labrador have poverty reduction strategies in place that can be built upon. Other provinces have also started individual initiatives that can be built upon.

The following recommendations would improve the life chances of all of Canada's children:

### **Recommendation:**

**Establish a poverty reduction strategy with the target of reducing child poverty by 25% by 2012 and by 50% by 2017.**

Meeting the poverty reduction targets will require several specific policies:

### **Recommendation**

**Advocate that the minimum wage be raised to at least \$10 an hour (in 2005 dollars) in all jurisdictions, including the federal jurisdiction, and that the \$10 wage be indexed annually to increases in the cost of living.**

While the economic growth in Canada has been impressive, and particularly so in provinces with gas and oil reserves, that growth has not been fairly distributed.

The purchasing power of the minimum wage has fallen dramatically since the mid 1970s. Even the current BC minimum wage of \$8 an hour (established in 2001) is not enough to get a single person working full time for the entire year above Statistics Canada's pre-tax low income cut-off for a large city. While most Canadians already enjoy the benefits of indexing in terms of federal government benefits and income tax brackets, minimum and low-waged workers do not. Minimum-wage workers deserve the benefits of indexing as well.

Since most minimum wage workers are covered by provincial legislation, the Federal government will need to advocate that the provincial governments adopt similar minimum wage legislation.

### **Recommendation**

**Increase the total Canada Child Tax Benefit to \$5,100 per child 18 and younger and ensure that the entire benefit goes to all families regardless of their source of income.**

An improved minimum wage on its own will not meet all of the financial needs of families. A single parent with one child working full-time full year at a \$10/hour minimum wage would still require at least \$5,100 to reach the low income cut off (LICO) in a metropolitan area. The three current income support programs (CCTB, NCBS, and UCCB) should all be combined into one refundable tax benefit following the thresholds and reduction rates of the current CCTB. The amount of the benefit and the threshold for reductions should be adjusted annually to account for changes in the cost of living (CPI).

### **Recommendation**

**Increase federal government funding for the construction and operation of 25,000 new social housing units for each of the next 5 years.**

One of the main financial hardships facing lower-income workers is the high cost of housing in expensive markets. We acknowledge the funding committed by the federal government, but we believe much more needs to be done.

### **Recommendation**

**Commit funding over 5 years to the development of a quality pan-Canadian system of regulated, community-based child care. The funding should be sufficient such that, along with provincial matching funds, at least 80% of the cost of child care will be publicly funded and 20% or less will be based on parent fees or parent fundraising.**

Given that the majority of low-income families are in the labour market, families with children require access to quality, regulated, community-based child care.

The Nordic countries spend on average over 1.5% of GDP on early learning and child care compared to Canada which spends only 1/5<sup>th</sup> that amount (less than 0.3% of GDP). The shortsightedness of not having a pan-Canadian child care system, first promised almost 20 years ago by the then Conservative government may affect the long term prosperity for Canada.

Unfortunately, the Canadian debate about child care has been reduced to either money for parents or money for programs when in fact both are needed. Parents of children need financial assistance and many children and their parents need a quality regulated child care system.

## **Recommendation**

### **Require provinces and post-secondary institutions to freeze the cost of education to students as a pre-condition to any increases in federal funding.**

Opportunities for post secondary education leave much to be desired. Current costs for post secondary education may be discouraging young people from pursuing life-long learning.

## **THE TAX SYSTEM**

A review of OECD tax systems data shows that there is great variation in the specific components that each country uses. Canada, for example has relatively low social security taxes (EI and CPP) and one of the lowest individual upper marginal tax rates compared to other countries. Denmark obtains a much larger percentage of its public revenue from personal income tax compared to other Nordic countries but has social security taxes even lower than Canada's. The Nordic countries have much higher value added taxes (sales taxes) compared to most other OECD countries. But the data shows that there is no formula of specific tax measures that is highly linked to the outcomes shown in Table 1.

FAIRNESS would be the overriding criteria we would use in designing a tax system. To First Call, fairness means that persons or families or corporations in similar situations pay similar taxes and that the amount of taxes is based on an ability to pay. For example, having the refundable GST tax credit for persons with low and modest incomes makes the GST a fairer tax. Canada most of the time meets this notion of fairness with some notable exceptions.

We do not believe that Canadians are taxed too heavily, but we do believe there is a need to make our tax system much more progressive. Most of the income tax cuts of recent years, beginning with those announced in the 2000 federal budget and subsequent mini-budget, lavished tax cuts on the very richest Canadians. The elimination of the high-income surtax alone provided a huge windfall to the very richest taxpayers and greatly reduced the fairness of the tax system overall.

First Call would support efforts to redress these excesses. Possible new measures might include an increase in the current top tax bracket rate of 29 percent or the creation of additional brackets like the top bracket of 35 percent in the United States income tax system.

More attention needs to be given to eliminating wasteful tax expenditures and thereby increasing revenues. Just to give the committee one small, but costly example, Canadians who make contributions to registered retirement savings plans still receive tax deductions for their contributions, even though the bulk of the deductions in the federal income tax system were converted to tax credits many years ago. That means a wealthy person gets a federal tax break worth \$290 for every \$1,000 in RRSP contributions, while a low-income person gets a break worth \$155 for every \$1,000 in contributions - assuming this person could afford to make contributions.

Based on the latest available taxation statistics, we calculate that switching to tax credits for

RRSP contributions would save the federal treasury roughly \$1.7 billion a year and make the tax system fairer at the same time.

First Call realizes that, all things being equal, Canadians would prefer to pay lower taxes rather than higher taxes, but we believe most Canadians also understand the need for fair taxation. That means levels of taxation which are based on ability to pay and which are sufficient to provide people with the full range of public services that they require over the course of their lives.

## **Recommendation**

**Change the personal income tax system to make it substantially more progressive and review wasteful tax expenditures - including for example the practice of providing tax deductions rather than tax credits for contributions to registered retirement savings plans**

The federal, provincial and territorial governments demonstrated their commitment to providing essential public services to seniors more than a generation ago with the creation or enhancement of a wide range of government programs, including the federal Guaranteed Income Supplement, the Canada and Quebec Pension Plans, subsidized housing for seniors, and medicare, the system that shelters seniors and all other Canadians from the catastrophic health care costs that have wreaked havoc in the U.S. The end result of Canadian programs has been a dramatic increase in the well-being of seniors and a dramatic decline in poverty among seniors.

The same results are possible for families with children, but only with the same degree of commitment by governments. We believe the 2008 federal budget provides a golden, if belated opportunity for renewing the 1989 commitment to ending child poverty. Improving the life outcomes of **all** children will help ensure a prosperous future for Canada.