

Federal budgets and equality in Canada

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The discussion of equality generally centres around income distribution. But the concept of equality, or its opposite, inequality, is much broader, including equality with respect to economic security, availability of health care, and educational opportunities. Recent federal budgets have affected current trends in equality in all four areas.

INCOME EQUALITY

Income distribution is affected by trends in market income (employment earnings and investment income), government transfers, and taxes. Market income inequality for families has increased in the 1990s due to high unemployment and a shift in labour demand away from those with limited skills. At least up to 1995, this trend was offset by the government tax and transfer system, so there was no significant change in the post-tax distribution of income as represented by the Gini coefficient. In 1996, post-tax income inequality increased dramatically, reflecting in part large cuts to welfare payments by the Ontario government. Recently released data for 1997 show no major changes in income shares from 1996.

The largest federal government cuts in transfers have been in unemployment insurance (UI), now employment insurance (EI). These cuts have increased income inequality, but perhaps not as much as might be expected. This is because EI, unlike welfare, does not go predominantly to families in the bottom quintile of the population. Rather, EI payments are concentrated in the middle and upper-middle quintiles. This situation reflects the fact that, because of age, disability, or other factors, most families in the bottom quintile are not employed, and hence are ineligible for EI.

The federal transfer programs that are particularly important for low-

income elderly Canadians are old age security and the guaranteed income supplement. These two programs have not been cut in nominal or real terms because both are fully indexed to changes in the consumer price index.

A major program initiative of the Liberal government has been the introduction and enrichment of the child tax benefit. This program is redistributive in nature because it is targeted at low-income households. For example, the budget changes in 1998 and 1999 raise the maximum Canada child tax benefit in 2000 for families earning under \$29,590 to \$1,975 for the first child and \$1,775 for each additional child. These benefits represent a significant propor-

tion of these families' incomes and will thus increase the income share of the bottom two quintiles significantly.

Because of the child tax benefit, the combined full-year impact of the various tax measures of the 1998 and 1999 federal budgets is quite progressive for families with children (see the table below). For example, a single-earner family of four with an income of \$13,500 receives a tax break equivalent to 6.4 percent of income, but the same family at an income of \$100,000 receives only a 0.9 percent cut. In contrast, the overall measures are only slightly progressive for elderly households and single individuals not affected by the child tax benefit.

In addition to the direct impact of transfers and taxes, government also has an indirect effect on market income distribution through employment policies, particularly macroeconomic policies. Low unemployment fosters income equality as the disadvantaged gain jobs, improving the relative income position of the bottom two quintiles. The restrictive federal budgets of the mid-1990s dampened economic and employment growth and hence contributed to greater income inequality. The most recent budgets have not been expansionary enough to offset the fiscal tightening of the earlier budgets and hence have not had much positive indirect impact on income distribution.

EQUALITY OF ECONOMIC SECURITY

The level of economic security enjoyed by Canadians varies by income group, with the rich obviously enjoying greater security than the poor. Two key determinants of economic security are the unemployment rate, which affects one's ability to find a job, and the generosity

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of social programs such as EI and social assistance. In recent years, the federal government has dramatically cut EI, with the proportion of the unemployed receiving benefits falling to less than 40 percent from over 80 percent earlier in the decade.

According to an index of economic security developed by the Centre for the Study of Living Standards, the fall in EI coverage, combined with high unemployment and heightened fear of job loss, has resulted in a large increase in economic insecurity in the 1990s. This has produced greater inequality in economic security since it is persons at the bottom of the income distribution who are most at risk. Despite the improved economic situation and the large surpluses on the EI account, the federal government has chosen not to move to restore earlier levels of EI generosity.

EQUALITY OF ACCESS TO HEALTH CARE

Medicare has been a great success in making health care accessible to all Canadians. But cuts to the health care system in the 1990s have put the universality of high-quality health care at risk. For example, a number of medical services have been delisted and waiting periods to receive certain services have increased. These developments reduce equality of access to health care since it is much easier for the rich than for the poor to pay for delisted services and to circumvent waiting lists through personal connections or purchasing health services outside the country.

The 1999 budget has become known as the health care budget because it introduced a number of measures to strengthen the health care system, including transferring additional moneys

to the provinces and territories for health care. While one may argue that this is still inadequate and fails to make up for earlier cuts, at least this new emphasis should in principle counteract any trend toward increased inequality in access to health care.

EQUALITY OF ACCESS TO EDUCATIONAL OPPORTUNITIES

The equality of access to educational opportunities in Canada has increased greatly in recent decades and is high from an international perspective. Indeed, according to OECD data, Canada has the highest enrollment rate in post-secondary educational institutions in the OECD. One development in the 1990s putting this accessibility at risk has been the large increases in tuition, particularly at the university level, since students from low-income families are more affected than students from high-income families.

The federal government has taken a number of measures to increase the affordability of post-secondary education through the establishment of the millennium scholarship fund and the enrichment of the registered education saving plan (RESPs), including the Canada education saving grant. These measures at least recognize the importance of equality of access to post-secondary education, and may contribute to offsetting some of the negative effect of tuition hikes on equality.

CONCLUSION

Due to both our poor economic performance and fiscal retrenchment, the 1990s has been a difficult decade for Canadians with regard to equality. The distribution of market income has become more unequal because of high unemployment and decreased relative demand for the services of the poorly skilled. Economic insecurity has increased because of high unemployment combined with major cuts in EI coverage. Equality of access to health care has been jeopardized by spending cuts and access to post-sec-

Impact of the 1998 and 1999 federal budgets for families with children (full-year impact as a percentage of income)

Income	Percentage of income		
	(1) typical one-earner family of four	(2) typical two-earner family of four	(3) typical single parent with one child
10,000	—	—	3.50
13,500	6.39	—	—
15,000	6.27	—	2.30
20,000	4.83	4.76	3.00
25,000	4.03	3.88	2.48
30,000	1.66	3.35	2.30
35,000	1.53	1.65	1.18
40,000	1.44	1.27	1.13
45,000	1.36	1.18	1.09
50,000	1.30	1.11	1.06
55,000	1.26	1.07	1.03
60,000	1.22	1.03	1.01
65,000	1.19	1.00	0.99
75,000	0.92	0.84	0.87
100,000	0.91	0.71	0.87

(The most important tax relief measures in the 1999 budget were the enrichment of the child tax benefit and the elimination of the 3 percent surtax for high-income individuals.)

Source: Column 1—table A7.4; column 2—table A7.5; column 3—table A7.6. The Budget Plan 1999, February 16, 1999, Department of Finance.

ondary education has been threatened by tuition hikes.

The federal government, after contributing to certain of these negative developments in the early and mid-1990s, now has a fiscal dividend that allows it to change direction. A number of the measures in the most recent federal budgets will increase equality in Canada — such as the enriched child tax benefit and additional funding for education and health. However, the federal government deserves much less credit in the area of equality of economic security because it has been unwilling to reverse the rise in the economic insecurity of Canadians resulting from its EI cuts. This area in particular should be a key priority for future action. Of course, much more remains to be done in all four of these areas and hopefully the government will follow through in future budgets to address these equality issues. ♦

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either post-secondary education or health. Those fixes will be a long, hard slog in the years ahead. It will be a lot easier to modernize and adapt these systems when there is some discretionary money to invest. But it takes political will to move the money to the new priorities rather than feed the claims from the old ways of doing business.

And now the competition is on for prime billing in budget 2000. Will it be children? The environment? Productivity? Or tax cuts? Or will it be a combination of these priorities?

These theme budgets make sense if they enable governments to concentrate their resources on the implementation of a long-term strategy. If the next budget addresses children, for example, it will require a well-articulated strategy for supporting parents in achieving healthy child development. No single budget could possibly “fix” the problem; we will need a 10-year agenda. The same challenge holds for the other possible themes.

The new investment cannot take us back to where we were in the mid-1970s; it has to take us forward to where we should be in the 21st century.

The decisions about priorities should be selected to maintain harmony between social and economic goals. We all must recognize that the task we face on each of these issues is fundamental, difficult, and long term. The new investment cannot take us back to where we were in the mid-1970s; it has to take us forward to where we should be in the 21st century.

Although there are parallels with 1945, the challenges are rather different. Rather than “getting back to civil life,” we will have to build a “civil society”—a society that shares risks and responsibilities and lives within its means.

The way people earn their living and the way they look after each other will be different going forward—as will be the role of the state.

Perhaps the most important lesson we can learn from the post-war period is to avoid the extreme pendulum swings. If the social budget gets over-extended, the pendulum will have to swing back. If the market-oriented philosophy is taken too far, the policies will not be politically sustainable.

In future, we want to keep both social and economic policies under the same roof, and resting on the same solid foundations. ♦