

■ CANADA

Divided and distracted: regionalism as an obstacle to reducing poverty and inequality



Canada's political agenda is increasingly marked by regional differences. The focus on decentralization and tightly controlled growth in government spending has resulted in more privatization of public goods, intensification of inequality, and heightened federal-provincial rancour. Genuine progress on poverty reduction or gender equality requires committed federal-provincial unity of purpose. The new dynamic unleashed by a minority federal government could lead to either greater inter-governmental cooperation or further balkanization.

Canadian Centre for Policy Alternatives

Armine Yalnizyan

For the past 15 years, Canada has set ambitious goals aimed at improving the lives of the most vulnerable. In 1989, the House of Commons unanimously agreed to eliminate child poverty by the year 2000. In 1995, Canada adopted the Beijing and Copenhagen Platforms for Action to reduce poverty and enhance women's equality. In 2000, the federal Government endorsed the Millennium Development Goals.

However little progress has been made. This has spurred social justice groups, including Social Watch, to launch campaigns urging more state action, such as the Make Poverty History campaign.

In Canada, social progress is shaped by the Constitution. It sets out how revenues are raised for public purposes (a largely shared federal-provincial responsibility) and who is responsible for programs to meet such objectives (primarily the provinces). But government spending and regulation has been scaled back over the last two decades, leaving economic growth and markets with a stronger role in shaping social change.

Unlike previous periods of sustained economic and labour market growth, income inequality has not declined.¹ The rate of child poverty is higher than it was in 1989, when the target was first set to eliminate it.² Poverty rates have risen fastest among recent immigrants which is the very group that Canada's future depends on.³

Inequality is also emerging in access to basic services such as affordable housing, education, childcare and health care due to a combination of supply shortages and rapidly rising costs.

This paper examines why, despite unparalleled economic and fiscal capacity, Canada has failed to make serious progress in the fight against poverty and inequality. It shows how a commitment to "small

government" feeds regionalism and inequality, and how economic growth alone cannot reduce poverty and inequality, or improve access to basic needs and services.

"Small government" feeds inequality

Federal spending as a share of the economy shrank dramatically after the mid-1990s, from 16% of the economy in 1993-94 to 11% in 2000-01. It has not risen above the 12% mark since, well below the historic averages in the post-World War II context.⁴ If current budgetary policy prevails, it will remain so for the foreseeable future which would be an unprecedented occurrence in federal fiscal history.

In 1995, the federal Government unleashed a plan to eliminate the budgetary deficit through massive cuts in federal spending. Not all programs were cut in this period.

The most radical changes were to unemployment insurance, training, transportation and regional development; and federal transfers to the provinces for health care, housing, social assistance, home care, childcare, welfare services including legal aid, and settlement services for immigrants.⁵

The cuts were particularly severe for those already most vulnerable. Given their situation in the distribution of income, women were doubly jeopardized. For example:

- Only 38% of unemployed workers receive benefits - down from over 75% in the early 1990s. Only three out of every ten women who lose their jobs today are eligible for benefits, due to rules that place workers with shorter or irregular hours at a disadvantage.⁶
- Most of the 1.7 million households living on less than USD 16,393 a year are precariously housed: they do not own their home and spend

more than 30% of their income on rent. Female-headed households dominate this category. An estimated 250,000 people will be homeless this year, a number that continues to rise as housing costs increase.⁷

A comparison of budgets and public accounts shows that the federal books were balanced years ahead of schedule. In three years, structural deficits - which had dogged federal budgets since 1971 - were transformed into structural surpluses.

This raises doubts that the depth of spending cuts was necessary, and begs the question: did the most vulnerable households suffer needlessly?

Budgetary surpluses could have been used to redress this difficult era. Some spending areas were restored and some expanded. But cuts to programs for the most vulnerable populations have not been reversed. Income supports for children increased, but not for families which receive welfare, although the purchasing power of welfare fell dramatically due to cuts and/or inflation. The unemployed saw no improvement to benefits and there is still no national housing program.

Despite billions in new spending, there was the fiscal room to do much more. Instead the lion's share of the opportunity afforded by the surplus was devoted to tax cuts and debt reduction.

By cutting supports for the least affluent and then redirecting newly created surpluses to others, the past decade reinforced and accelerated inequality between the rich and the poor, between regions, and between men and women.

Economic growth does not guarantee better access to the basics

Since the early 1990s, the Government has been singularly focused on economic growth. To achieve growth, it has dramatically limited its own role and focused on "competitiveness" by aggressively reducing tax rates. The economy has indeed grown, and rapidly.

1 Statistics Canada, *Income in Canada 2003*, Catalogue No 75202-XIE, Ottawa, 2005.

2 Campaign 2000, "One Million Too Many: 2004 Report Card on Child Poverty in Canada", 2004, www.campaign2000.ca/rc/

3 Statistics Canada, *The Daily*, 8 October 2003 and 25 April 2005, www.statcan.ca/english/dai-quo/

4 Department of Finance Canada, *Fiscal Reference Tables 2004*. Ottawa: October 2004.

5 Department of Finance Canada, *Budget in Brief*, Ottawa: February 1995, p. 9; and *Getting Government Right: Program Review: Overview*, Budget 1995 Fact Sheet No 6, Ottawa: February 1995.

6 Canadian Labour Congress, *Falling Unemployment Insurance Protection for Canada's Unemployed*, Ottawa: March 2003.

7 Canadian Mortgage and Housing Corporation, *2001 Census Housing Series*, table 2, Socio-Economic Series 03-017. Ottawa: September 2003; Government of Canada, Standing Committee on Finance, *Canada: People, Places, Priorities. Report of the Pre-Budget Consultations*. Ottawa: November 2002.

Between 1997 and 2003, Canada was the fastest growing economy in the advanced industrial nations (G7⁸). The United States of America has more recently overtaken that position.

Gross domestic product is now USD 1.07 trillion, which represents a growth of 67% from 1994 to 2004 (55% in inflation-adjusted terms).⁹ Canadians generate over half a trillion dollars more every year than a decade ago, providing huge potential for improving access to the basics. However since part of the recipe for growth was to devolve and privatize public programs, it has become more difficult to set and meet key national priorities - including women's equality and the reduction of poverty.

Downloading and offloading responsibility for public provisions generated structural surpluses at the federal level. Provinces struggled with budgetary deficits due to a combination of less federal support and their own engagement with the "tax competitiveness" agenda. This environment made it difficult to maintain, let alone improve, access to public provisions. Although every jurisdiction is now experiencing economic growth, the new goal is to get more revenue from the federal surplus.

Even with new funding, there is no consistent thrust or pressure to use these resources to reduce poverty or advance women's equality. Provinces, regions and cities have starkly different fiscal capacities and political willingness to focus on policies such as housing, childcare, settlement services for immigrants, and access to legal aid. Some would prefer to cut taxes or pay off debt. In summary, a vastly larger economy failed to yield widespread improvements to the basic social safety net.

Tax policy is a more costly and less effective way to achieve social goals

From 1997 to 2004 the federal Government spent USD 124.6 billion on tax cuts which is its biggest initiative in the surplus era. With the exception of the enrichment of the Canada Child Tax Benefit which accounted for less than 10% of the cuts, those at the lowest end of the income spectrum saw little benefit from this policy thrust.

The fiscalization of social policy occurred as programs cut in the deficit era were replaced by tax credits and exemptions in the surplus era.

- Health services were underfunded or delisted from public insurance; now some of these out-of-pocket costs are eligible for tax credits.
- Cuts to post-secondary education and the deregulation of fees have doubled and tripled tuition costs, but tax credits for these expenses have increased.
- There is still no national childcare program, but increased federal transfers for these purposes enabled some jurisdictions to provide tax rebates for receipted childcare arrangements.

8 USA, UK, Japan, Germany, Italy, Canada, France.

9 Statistics Canada. www.statcan.ca/start.html

None of these measures reached the poor, the 32% of tax filers who have insufficient incomes to be taxable and consequently can receive no benefit from the changes.¹⁰ Another recent tax reform, described as particularly helpful for low and middle income Canadians, raises the threshold at which federal income taxes start being applied. In 2000 the threshold was USD 5,845. By 2009 it will be USD 8,197. Raising the taxable threshold is costly - over USD 5.7 billion in the next five years which is more than enough to ensure affordable housing for all.

There are 5.5 million people with incomes of USD 8,197 or less (24% of all tax filers) and most are women. Most do not pay taxes, so they do not benefit from this reform. The costs arise from the small decreases every one of the 15.5 million people who pay income taxes will see. These reductions will take about 1.7 million more people off the tax rolls. By 2009 an estimated 37.4% of tax filers will pay no income tax.

While some hail this as progress, some wonder: at what point does the balance between taxpayers and non-taxpayers become politically unsustainable? Will it be 40% of the population? Half? Raising the tax threshold is not a cost-effective way to benefit the poor. However it may be an effective way to fuel demand for more spending constraints and tax relief by those still paying the bills, whose numbers are ever dwindling.

Commitments to developing nations remain inadequate

Canada gives proportionately less international assistance today than it did in the early 1990s during a time of deep economic recession. This is embarrassing for the only nation in the G8¹¹ who has enjoyed budgetary surpluses for the last eight years, and will continue to do so for the foreseeable future.

Funding for official development assistance (ODA) was cut from 0.45% of national income in the mid 1990s to 0.22% by 2001, a far cry from the 0.7% target set by the UN in 1969, ironically by former Canadian Prime Minister Lester Pearson. In 2003, the federal budget set out a plan to double ODA by 2010, or 8% a year. Today, the budget for international assistance, USD 2.5 billion represents 0.26% of the economy. Officials estimate it would take another USD 33.6 billion over the next 10 years to meet the 0.7% target by 2015.¹² At current rates of growth it would take until 2027. Despite mounting pressure, there is no commitment to a specific timetable to meet the goal. The Government argues that meeting the target has been made more difficult because the economy is growing so well - a rather feeble rich man's response.

Amendments to Budget 2005 found another USD 409 million for ODA over the next two years. The fed-

10 Data in this section are from Canada Customs and Revenue Agency, Income Statistics (various years).

11 G7 and Russia.

12 LeBlanc, Daniel, Campbell Clark and Jan Wong. *Leaders Deaf to Live 8 Call*, The Globe and Mail, 4 July 2005, p. A1.

eral social democratic party offered support to the fragile minority Government on condition of meeting this and other social goals. This new political reality may affect future policy and budgetary priorities. The 2005 International Policy Statement will tighten the focus of aid on a smaller number of countries. Aid to sub-Saharan Africa will be doubled by 2008-09. Organisation for Economic Cooperation and Development (OECD) figures show that about half of Canadian aid was tied to Canadian products and services in 2003. The OECD average for tied aid is 6.8%.¹³

There have been some modest improvements. Canada removed all tariffs and quotas on imports from 49 least developed countries (LDCs) in 2003, with the exception of dairy products, poultry and eggs. Imports from LDCs doubled between 2001 and 2003.¹⁴ Quotas on textiles and clothing were removed on January 1, 2005. Canada was also the first producing country to amend its drug patent law in May 2004 and its Food and Drugs Act in May 2005 to permit export of affordable drugs for AIDS and other diseases.

Canada provided leadership in 1999 as the first nation to fully cancel the bilateral debts owed by the 14 poorest countries once they completed their obligations under the Heavily Indebted Poor Countries (HIPC) initiative.¹⁵ To date these nations have had CAD156 million (USD 128 million) of debt cancelled with Canada, and USD 266 million in interest charges waived. Another USD 311 million in outstanding debt is expected to be cancelled over the next two years. Canada will also forgive USD 467 million in debt owed by Iraq, not based on HIPC conditionality, by 2008-09. When it comes to multilateral debt Canada has been a follower. The Government now supports full cancellation of multilateral debt for the 18 countries that have completed the HIPC process. It has pushed for equality of treatment for poor countries beyond HIPC.

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13 Organisation for Economic Cooperation and Development (OECD), *Statistical Annex of the 2004 Development Cooperation Report*, "Table 23, Tying Status of ODA by Individual DAC Members, 2003". Paris: 2004.

14 Canadian imports from LDCs grew four-fold from 1995 to 2004, almost doubling, from USD 441 million to USD 900 million between 2001 and 2003 alone. Calculated from Industry Canada's *Trade On Line* website. (http://strategis.ic.gc.ca/sc_mrkti/tst/engdoc/tr_homep.html) which uses the latest data from Statistics Canada. Methodology was confirmed by Industry Canada.

15 The HIPC initiative was launched in 1996 and sets out conditions for external debt relief based on World Bank and IMF approval of plans for economic reform and poverty reduction.

BOLIVIA

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In spite of not being explicitly stated, the demands made by social movements point the way to substantial changes in the reforms implemented since 1985. The different conflicts the country has gone through in the last five years show that Bolivian society and its social organizations have set themselves challenges:

- To recover ownership of hydrocarbons in general and of gas in particular. Bolivian society demands a new state and regulatory framework in which the exploration, exploitation and ownership of deposits, the privileges, taxes and opportunities of industrialization are defined by the authority of Bolivian people, in terms of their national interests.
- To change international trade rules to allow the State to provide new conditions for national production. National industries and small producers should be protected to afford a more inclusive vision and development, which will not subject equity to the protection of foreign investments and to the interests of national companies linked to international trade, thus promoting the overexploitation of labour.
- To implement State reform, expressed in the demand for a Constituent Assembly, which would modify the state's structure in order to include the participation of representatives from ethnic and regional groups and challenge the socio-economic basis of the political system as well as the legitimacy of representative democracy. In other words, a reform that would seek the true participation of workers, rural and indigenous organizations, as well as the use of productive resources and a system of social protection that will allow changes in people's material living conditions.
- To de-commodify basic services. The intention is to cancel contracts that privatized water and sewage services and subjected an essential service to the profitability of multinational companies.
- To cancel the external debt. The State's fiscal feasibility requires the total cancellation of external debt. Until now, ineffective relief mechanisms have proved insufficient to achieve macroeconomic balance and reduce poverty.
- To implement tax reform. The current system only requires minimum contributions from transnational companies and high-income sectors of the population.

The fulfilment of these objectives would draw Bolivia closer to the achievement of the UN Millennium Development Goals. ■

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Several social organizations. *Manifiesto de las organizaciones e instituciones de la sociedad civil frente al próximo Grupo Consultivo para Bolivia*, La Paz, 2005. www.wemos.nl/Documents/cg-bolivian-manifiesto-march-2005.pdf

CANADA

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Missing in action: National unity of purpose

For the first time in 25 years, Canadians are governed by a minority federal government,¹⁶ and the possibility of progressive social policy has been catapulted again onto centre stage.

At the same moment, the very *raison-d'être* of the Canadian federation is being challenged by political representation that is regionally divided. There is no national party that can win seats in all parts of the country, when not so long ago there were two. Canada has been wracked by regional static: Quebec separatism,¹⁷ Western alienation,¹⁸ Ontario's new what's-in-it-for-me attitude. Each provincial protest has resulted in more federal cash for the jurisdiction in question.

National programs have been jeopardized. After more than a decade of bitter disputes between federal and provincial authorities, the federal Government increased cash transfers to the provinces for health care and childcare but it has been reluctant to specify the terms and conditions of the new cash. The federal Government is turning into a head waiter to the provincial demands of the day. Each province has different views on how to address social needs. But virtually all provinces want to deliver balanced budgets and tax cuts. Over the past decade, all provinces have reduced tax rates and reigned in the growth of spending just like the federal Government. Taken together, provincial and federal governments offered USD 205 billion in tax cuts between 1996 and 2004. In contrast, USD 88.5 billion went to new health expenditures, the single greatest social priority for Canadian citizens.¹⁹

There is, however, some hope. Current political dynamics have shifted the balance towards more spending. While staying within its self-prescribed 12%-of-the-economy limit, the latest federal budget was relatively heavier in spending than past budgets, including a USD 4.1 billion package for childcare. Budgetary amendments ultimately reallocate some elements of the original plan - notably deferring some corporate tax cuts - to add another USD 3.8 billion over two years for housing, infrastructure, student assistance, the environment and international assistance.

What impact will this have on Canadians living in different parts of the country? Housing, childcare,

tuition fees are controlled by the provinces, which see the balance between markets and public provisions in these domains quite differently. The only nationally consistent rhetoric around improving access to basic needs is to shorten waiting times for health care. Even this objective is unfolding through a range of public initiatives and public-private sector deals. Will the new money improve access for all?

Without a coherent vision based on key human rights objectives, Canada may collapse into a loose collection of balanced budget states. The devolution of responsibility for public provisions has made it difficult for Canada to set and meet key national priorities. Until we unite in our purpose, it will be difficult to gain ground on the big ideas of our time - the reduction of poverty and inequality, at home and around the world. ■

INDIA

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Women in politics

In the field of political empowerment we find that while there is indeed a revival at the grassroots level, the representation of women is still very minor at higher levels of decision-making. Despite all the economic and social structural hurdles, some organized and unorganized women's groups are taking initiatives in political and social fields.

The 73rd and the 74th Constitutional Amendments of 1992 have proven to be a major step towards the political empowerment of women. By these amendments one-third of positions in local institutions at all levels are reserved for women.³¹

The Panchayati Raj³² institutions have become effective vehicles for the political empowerment of women by broadening women's leadership and giving them statutory powers of decision-making at local levels. "Women head about 175 District Panchayats,³³ more than 2,000 Block Panchayats and about 85,000 Gram Panchayats".³⁴ Some states, such as Kerala, Karnataka, Andhra Pradesh, Tamil Nadu and Madhya Pradesh, have more

16 On 28 June 2004 Paul Martin's Liberal Party won a minority government - a government in which the ruling party has not elected more members than all other parties and Independents combined - with 135 seats in the House of Commons.

17 The Quebec nationalist movement which has led to 2 provincial referendums on the region's sovereignty.

18 The sentiment in Canada's western provinces that the federal Government does not properly address their concerns.

19 Armine Yalnizyan, *Can We Afford to Sustain Medicare?* Ottawa: Canadian Federation of Nurses Unions, July 2004, p. 8.

31 Statement by the Hon Dr Murlidhar Joshi Minister for Human Resource Development at *Women 2000: Gender Equity, Development and Peace for the Twenty First Century*, 5 June 2000.

32 The 73rd Constitutional Amendment Acts of 1992 introduced the concept of Panchayati Raj - that villagers should think, decide and act for their own socioeconomic interests. It is a form of village self-governance.

33 A *panchayat* is a council. Each state in India is divided into districts, each district into blocks and each block into *grams*, and councils exist at each level.

34 Kumar, Shradha and Sanjay Upadhyaya, "Grassroots Democracy: Local Governance Watch", 28 December 2004; www.socialwatchindia.com