Budget 2015: Helping Those Who Need it the Least

Scott Brison

As the main political parties fill the post-budget, pre-election landscape with their economic arguments, the plight of middle-class Canadians is already emerging as a major theme in the coming campaign narrative. Liberal finance critic Scott Brison says the Harper government has sold out the middle class for a suite of boutique tax cuts that cater to the Conservative base.

Too many middle class Canadians are struggling to make ends meet. They're losing hope. But instead of focusing on the middle class and those working hard to join it, the latest federal budget helps those who need it least.

Canadians know that the status quo isn't working. The economy was stagnating even before the drop in oil prices. The government's own fiscal update last November showed the economy slowing down every year across its planning horizon. Since then, the outlook has deteriorated further. The Governor of the Bank of Canada has called lower oil prices "unambiguously negative" for the Canadian economy. He even warned that growth in the first quarter of 2015 would look "atrocious."

The drop in oil prices was enough to prompt the Bank of Canada to act and cut interest rates. Finance Minister Joe Oliver reacted by delaying the budget and avoiding question period. He left Canadians waiting for a real plan to strengthen the economy. Even now, after the budget, they are still waiting.

Despite the weakened state of the economy, the Conservatives' priority is still two expensive tax breaks: income splitting and a significantly higher limit for Tax Free Savings Accounts (TFSAs).

The question that ought to have guided their budget preparations is, "Will these measures generate significant growth that will benefit the middle class?" On both income splitting and the new TFSA annual limit, the answer is a resounding "no." Neither one is a job creation measure. Both of them disproportionately benefit the rich instead of focusing that help on the middle class.

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At $2 billion per year, income splitting will leave a significant hole in the federal treasury. But the vast majority of Canadian households—85 per cent—won't get a dime. It won't help single parents, the lowest-income families, or families with two parents in the same tax bracket. They will, however, bear the cost of it. Furthermore, the Parliamentary Budget Officer has shown that income splitting will weaken economic growth rather than strengthen it. He estimates that it will lead to the equivalent of 7,000 fewer full-time jobs due to lower marginal effective wages caused by income-splitting.

Increasing the TFSA contribution limit to $10,000 per year is also expensive and unfair. The previous limit was helping the middle class save for retirement. However, most Canadians won't benefit from the new higher limit. Canadian families are struggling under record levels of personal debt. The average household in Canada now owes $1.65 for every dollar of disposable income. Most Canadians don't have an extra $10,000 (or $20,000 for couples) to sock away each year. But wealthy Canadians do. Over time, benefits from the new TFSA limit will increasingly skew to the rich as the vast majority of Canadians are left unable to make use of their growing contribution room.

Another point to remember is that TFSAs don't count toward income-tested benefits. Therefore, increasing the TFSA limit to $10,000 per year will result in more Old Age Security (OAS) and Guaranteed Income Supplement (GIS) payments for relatively wealthier seniors. Yet it was only three years ago—just after the last election—that the Conservatives broke their promise and falsely claimed that they had to raise the qualifying age of OAS in order to keep the program financially sustainable. Raising the eligibility age of OAS from 65 to 67 will take $32,000 in OAS and GIS payments away from each of Canada's poorest and most vulnerable seniors. The federal government will start taking that money away at precisely the same time as the extra OAS payments for wealthier seniors start to really kick-in.

Taking money from poor seniors in order to give it to the rich is unfair and un-Canadian.

Almost doubling the TFSA limit will also cost the government billions of dollars each year down the road. A third of that cost will be borne by the provinces. This means that middle class Canadians will face cuts to the services they depend on, while shouldering a higher share of the tax burden.

The cost of the new TFSA limit is not the only sign of structural weakness in Canada's fiscal house. The budget's very foundation—the claim of a fiscal surplus—is already crumbling.

The Conservatives have fabricated an illusory $1.4 billion surplus on the eve of an election by slashing the contingency reserve. Had they kept the reserve intact, the budget would have continued to show the government in deficit until at least 2017. Last year, then-Finance Minister Jim Flaherty said that he could have used the contingency reserve to forecast a small surplus for 2014-15. He also said that it would have been "imprudent" to do so. He was right. We now know that with the drop in oil prices, that surplus would never have materialized.

Finance Minister Joe Oliver's decision to raid the rainy day fund in 2015-16 has left the government with no room for similar, unforeseen events. Minister Oliver's reckless streak doesn't end there. While the government was advised to increase its prudential measures in the face of volatile oil prices, the Finance Minister went in the other direction entirely. Instead of increasing the contingency reserve to create a buffer against volatile oil prices, his budget assumes that oil prices will increase by 50 percent. The Bank of Canada knows better than to build their forecasts around the hope that oil prices will rise quickly. The Conservative government should be similarly cautious.

The cut to the contingency reserve isn't the only line item in the budget that is larger than the illusory surplus. The budget also relies on one-time asset sales. At $2.2 billion, the impact of selling the GM shares in 2015-16 dwarfs the illusory surplus. It also confirms the real reason why Minister Oliver sat on his hands and delayed the budget until April (i.e., the start of the fiscal year). He needed the revenue from the sale to count toward 2015-16 instead of 2014-15.

Liberal finance critic Scott Brison writes that the budget benefits affluent Canadians on the backs of the struggling middle class. House of Commons photo

Recognizing the Conservatives' many sleights of hand, it appears that after seven consecutive deficits, they still have yet to balance the budget. They spent the surplus before it even arrived, largely on expensive measures that will do little to create jobs and growth. Their actions make it clear that they care more about their own short-term political interests than the larger challenges facing the economy.

When Minister Oliver flippantly remarked on Budget Day that the new TFSA limit was a problem for "Stephen Harper's granddaughter to solve," it reflected a broader disinterest in addressing Canada's longer term challenges. Instead of building for the future, the Conservatives have engineered a reverse home-mortgage on Canada's fiscal house. They are burdening the next generation with irresponsible tax breaks for the rich on the eve of an election.

One of the biggest challenges facing Canada—and hurting our productivity—is the infrastructure deficit. Congested roads and bridges mean that people and goods cannot always get to where they are needed on time. Meanwhile, current economic conditions are creating an historic opportunity for us to increase infrastructure investments. With a slow-growth economy, soft labour market, low bond yields and even negative real interest rates, this is the right time for government to ramp up its investments. Building infrastructure creates jobs today and improves competitiveness, which helps create more jobs and growth in the future. Yet the budget delays new infrastructure investments until after 2017.

The budget also fails to address challenges in the labour market for young Canadians. The employment rate for young Canadians aged 15 to 24 is still significantly below pre-recession levels (56.2 percent in March 2015 compared to 60.2 percent in September 2008). The cost of prolonged youth unemployment and underemployment is real. Not only does it hurt young people today, they also face lower wages for at least a decade, as they try to catch up on missed work experience. It also hurts middle class parents who end up taking on more debt to help their adult children make ends meet.

Today in Canada, we have the first generation of parents of whom a majority believes that their children will be worse off. Canadians are losing hope. They want a government that will focus on building the economy and strengthening the middle class, not more tax breaks for the rich.

This budget only provides more evidence that the Conservatives have lost touch with the priorities of the middle class. P

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