‘Relentless Incrementalism’

A Necessary Next Step in the Elimination of Poverty in Canada

Introduction

A Brief Background on the Evolution of Income Security in Canada

Income security in Canada is comprised of several elements: workers’ compensation, employment insurance, the federal child and family benefits, provincial income support measures, old age security (OAS) which includes the Guaranteed Income Supplement (GIS), and the Canada Pension Plan (CPP).

The history of these various elements is one of incremental change, assessment, and then further change as economic and social conditions and expectations have evolved.

Although the historical record of the construction of the income security system of programs appears to be mostly characterized by an important innovation with many or some significant restrictions gradually giving way to demands for broader coverage on more generous terms, progress has been slow in many ways. For the most part, though, the programs have shown their value and they have become part of a highly valued income/social safety net in this country built over a period of many decades.

Despite all of these efforts there remains a very significant problem of poverty in Canada. At least one in ten and, more likely closer to two in ten Canadians live in poverty or on the cusp of poverty depending upon the measure used to establish the threshold. Despite all of the existing supports, millions of people live in poverty on a daily basis in one of the wealthiest countries in the world in 2022.

The question, then, if there is a primary question, is: what are Canada’s next steps in the elimination of poverty in this country? This assumes of course two things: that there is a general consensus on the importance and desire to eliminate poverty and that there is a general recognition that the existing approach is not providing appropriate income security for millions of citizens of all ages.

Assuming there exists such a consensus a second question is: could we consider an integration of programs in order to create a universal income support program for all Canadians who have deficient income for any number of reasons? In this view, the reason for requiring income security is far less important than the need to provide income security without judgement of which poverty is by choice and which is by circumstance. This is the approach the country has long ago decided to take in the provision of universal health care and it is a model which seems very important to Canadians.

Is an integrated approach preferable to the current diversity of programs that obviously contain very significant gaps? If a universal approach can significantly alleviate poverty and do so in a manner that is feasible, then it is presumably preferable. But this leads to the final question.

Can a universal program (a guaranteed annual income) be funded in a way that would be financially and politically feasible/sustainable?

The incremental approach is fine and safe but it creates gaps and has inconsistencies. The existing model is not income security so much as it is the provision of benefits for people who have earned benefits, whether their income requires the benefits or not. Poverty is by definition comprised of people who lack the ability and/or the opportunity to earn sufficient income benefits through employment, business ownership, investment, inheritance or other means.

Of the programs listed previously, only OAS, which is restricted by age, and some provincial income support measures are without an employment earning requirement.

The philosophical shift that is required to move to a universal program is fundamental. We must believe as a country that poverty is unnecessary, that it is a scourge to be eliminated, and that all people have the right to be able to afford a quality of life that is beyond subsistence and consistent with the material wealth of our country.

This approach is in sympathy with the philosophical foundation of our health system as embodied in the principles set out in the Canada Health Act; however, as a nation we have not really moved beyond the health system in the application of these principles. We have not done so in the provision of housing, food, transportation, or many other public or private goods and services.

Providing all people with the income sufficient to live free and self-sufficient, safe and healthy lives is the only way to eliminate poverty.

While it is relatively straightforward to prepare a cost-benefit analysis of the impact of the various incremental steps that have been taken, the true benefits of lifting all individuals out of poverty are very difficult to calculate because they result from millions of changed decisions taken over several generations and each individual's response will be unique. Some may not progress much beyond the minimum level provided by the income security but, even for these individuals, society is providing hope and opportunity for them and for their dependents.

A broad view of the requirements for success in a modern society would be based upon the understanding that just as a universal health plan cannot ensure in and of itself the health and well-being of all individuals in society, so too a universal income security program requires other components to be put in place to enable the greatest number of citizens to realize their full potential. Education is undoubtedly the most significant of these other requirements and some further comments on this will be made in a later section of this paper.

For the time being it is helpful to explore the current framework, the associated principles and mechanisms of funding as a first step on the path to recommending a new option.

Some of the Elements of Income Security

One of the earliest forms of income support in Canada was The Workmen's Compensation Act of Ontario, which was passed in 1914. In Canada, Workers' Compensation Boards are regulated by territorial and provincial governments and provide employees with insurance for injuries and illnesses. The premiums are paid by employers and are based on industry classifications using a performance-based system.

It is a striking feature of the income support programs in Canada that they use quite different approaches to financing. There is not a common or unifying methodology.

The Workers' Compensation programs in Canada, although they can have distinct premiums and criteria, follow the Meredith (former Justice of the Supreme Court in Ontario) Principles. Employers bear the costs of the program and, in return they have protection from lawsuits associated with injuries suffered by employees; workers receive compensation benefits without cost for work-related injuries; negligence/fault are not considerations in the process; and the administration of the system is by a neutral agency established in each jurisdiction.

Family Allowances were introduced in Canada in 1945 and are considered to be the first of the universal welfare programs in the country. Allowances entail a monthly payment by the federal government to assist with the cost of raising children. The current child benefit program is based upon family income and the age of children in a family. The maximum benefit for children under the age of six (6) years is greater than the maximum benefit available for children between the ages of six (6) and seventeen (17). These programs are financed through general revenue of the government.

In 1940, the Unemployment Insurance Act was passed by parliament in order to protect the income of people who through no fault of their own became unemployed. In the early years less than half of the national labour force was covered by/eligible for program benefits. Initially the program was funded by contributions from the government, employers and employees. Over time, the rules governing the program changed and the share of the labour force eligible for benefits grew significantly.

In 1990, a change was made to eliminate the federal financial contribution to the program. Now, employers and employees make regular contributions, based upon insurable earnings, to support the entire financial requirement of the program.

In addition to the provision of benefits for unemployed workers, the program (now known as Employment Insurance) also supports workers by supporting the funding of training/education initiatives for people who are unemployed and who have been in receipt of benefits. In some instances, these programs can support a person's training costs up to as much as 95% of the total expense. This investment presumably is in recognition of the close relationship between unemployment and a lack of educational attainment, particularly for those individuals with less than a post-secondary degree or diploma. It is a very good example of income security being linked with a supporting educational investment.

In 1951, there was a constitutional amendment which enabled the federal government to pass the Old Age Security Act. The OAS is a federally funded (through general revenue) pension for all individuals seventy (70) years of age and older and there is no means test. The Old Age Pensions Act of 1927 did feature means testing.

Beginning in 1973, OAS benefits were based upon changes in the Consumer Price Index on a quarterly basis.

There was another constitutional amendment in 1966 which resulted in the creation of the Canada Pension Plan and the Quebec Pension Plan. These are employment-based plans in which beneficiaries receive payments based on the total individual contributions and the plans are portable across employers. Many employees still today do not participate in a private pension plan. Beginning only in 1988 aboriginal people earning income on reserves were allowed to participate in the CPP (make contributions and receive benefits).

The Guaranteed Income Supplement was introduced in 1967 as a temporary measure to reduce poverty among seniors and it is an income tested component of OAS. The Spouse’s Allowance was introduced in 1975 and the Widowed Spouse’s Allowance in 1985.

In 1998 the federal and provincial governments agreed to changes in the CPP, including an increase in contribution rates and the CPP Investment Board was established to manage the investment of the fund at arms length from government. By 2000, OAS and CPP benefits were extended to same-sex, common-law relationships.

And most recently, beginning in the spring of 2020, the Government of Canada introduced the Canada Emergency Response Benefit (CERB) as a response to the Covid pandemic. This was a short-term emergency response to an unprecedented health and economic circumstance and probably the largest economic stimulus provided in Canada’s post-war history.

The pandemic had many implications. One of these was that a special economic intervention was required because the existing Employment Insurance programming simply was not able to address the scale of the unemployment associated with the Covid restrictions. Nor were any of the other programs capable of the income support that was necessary.

The pandemic has also provided a very stark reminder to millions of people about their vulnerability to poverty and the degree to which life can be so unpredictable and precarious. Social programs are perhaps best introduced when the need for a safety net is very clearly understood by the majority of citizens. The role of government, which is often questioned in prosperous times, becomes far more relevant and essential when our economy is shaken. People in the middle class require less imagination to consider the frightening prospect of living in poverty.

Poverty in Canada

In August of 2018, the Government of Canada released a report entitled "Opportunity for All."

Poverty is defined in the report (Government of Canada, "Opportunity for All," p. 7) as: "[t]he condition of a person who is deprived of the resources, means, choices and power necessary to acquire and maintain a basic level of living standards and to facilitate integration and participation in society."

One of the key recommendations contained in the report was to designate the Market Basket Measure (MBM) as the country's official poverty line.

The MBM is prepared by Statistics Canada and shows poverty lines/thresholds based upon the cost of a basket of necessary goods in fifty different regions of the country. The thresholds vary by regions as the cost of the basket of goods varies by region. As well, the thresholds vary by family size.

In June of 2019, the Poverty Reduction Act received Royal Assent. The Act defined the MBM as the official poverty line in Canada. It also established poverty reduction targets for 2020 (national poverty rate reduced by 20% from the rate in 2015) and 2030 (national rate reduced by 50% from its 2015 level).

Finally, the Act created a National Advisory Council on Poverty that was intended to lead the national effort to reduce poverty across all regions of Canada.

Statistics Canada in February of 2020 released its "Report on the Second Comprehensive Review of the Market Basket Measure."

Using the MBM for the various regions across Canada in 2018, it was estimated that approximately four million people (3,983,000) were living in poverty in that year (Statistics Canada, "Report on the Second Comprehensive Review of the Market Basket Measure," table 2, page 9). This estimate represents a reduction in total poverty of more than one million individuals when compared to the 2015 estimate using the 2018 MBM definition. The national rate of poverty in 2015, based upon this analysis by Statistics Canada using the 2018 MBM, was 14.5%.

However, four million individuals living in poverty in Canada is staggering given the various income supports and programs that exist and given the enormous wealth Canada enjoys. Based upon the 2021 Census, among Canadian cities, only Toronto has a larger population (5.6 million) than the total number of poor in Canada. Reducing the poverty rate by 50% (compared to the rate in 2015) will obviously require an enormous effort.

Of special note in this report was the fact that of the broad age cohorts defined in the analysis, individuals who were sixty-five years of age and above showed the lowest incidence of poverty (5.6% of the cohort). The national rate for all age cohorts in 2018 was 11%. This tends to suggest that the public pension programs have had an important impact in reducing poverty rates for seniors. In order to reduce poverty by 50% within this decade as mandated in the Poverty Reduction Act, Canada will most likely require an approach that is comparable to the public programs that were established for retirees/seniors.

One option is to think of developing a national program that would provide a basic income for all citizens above a designated age. This could be done incrementally, leaving the existing structure and programs in place and target those not served by these programs.

Alternatively, a basic income initiative could be done through a redesign of the existing income support system to create a universal income support program at the federal level.

A redesign is always more challenging than an incremental approach but a redesign would be the more equitable, efficient and effective option in all likelihood.

In either case, there tend to be two general models when thinking about the cost of providing income support to a large segment of the population. One view is that a significant majority of people receiving benefits will tend to be reliant upon those benefits for an extended period of time, perhaps for the remainder of their life. This is a static framework; the view is that people who receive a hand up will not be able to move beyond the level of the hand up.

The second view is more of a dynamic perspective which predicts that people in receipt of benefits, particularly if they have access to other supports such as educational opportunities for example, will have the opportunity and motivation to move toward a life of self sufficiency. Not all those helped will be able to do so but very many will and their dependents will as well. In this conception, a basic income model holds the potential to dramatically alter poverty rates in both the short and long term.

How to fund a basic income program for Canada that potentially supports several million people to emerge from poverty has always been the great challenge because the need is quite vast.

There are three potential funding paths: to raise revenue required through new taxation which suggests higher rates of income and/or sales taxes; to raise revenue through a reduction in current tax expenditures – those exemptions and incentives currently provided in the tax system of the federal and provincial governments; and to redirect existing program expenditures to this new undertaking.

If any of these paths is to be feasible the federal government would need to be convinced that the path is both financially viable/sustainable and that negative implications of the specific option (increasing tax rates for example) was also not unreasonable to the point of being politically unsustainable.

It is fundamental, therefore, to understand the scale of poverty in Canada and the financial effort that would be required to significantly reduce the poverty rate, and it is equally important to understand that each potential funding path has real and perhaps insurmountable limitations.

But perhaps there is a path that remains unexplored and offers both financial and political sustainability. Let us see.

An Examination of Funding Basic Income in Canada: The Parliamentary Budget Office Analysis of 2021

In April of 2021, the Office of the Parliamentary Budget Officer released a report entitled "Distributional and Fiscal Analysis of a National Guaranteed Basic Income."

The assumption in the analysis is that such a guaranteed income program modelled on the 2017 Ontario basic income pilot would be funded through the elimination of many refundable and non-refundable tax credits.

Among the key findings of the analysis: using the model of Ontario's 2017 basic income pilot a guaranteed basic income would reduce poverty rates by half in 2022; the program's impacts on labour supply (behavioural impacts) are relatively small – reduction of hours worked by 1.5% annually – but the financial cost is not insignificant; people in three of five income quintiles would experience a net reduction in total income as a result of the program and the method used to fund it; and the total cost of the program would be approximately $85 billion in 2021-22 rising to $93 billion in 2025-26 (report executive summary, pp. 3-6).

In terms of impact, the analysis suggests a program of this financial magnitude has the potential to reduce poverty rates by 50%. But the method of funding the program is problematic because a significant proportion of Canadians are made worse off because of how the program is funded.

Although the PBO analysis is based upon the elimination of tax credits, it is very possible that the other traditional methods of funding such a program (increase taxation or eliminate other government programs) hold the same political peril. If many Canadians believe they are worse off because of a new program it is unlikely to be approved.

The Canada Pension Plan model of taxing to build an investment fund that will benefit most Canadians in their retirement years is well accepted because it does not lead to winners and losers. The Employment Insurance system is supported by Canadians because it provides insurance to Canadians who may lose their jobs.

The challenge associated with the implementation of a national basic income program is to frame the effort as producing a net benefit to the country without causing individuals to lose income or program supports.

This suggests the three more traditional financial options for the federal government are very difficult in this case. The challenge can be stated as follows: how can a $90 billion annual program be funded without causing some segment of the population to lose? The financial model to answer this question may already exist as part of the income security network in Canada.

Funding Basic Income in Canada

In its 2020 annual report, the Workplace Safety and Insurance Board of Ontario explains how its operations are funded. "The WSIB is funded by employer premiums and does not receive any government funding or assistance. Revenues are also earned from a diversified investment portfolio held to meet future obligations on existing claims (p. 66 of the WSIB Annual Report)."

At the end of its 2020 reporting period, the WSIB had cash and cash equivalents in the amount of $4.97 billion, public equity investments with a value of approximately $13 billion, and fixed income investments with a value of $9.3 billion (p. 64). This approach of having significant investment portfolios for workers' compensation boards is not unique to Ontario.

On a somewhat larger scale is the Canada Pension Plan Investment Fund. The CPP is a social insurance plan funded by the contributions of employees (paid or self-employed) and employers. It is a statutory program governed by the federal and provincial governments.

The CPP is an earnings-based pension plan which makes a monthly payment to individuals or dependents to partially replace income after retirement, disability, or death. Citizens of Quebec are covered by the Quebec Pension Plan (QPP).

Revenues are also earned from a diversified investment portfolio that is managed by the Canada Pension Plan Investment Board, which came into being as a result of the Canada Pension Plan Investment Board Act of 1997.

The CPP Investment Fund had a total value of $550.4 billion at the end of December, 2021. The Investment Fund's projections indicate a fund value in excess of $1 trillion before 2050. At the current rate of growth, this figure could well be achieved before 2030.

It is difficult to imagine successfully reducing poverty in Canada by 50% within the decade, as per the commitment in the Poverty Reduction Act, without the ability to utilize the financial power of the CPP Investment Fund.

The ten-year average annual net return of the fund is 11.6% (CPP Investment Board news release, February 10, 2022). This suggests that on average the fund will generate $50 - $60 billion in growth every year even if benefit payments modestly exceed annual contributions in the coming years.

In the last actuarial analysis of the Canada Pension Plan conducted by the Office of the Chief Actuary of Canada, based upon the results to the end of 2018, the projection was that the total assets of the fund would be valued at $688 billion by 2030. Based upon the ten-year growth results for the period to the end of 2021, it is far more likely that the fund will achieve $688 billion in value by 2023-24 and will approach $1.5 trillion by 2030-31.

The potential exists then to satisfy all pension commitments associated with the CPP while also using the fund to seed a basic income program without increasing employee or employer premiums beyond the current level and without increasing taxation rates for Canadians.

It is not unreasonable to believe funding of a basic income program is possible to a level that would reduce poverty in Canada by 50%, but many of the individuals who would receive a basic income will not have been contributors to the Canada Pension Plan.

What would Canadians think of this idea – providing people with a basic income based upon the CPP Investment Fund even if they did not have previous contributions to the program? If Canadians could be assured that their pension benefits were secure and that poverty could be reduced by at least 50% it is entirely possible that they would support such a measure.

There are at least two ways to approach the issue. The first is to build an integrated income support program based upon a new legal framework.

This would mean a “no fault” income security program for all Canadians requiring income support funded by consolidating contributions for employment insurance, CPP, and workers’ compensation and basing the contributions for employers and individuals on income, not on insurable earnings.

There would be four streams of payments – employment insurance with a maximum thirty weeks of benefits in any five-year period and based upon replacing up to a level of 75% of previous year’s income; pension benefits that integrate the CPP/OAS/GIS rules and benefits; disability benefits for those injured or ill and unable to work; and income security for those below the MBM of poverty.

For all beneficiaries, there would be an educational enhancement program stipulating full costs of tuition would be paid for any person admitted to a Canadian post-secondary institution for a maximum of four years.

This would be a framework for an integrated universal income security program in Canada recognizing that the need for income support can be caused by a variety of circumstances and that Canada is best served by eliminating poverty in the context of widespread public support.

If such an approach to an integrated universal program seems unattainable, the second option is to proceed with an incremental measure that moves the country along the path toward a basic income security program. There are two options worth mentioning in this regard.

The first is to use some portion of the CPP Investment Fund to seed a National Affordable Housing program. The second is to financially support a basic income pilot project in Prince Edward Island which could be used to evaluate the costs and benefits for a much larger national program.

A National Affordable Housing Program

Based upon the understanding that housing costs are for many people a very significant portion of the total cost of living each year, an incremental approach to helping people to reduce the cost of living would be to develop a program for both renters and people who want to own a home to do so affordably.

The Canada Mortgage and Housing Corporation (CMHC) is the lead federal organization in the implementation of the National Housing Strategy, an ambitious ten-year program to support the provision of affordable housing in Canada.

Based upon the 2020 Annual Report of CMHC, approximately $4.5 billion was spent by the crown corporation in 2020 on housing programs compared with $1.8 billion in the previous year (2019). In both years, the organization recorded substantial net income - $1.7 billion in 2020 and $1.58 billion in 2019.

An obvious question is why would the federal government want a crown corporation responsible for the provision of affordable housing to generate large profits each year? It suggests either the corporation does not truly understand its mandate or the mandate is inappropriate.

We know from the Statistics Canada poverty estimates, using 2018 as a base year, that approximately four million Canadians live in poverty and we know from the estimates generated by the Parliamentary Budget Office that in order to reduce poverty by 50%, the total annual cost would be in excess of $80 billion.

If we estimate that housing costs represent approximately one-third of this total cost estimate, then the cost of ensuring people living below the poverty line have access to affordable housing is likely to require an investment of $20 billion + per year over several years.

As an incremental step toward the development of a basic income program in Canada, it might be suggested that a portion of the CPP Investment Fund be invested with CMHC to seed a more appropriately scaled National Housing Program that could generate approximately $20 billion per year in funding for affordable housing initiatives. This would be almost five times the current level of activity and far more consistent with the scale of poverty in Canada.

It is also important to note that based upon the 2020 Annual Report for the CPP Investment Fund, approximately 15% of the fund is actually invested in Canada, with the majority of the fund being invested outside of the country. A housing initiative using some of the investment fund would help to utilize a greater share of the fund in Canada to support economic growth and development, and poverty reduction of course.

As CMHC's financial performance shows clearly, support for affordable housing does not mean that the housing fund will show an annual loss. In fact, on the contrary, housing investment is a very profitable business for CMHC. Therefore, the allocation would be repaid over a period of twenty-five years, for example, without diminishing the CPP program in any way.

It is likely that some of the CMHC rules and thresholds are not supporting the extent of affordable housing work that is necessary and, therefore, along with additional funding there is a requirement for a very comprehensive evaluation of the role of CMHC and its programs.

A Basic Income Pilot in Prince Edward Island

Another possible mechanism to move incrementally toward a universal income security program for Canada would be to utilize some portion of the CPP Investment Fund in support of a five-year pilot of a basic income support initiative in Prince Edward Island.

The Government of PEI has studied the concept and appears to be interested in conducting at the very least a multi-year trial to see if a basic income program would be effective in significantly reducing poverty on the island. The other key question to be answered in such a trial is whether a program can be financially sustainable. The annual cost of such a program on PEI could be on the order of $400 million.

One possibility to enable such a pilot to move forward would be for the CPP Investment Fund to undertake an investment in the program. As an example, an annual investment of $275 million from the CPP Investment Fund would represent .05% of the fund.

Again, the fund is on average during the past ten years generating an annual return of 11.6%. An investment of $275 million each year for five years would represent approximately 0.43% of the annual return of the fund per year for the five-year trial.

This is a unique opportunity to implement a basic income system in a province and the costs of such a program are relatively manageable. The provincial government will be required to invest significant financial resources in the program if it decides to proceed with a trial and, therefore, will be careful to ensure that the program is properly managed.

Again, if as Canadians we are truly committed to the significant reduction and ultimate elimination of poverty in our country, it is extremely important to evaluate how best to provide income support that is equitable, efficient, effective, and financially sustainable. This is one way to move incrementally toward the goal of eliminating poverty.

In the evaluation of an integrated income security program for Canada, one thing that becomes clear is that there are numerous implications associated with such an initiative that lead in interesting directions. At least in brief, it is important to conduct some exploration of these related ideas and possibilities.

Some Implications Associated with an Integrated National Income Security Program

There are at least four interesting considerations which flow from the discussion of the possibility of constructing an integrated national income security program. They include the following:

- the impact on federal taxation policy in Canada;
- the possibility of allowing Canadians the option to contribute their personal savings into the CPP pool and to have their personal savings professionally managed as part of the CPP Investment Fund;
- the effect of an integrated income security program that is funded almost exclusively outside of the Consolidated Revenue Fund on the annual federal fiscal position (annual deficits and net debt); and
- a consideration of establishing in-country investment targets for the CPP Investment Fund.

Each of these considerations will be addressed in turn.

Taxation Policy

In terms of taxation policy, if the goal of developing an integrated income security program is to sustainably reduce poverty in Canada based upon the targets in the Poverty Reduction Act, then it becomes very important to reconsider our taxation policies as being a key consideration in this regard.

Specifically, although a payroll tax is currently used to fund the CPP Investment Fund each year, a payroll tax does potentially serve as a deterrent to hiring when compared to other possible forms of taxation. No level of government in its taxation policy wants to intentionally increase the price of labour relative to capital if there is an alternative mechanism to raise the required funds. In Canada, payroll taxes are used to fund both the Employment Insurance premiums and CPP premiums.

At some point, depending upon the size of employers, these combined tax burdens will impact hiring decisions because there are no such premiums associated with an investment in technology and/or physical capital.

Corporate income tax which generates in excess of $50 billion per year for the federal government does so without increasing the cost of labour relative to technology or machinery. Doubling the corporate income tax rates in Canada while simultaneously eliminating the employer premiums for Employment Insurance and the Canada Pension Plan in theory allows these income security programs to be appropriately funded without increasing the tax burden for businesses and without adding an extra cost to the price of labour for employers. And, of at least equal importance, the goals of reducing both poverty and unemployment are supported.

The second issue with respect to taxation policy is whether in the modern age of digital banking, there is a more efficient and effective form of taxation than the current reliance on income taxes, sales taxes, other excise taxes, property taxes, and payroll taxes.

It seems possible that there is a case to be made that all individuals and businesses move their income through some form of a digital financial intermediary. If there is no obvious reason to discriminate across the various sources of income (employment income, investment income, rents, gifts, inheritances, and pensions/government transfers) then a tax on bank deposits across all individuals and businesses is potentially a much more efficient and effective mechanism to raise the funds required by all levels of government in Canada as compared to the current series of systems, and rules and regulations and exemptions/credits.

If the goal of a tax system is to efficiently and equitably and sustainably raise the funds required by the various levels of government to provide the public goods and services required by Canadians, mixing a variety of other goals into the system inevitably only makes the principal goal far more difficult to achieve. There are better ways to achieve those other goals, including the provision of income security.

Because the Canadian financial system is well regulated, stable and very efficient, a tax system embedded in the daily financial transactions of Canadians would be seamless and would enable all Canadians to easily track the precise deductions being made. The cumbersome process of completing tax returns would be redundant. The ability to evade taxation would be far more difficult than is currently the case. The fairness of the system would be far greater than the current very complicated system of differing rates, incentives, credits, exemptions, and rulings. Potentially, there would be one rate for all deposits to be shared across all levels of government in Canada in an agreed-upon formula.

For all levels of government in Canada but particularly for local/municipal governments this would be a giant leap forward.

Although this would not be in theory as progressive as a progressive income tax model, in practice it would most certainly be far fairer because of the enormous complexity of the current system. For example, we have progressive income tax rates but we also tax consumption at a higher rate than savings which cancels at least some (or all) of the benefit of the progressive rates. And property taxes are certainly not progressive, nor are excise taxes.

Simplicity and transparency in a tax system would seem to be very important objectives. In this regard a single rate on all deposits moving through the financial system in Canada or via international financial institutions to Canadians is transparent and easily understood.

Obviously, whether this is a practical option is something that can be rigorously tested because of the highly digitized nature of the banking infrastructure but there is an elegance and fairness and efficiency in the approach that holds some merit relative to both the current approach and possible options.

Again, as is true for all public policy options, a key question becomes whether or not such a change is politically viable. Would Canadians see such a change as a move toward a more efficient and equitable approach to funding the vital public services and infrastructure that the country depends upon?

This would be a transformation, not an incremental change, but the system of taxation in Canada may be due for a transformation.

Allowing Canadians to Contribute Savings to the CPP Investment Fund

Although Canadians pay premiums into the CPP Investment Fund each year they are unable to contribute any portion of their private savings into the Fund. Could this be changed and, if so, is it a desirable change?

The first answer is that with necessary federal and provincial political agreement to amend the appropriate legislation, it would be possible for Canadians to contribute savings to the CPP Investment Fund. Each contributor has an account and each account is adjusted based upon the extent of the contributions made. And the funds are invested as they are currently.

And it is difficult to think why such a change would not be desirable. As of 2019, the proportion of all paid workers covered by a registered pension plan in Canada was 37.1% and this ratio has been moving downward (Statistics Canada, "Pension Plans in Canada, as of January 1, 2020.")

The CPP model offers average Canadians not only a savings vehicle potentially but a professionally managed savings vehicle that they do not have to worry about. In a world in which fewer than 40% of paid workers have such a vehicle, this is an extremely important consideration.

Although the current CPP model is very important, it still will not provide the total income that is required by Canadians to ensure that they enjoy a retirement income that is at least two-thirds of their annual income during their best income years of their working lives.

It is more likely that on an average annual basis CPP + OAS+GIS benefits for average Canadians represent no more than 35%-40% of this figure.

For individual Canadians, there is no obvious harm associated with enabling them to make annual contributions to the CPP Investment Fund and, potentially, there are very significant benefits.

From the perspective of the viability of the CPP Investment Fund, there would also seem to be no obvious negative implications associated with allowing Canadians to use the CPP Investment Fund as a savings/retirement vehicle above and beyond the current role. Greater annual contributions from an even wider spectrum of the Canadian population should actually make the Fund stronger.

It would be prudent to have this potential scenario considered by the Office of the Chief Actuary in Canada but on the face of the matter this would seem to be a long overdue change in Canada's public policy framework.

The Possible Impacts on the Federal Fiscal Position

Developing an integrated income security system that is largely, if not exclusively, funded outside of the consolidated revenue fund of the federal government may have interesting implications for the annual budget of the federal government in Canada.

If employment insurance premiums were integrated into the CPP Investment Fund and if the employment insurance payments became part of an integrated income security program that was funded through the CPP Investment Fund then both the EI revenue and benefits would be removed from the annual statement of the federal government's consolidated revenue fund. This would remove a very significant portion of annual variability from the federal fiscal position.

For example, in the 2021 federal budget, it was projected that employment insurance benefits would exceed employment insurance premium revenues by approximately $55 billion for the period from 2019 through 2023 (Department of Finance Canada, "A Recovery Plan for Jobs, Growth, and Resilience," Budget 2021, pp. 329 and 333). This is obviously an extreme example associated with the covid pandemic; however, periods of economic recession do substantially impact the federal ability to balance their annual budgets.

In each of these five years, the projections show total federal program expenses exceeding total budgetary revenues, and transfers to individuals for income security purposes show the largest variability.

It is also possible that in addition to employment insurance benefits, the Canada Child Benefit could be integrated into the CPP Investment Fund approach to income security and thereby removed from the annual program expenses of the federal government.

Finally, one of the largest categories of expense in the annual federal budget is elderly benefits. In 2020-21, this category exceeded $58 billion in total cost. This is obviously a key component to be moved into the CPP Investment Fund approach to income security.

Depending on how the federal government was to structure its annual financial contributions to the CPP Investment Fund to build an integrated income security system, there are very interesting implications for the annual federal budgets in Canada and, in the longer term, on Canada's public debt.

The three categories of expenses that have been highlighted annually represent more than $100 billion in federal spending, which in a normal year, would be in excess of 25% of total federal program spending.

Establishing Canadian Investment Targets for the CPP Investment Fund

As of the end of December, 2021, approximately 15% of CPP Investments across all classes of investments were made in Canada ("CPP Investments Net Assets Total $550.4 Billion at Third Quarter Fiscal 2022," News Release CPP Investment Board). This amounts to total investment in Canada of approximately $82 billion.

In the establishment of the CPP Investment Board there were no established targets for investment in Canada. The Board is independent of all governments and manages the Fund independently.

However, would it be inappropriate to consider that there should be a minimum standard/target for total investment in Canada given that these funds are Canadian exclusively?

Even a modest target of 20% of total investments becomes very important and would have a very real impact as the CPP Investments begin the march toward a $1 trillion valuation. With annual average growth in excess of 10%, this would mean annual investments in Canada by CPP Investments on the order of $20 billion plus once the Investments move beyond $1 trillion in total value (which may be within the next decade).

For private Canadian companies seeking either equity or credit investment, this is potentially an incredibly important consideration, as it is therefore for the governments of Canada.

A Few Final Comments

Canada has been among the leaders in the world in the development of national health, educational and social programs. Unfortunately, despite many important advances, Canada has a very serious problem with poverty and with the various problems that tend to be associated with poverty – addiction and crime and poor health.

It is financially possible to construct a universal income security program in Canada. Whether there is the political will to take such an ambitious next step is uncertain. And whether the population realizes the great importance of trying to eliminate poverty is uncertain.

Incremental steps have moved the country forward undoubtedly but there are gaping holes in the coverage, and far too many people living in poverty as a result.

Additional incremental steps are possible which are easier politically than a universal approach, but it is very hard to see how we as a nation achieve the 2030 poverty objective without being quite ambitious.

John Whalley, Sydney, Cape Breton May 11, 2022