

First, Do No Harm

**If governments want to reduce poverty,
they should stop doing things that make people poor**

Dissenting Report
By Her Majesty's Loyal Opposition
Standing Committee on Human Resources, Skills and Social Development,
And the Status of Persons with Disabilities

Report on Poverty Reduction

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Background

From October 2016 to May 2017, the House of Commons' human resources committee studied poverty reduction strategies. The government has now produced a majority report chronicling its hearings and recommending policies to address the subject. With our dissenting report, the Conservative members build on the success of the previous government of Stephen Harper, whose policies helped usher in the largest decline in the poverty rate and the lowest levels of poverty ever recorded in Canada (see appendix 1).

Members of the Official Opposition thank the committee chair, members, and support staff for their good faith and diligent work on this study. The majority report contains very valuable information and many good recommendations. Still, practical and philosophical differences with the committee's majority report necessitated a dissenting report from the Conservative Party.

Primum non nocere — First, Do No Harm

Doctors practice medicine with the overriding principle: "first, do no harm." In other words, the doctor's intervention must not harm the patient more than it helps. Unfortunately, when it comes to the condition of Canada's less fortunate, government actions are doing plenty of harm.

Witness testimony (see appendix 2) found a growing list of government actions that impoverish people and widen the gap between rich and poor. They include regressive consumption taxes which disproportionately burden low-income people to fund complex "green" programs for the rich; inflated electricity costs to subsidize the profits of well-connected, so-called "green energy" investors; building restrictions and "snob zoning" that block affordable housing construction; high marginal effective tax rates that punish poor and disabled people for working; rules forbidding aboriginals from owning homes; and corporate welfare programs that transfer scarce resources from the poor and middle class to politically-connected plutocrats. These are mistakes of commission, not omission. They are the result of government *action*, not *inaction*.

Ironically, governments routinely offer themselves as solutions to the problems governments cause. Municipal red tape stops affordable housing construction and then municipal politicians demand more federal money for affordable housing, for example. It is like a doctor who poisons a patient and declares himself a savior for later administering a life-saving antidote. Likewise, problems of government's making are not solved through more government action. The government should instead commit itself to "first, do no harm." To that end, this dissenting report offers practical steps to stop government from doing harm to those less fortunate.

This minority report rests on the belief that people in poverty desperately want to escape it. They work hard and sacrifice daily to do so. If governments would stop holding them down, many of Canada's poorest people could achieve their dreams of

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self-reliance and prosperity. It is time the government stood by their side, rather than in their way.

Appendix 1: The Facts

Policies like raising the personal exemption limit, lowering the tax burden, reducing harmful consumption taxes, and reducing the overall cost of the federal government had a direct impact on lowering the poverty rate to its lowest levels in recorded history under Prime Minister Stephen Harper's government. These are the facts:

- The basic needs poverty line declined to a record-low 4.2%, declining by a third over the course of the previous government.¹
- The low income cut-off (LICO) fell to a record-low 8.8%. In fact, it dropped more under the previous government than under any other Prime Minister in recorded history (more than 40 years).²
- Middle class incomes rose 11% during the previous government's time in office.³
- Federal spending under the previous government dropped to 14.2% of GDP, the lowest in a half-century.⁴
- By raising the personal income exemption, the previous government removed one million low-income Canadians from the tax roll.⁵
- On average, federal income tax on families earning less than \$30,000 dropped by more than 90% over the course of the previous government.⁶

If the government wants to reduce poverty, it must recognize what government actions make a real, positive difference in lowering the poverty rate.

Appendix 2: Quotes from Witnesses

The following witnesses gave testimony that helped us reach the conclusions noted above:

The Carbon Tax

When asked "how [would] you like to see carbon pricing come back to people in need?" the Mayor of Medicine Hat, Ted Clugston, replied flatly: "Don't charge it in the first place. Sorry."⁷

¹ Statistics Canada, <http://pierremp.ca/wp-content/uploads/2016/08/CanadaPovertyRatesProvinceYear.xlsx>

² Statistics Canada, <http://pierremp.ca/wp-content/uploads/2016/08/CanadaPovertyRatesProvinceYear.xlsx>

³ Finance Canada, <http://www.budget.gc.ca/2016/docs/plan/budget2016-en.pdf#page=13>

⁴ Finance Canada, <http://www.fin.gc.ca/frt-trf/2015/frt-trf-1502-eng.asp#tbl8>

⁵ Finance Canada, <http://www.budget.gc.ca/2015/docs/plan/budget2015-eng.pdf#page=242>

⁶ Finance Canada, <http://www.budget.gc.ca/2015/docs/plan/ch4-1-eng.html>

⁷ Medicine Hat mayor Ted Clugston, February 16, 2017 meeting.

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Mayor Clugston on how keeping utility rates low will be a challenge thanks to the carbon tax: "We also own our own utilities and are able to boast some of the lowest utility rates in the country, and the lowest in the province. However, moving forward, this will be a major challenge, as we have a carbon tax that we have to collect on behalf of the other levels of government and it will be passed on to our ratepayers."⁸

Gavin Still on the hidden, direct, and indirect expenses of the carbon tax: "the issue with any carbon tax is that there would be so many layers of costs built into the lifestyle, and certainly there would be an impact to low-income people... First, it affects the industries that feed and clothe people here, and which people come to work for either directly or indirectly. Second, the cost of transportation, the cost of building, and any kind of additional levy that goes into that becomes almost a layered cost and builds on incrementally in each step through the supply process... It probably decreases the likelihood of investment in the area and the natural resource industry in general."⁹

Clawbacks due to income

Doctor Ian Lee on the disincentives to return to school or work due to social assistance clawbacks: "If someone is on social assistance, they cannot go back to school. They will be cut off. Can you imagine?... We prevent people who are receiving social assistance or unemployment insurance from going back to school because we threaten to cut them off. We should be saying, 'We encourage you and we will shout from the mountaintops to have you go back to school while you're on social assistance or on unemployment insurance,' but we don't. We put these huge barriers in to prevent them from becoming educated, and that is really bad. That's wrong."¹⁰

Alana Baltzar about the massive clawbacks disabled people face when they start working: "With the Ontario Disability Support Program, they're a bit better when it comes to reductions in welfare, but you only get [\$]200. Once you hit the 200 point, they start deducting from you. Once you start making set amounts of money, you are no longer eligible for your medical, your dental, and that is a problem. It is a barrier."¹¹

Brad Brain, Registered Financial Planner: "With the Canada Pension Plan, the problem is that it doesn't directly target low-income seniors. The guaranteed income supplement is the program we have now that's targeting low-income seniors. The problem is that it's clawed back, as somebody mentioned, at a 50% rate that starts really early. Anything above \$3,500, you start losing your GIS. That's a real conundrum for somebody of modest means. If they go and maybe take on a little part-time work or maybe they get a bit of investment income coming in, they're looking at reducing their government benefits."¹²

⁸ Medicine Hat mayor Ted Clugston, February 16, 2017 meeting.

⁹ Gavin Still, February 21, 2017 meeting.

¹⁰ Ian Lee, November 1, 2016 meeting.

¹¹ Alana Baltzar, March 10, 2017, meeting.

¹² Brad Brain, October 25, 2016 meeting.

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Brad Brain: “The way I look at the guaranteed income supplement is that this is the benefit that brings people “up” to the poverty line. These are exactly the types of people I think you guys would be focused on. What we have is a situation right now where the benefit is quickly clawed back and eliminated at a fairly low hurdle rate. If what we want to do is specifically target seniors poverty, then some ideas would be maybe to have the clawback start a little later, so, let's just say, for the sake of discussion, at \$5,000 rather than \$3,500. Maybe they don't get eliminated completely at such a low rate, so perhaps rather than \$17,000 maybe a person could make \$20,000 before they lose their benefit completely. Perhaps it doesn't get clawed back at a 50% rate. Right now, if you make two dollars, you lose one dollar in benefits. Maybe a person could address that.”¹³

John Stapleton, fellow, Metcalf Foundation, on clawbacks: “When you have taxation at the federal and provincial levels that combines benefit clawbacks that reduce every dollar that people get—especially from earnings... that result in clawbacks and taxes of over a dollar on a dollar—something is wrong; something is broken. I think it's only the federal government that can actually convene all of the provinces and municipalities and those various programs that do that.”¹⁴

John Stapleton, on how the previous government's leadership ensured that federal programs were not subject to clawbacks: “I'll give a plug to the late Mr. Flaherty, who made sure by talking to the provinces that the RDSP, the registered disability savings plan, was not clawed back by other social assistance programs. The same is true of the working income tax benefit that was brought in in 2007, so you see good examples where care was really taken to do this. For those who believe that the federal government can't have influence, there are two particular, pungent examples of where the federal government did lean on the provinces and made sure that those clawbacks did not take place.”¹⁵

Government policy that makes sense

Brad Brain on how Tax-Free Savings Accounts help all Canadians, regardless of income, shelter their savings from being taxed: “For people who do not have an abundance of resources to work with, the Tax-Free Savings Account is a beautiful tool that allows them to be a little more self-sufficient.”¹⁶

Philanthropist Don Johnson on how changing the *Income Tax Act* could substantially increase donations to charities: “Our recommendation is that the government remove the capital gains tax on charitable gifts of private company shares and real estate... The case for [this] is compelling. First, the forgone capital gains tax on these donations is only \$50 million to \$60 million a year, and the charitable donation tax credit is the same as for gifts of cash. Second, because the donor must sell the asset to an arm's-length party, this ensures that he or she receives fair market value for the sale and addresses

¹³ Brad Brain, October 25, 2016 meeting.

¹⁴ John Stapleton, November 24, 2016 meeting.

¹⁵ John Stapleton, November 24, 2016 meeting.

¹⁶ Brad Brain, October 25, 2016 meeting.

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any concern about valuation abuse. Third, introducing this measure addresses a current inequity in the *Income Tax Act*. It provides the same tax treatment for donations of private company shares and real estate that currently applies to gifts of other appreciated capital assets and listed securities. Entrepreneurs who keep their company private would be treated the same as entrepreneurs who take their company public. Finally, the vast majority of these donations would be incremental, and would not be a substitution for cash donations.”¹⁷

Don Johnson on the impact this change could have: “I'd like to share with you how United Way in Toronto has benefited from the removal of the capital gains tax on gifts of listed securities. From 1956 to 1996, the total gifts of listed securities to United Way of Toronto amounted to only \$44,000—that's over 40 years. From 1997, when the capital gains tax was cut in half, to 2016, gifts of listed securities to United Way in Toronto totalled over \$176 million, as a result of the removal of the capital gains tax on gifts of listed securities. United Way Toronto and York Region provides crucial funding for over 200 agencies in the GTA and the York region. This is a measure that can help significantly in skills and social development.”¹⁸

More government money is NOT needed

Small business owner and employer of disabled people Mark Wafer on how new government money is not needed, what is needed is the funding to be tied to specific outcomes: “[Another witness] said, ‘We don't want to go back to taxpayers and ask them for more money.’ We don't need to do that. The resources are already there. The money that's being used for wage subsidies right now should be used for those engagement programs instead of having social service agencies take a cheque for \$5,000 and give it to an employer to hire somebody with a disability. That is a very dangerous thing to do. Yes, it gets that person in the door, but it's not sustainable. The attitude of the employer has not changed. He or she still sees that person as somehow broken, not whole.”¹⁹

Mark Wafer: “It's very important that the federal government set the tone and set the intent of what these monies [job training funds that are transferred to the provinces] are to be used for, and how we do interviews and how we educate employers, so that when we do shut down the sheltered workshops, 50% of people who are in sheltered workshops today, who are employable, actually find a job. We can only do that if we open doors. We can't do it by increasing social services or increasing taxpayers' money. None of that will have any effect on this. The only thing that is going to work is if employers see that there's a valid reason to open their doors.”²⁰

Aboriginal business leader Kory Wood on employment opportunities for aboriginal youth: “I never felt, through my four years working with first nations youth, that money

¹⁷ Don Johnson, March 10, 2017 meeting.

¹⁸ Don Johnson, March 10, 2017 meeting.

¹⁹ Mark Wafer, November 24, 2016 meeting.

²⁰ Mark Wafer, November 24, 2016 meeting.

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was an issue. I thought there was plenty of funding available out there. It was more focusing on the quality of opportunities, not the quantity of opportunities.”²¹

The best way out of poverty is a job

Monique Moreau, Canadian Federation of Independent Business, on the best way out of poverty: “the best way to lift people out of poverty is with a job.”²²

Monique Moreau on how the cost of government prevents businesses from hiring more people: “Red tape certainly impacts all business owners. We know from our research that the impact on the Canadian economy was pegged at about \$39 billion a year. That can be anything from filling out a complicated form to bad customer service or waiting on the phone trying to get through to call centres, for example. Any small business owner will tell you that they do the vast majority of that work very late at the end of the day or first thing in the morning, when they could be looking into opportunities to hire from various groups that require jobs, advertising for new positions, or looking at reinvestment in their business.”²³

Housing red tape and “snob zoning” makes housing unaffordable

Doctor Ken Green on the \$20,000 to \$60,500 per-unit cost of housing red tape, in order to satisfy government paperwork requirements: “We were looking at the value of permitting, the cost to get a building permit, after going through things like rezoning, getting a building permit, waiting a certain amount of time to get the permit. You pay a certain amount in that process, and it varies very widely. In the aggregate, the delays in getting building permits, the higher costs of building permits, and opposition, particularly from councils and community groups, to new housing in their area—the not-in-my-backyard kind of opposition... All of this raises the cost of building new housing units and suppresses the supply. We know that when you have a suppressed supply and you have a high demand, prices go up even higher than they would if you had enough housing to meet demand.”²⁴

Economist Daniel Shoag on the prevalence of “snob zoning,” the creation of artificial red tape requirements in order to prevent housing development or prevent certain types of housing from being built: “When prices are rising and the quantity is static or falling, it's a supply issue, and when you look at the data it's pretty clear that there are restrictions in place. Construction costs actually don't differ that much. Brick prices don't differ that much city to city, and cities like Boston, where I live, are not actually that much more densely-populated than the cheaper places like Houston, or in fact not at all. So it's not the physical space that limits. The culprit is really regulations and restrictions that prevent development.”²⁵

²¹ Kory Wood, November 29, 2016 meeting.

²² Monique Moreau, November 22, 2016 meeting.

²³ Monique Moreau, November 22, 2016 meeting.

²⁴ Ken Green, February 14, 2017 meeting.

²⁵ Daniel Shoag, February 9, 2017 meeting.

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Kevin Lee, Canadian Home Builders' Association, on how land use regulations can restrict housing supply and drive up prices: "Right now, the way secondary suites are assessed for GST purposes, it's not just the construction cost; they incorporate the value of the land. A secondary suite is on land that's already owned by somebody, so in the assessment process they'll include the land to create a value for the property, which obviously—especially in an infill situation in an urban environment where property values are very high—will dramatically increase the taxation on that house, making it very undesirable or expensive. The result is either not building the suite, or often, building the suite in the underground economy for cash, which is a whole other story unto itself, which is a problem."²⁶

Appendix 3: Recommendations

Stop Taxing the Poor

- Recommendation: that the government fully release all data it has on the impact of the carbon tax on the poverty rate, the gap between rich and poor, median incomes, the number of people living below the low-income cut off line, and the cost to a family of a "Market Basket," as defined by Employment and Social Development Canada and Statistics Canada.
- Recommendation: While we remain opposed to a carbon tax, we believe that, if the government insists on charging it, anyone making less than \$50,000 per year should be exempt from paying it.
- Recommendation: that the government recognize that Tax-Free Savings Accounts protect low-income seniors from taxes and Old Age Security claw backs, while allowing renters to enjoy the same tax-free capital gains as homeowners.

Less Red Tape – More Housing

- Recommendation: that the Canadian Mortgage and Housing Corporation produce an annual report on the total cost of taxes, fees, permits, delays, and red tape per unit of housing in each major market across Canada.
- Recommendation: that the Canadian Mortgage and Housing Corporation work with willing band councils to allow aboriginals to access private sector mortgages on the same commercial terms available to every other Canadian.

Less Government and More Community

- Recommendation: that the government remove all capital gains tax on private company shares and real estate donated to charity.

No More Welfare for the Wealthy

- Recommendation: that the government end corporate welfare, and other programs that transfer scarce funds to the rich from the rest.

²⁶ Kevin Lee, Canadian Home Builders' Association, February 21, 2017 meeting.

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Make Work Pay

- Recommendation: that the government shift taxpayer dollars away from sheltered workshops towards helping people with disabilities work in private sector jobs with competitive wages.
- Recommendation: that all employment agencies be funded based on the number of people they connect with jobs or pay increases.
- Recommendation: that the government task the Parliamentary Budget Officer with reporting annually on the marginal effective tax rates (METRs) that low-income disabled people pay in each province.
- Recommendation: that, at the next meeting of the federal-provincial Finance Ministers, all governments agree on a coordinated plan to cap METRs at a maximum 50% for all disabled Canadians, and that the \$222 million the federal government transfers to the provinces each year under the Labour Market Agreements for Persons with Disabilities should be conditional on meeting this cap.
- Recommendation: that the federal government lower the clawback rate on the Working Income Tax Disability Supplement.
- Recommendation: that Parliament adopt a "Make Work Pay Act" that caps clawbacks and taxes so that every Canadian is better off financially when they work.
- Recommendation: that the Parliamentary Budget Officer report on whether the government is complying with this Act.