

January 13, 2009

Dear Minister Flaherty,

We are writing on behalf of the 25 in 5 Network for Poverty reduction to urge you to make social investments and poverty reduction top priorities in the upcoming January 27 federal budget.

Evidence is mounting that investments in infrastructure, such as affordable housing and early learning and child care, along with strengthening the incomes of vulnerable families and adults, will reduce poverty. At the same time it will create jobs and stimulate demand in local economies across Canada.

On the other hand, general income tax and GST cuts have been shown to be ineffective and a weak substitute for social investments when it comes to economic stimulus.

As you weigh your options for a stimulus package that can put our economy back on track, we would like to share with you 3 reasons why social investments make for smart economic policy and 3 reasons why general income tax and GST cuts are not the answer.

Three reasons why Canada's economy needs social investments:

1. Social transfers do double duty of protecting Canadians in tough economic times and stimulating local economies – Employment Insurance reforms, the Canada Child Tax Benefit and the Working Income Tax Benefit cushion the blow for the most vulnerable while putting money into the pockets of those who are most likely to spend it on food, rent and other necessities stimulating their local economies.
2. Investments in social infrastructure create jobs and contribute to strong and supportive communities - investments in building and repairing affordable housing, early learning, child care and education services not only create jobs and economic spin-offs, but also bring the most benefit to those who live on the margins.
3. The cost of poverty is too great: we can make smart investments now to ensure everyone is at their best, or we can pay much more later in remedial expenses. Poverty costs Canada \$38 billion a year due to high unemployment, increased costs of health and social services, policing and criminal justice systems.

Three reasons why general income tax and GST cuts don't make economic sense:

1. Most of the money from tax cuts is not spent in local economies. Tax cuts for middle and high income earners end up in savings or are used to pay down personal debt. TD Bank economist Craig Alexander points out that of the \$100-billion in stimulus cheques issued by the Bush administration last spring, 80 cents from every dollar went into savings accounts, 10 cents into imports and 10 cents into domestic spending.
2. Tax cuts erode the government's revenue base taking away our ability to invest in anti-poverty and other initiatives resulting in further cuts to social programs in order to produce balanced budgets.
3. Income supports benefit low-income Canadians and local economies. Child benefits, work income supplements and employment insurance are efficient vehicles for transferring money into local economies and protecting the living standards of those who have the least.

We hope that we can count on your leadership to ensure that the budget on January 27 can both provide an effective stimulus package as well as address the goal of poverty reduction.

Sincerely,

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