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THE HAND IN PEOPLE'S POCKETS

The April 1989 budget has been portrayed by critics as a big revenue grab and so it is. Our analysis of the income consequences of the budget, using Statistics Canada's Social Policy Simulation Database and Model, shows just how deeply the federal government's hand has been thrust into Canadian pockets.

The tax measures directly affecting individual taxpayers and included in our analysis are: the increase in the personal income tax surtax from 3 to 5 per cent; the 3-per-cent high income surtax on basic tax in excess of $15,000; the enrichment of the refundable sales tax credit to $140 per adult and $70 per child; the recapture of family allowances and Old Age Security benefits for high income earners over $50,000; the increase in the Unemployment Insurance contribution rate to 2.25 per cent; and increases in the federal sales tax and excise taxes. These measures will increase federal revenues by $4.2 billion in 1990, when most of the measures will be fully implemented.

The additional tax burden in 1990 will - on average - be $382 per Canadian family. The average Canadian census family has 2.5 members and is projected to have a total income of $44,785 in 1990. For an average two adult family with 1.8 children, and with a total income of $55,396, the additional tax burden will be $528.

At first glance, the tax measures in the budget appear to be progressive. The high income surtax and the recapture of family allowances and OAS only hit upper income taxpayers. The enrichment of the sales tax credit is aimed to soften the blow on those at the bottom of the income scale. Aside from this, however, the budget entails belt tightening pretty much across the board.

Out of the 10 million census families in Canada, there will be 8.3 million losers and only 1.7 million gainers from the budget. The 1.7 million beneficiaries are low income families earning less than $25,000, whose net benefits from the budget stem from the enrichment of the refundable sales tax credit. On the other hand, there are 1.9 million census families earning less than $25,000 and 800 thousand earning less than $15,000 that will have their after-tax income trimmed by the budget. Of the 2.1 million families consisting of elderly taxpayers, 1.3 million will experience a decline in their after-tax incomes.

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The general progressivity of the income tax measures contrasts with the regressive impact of the other tax measures. The increases in Unemployment Insurance contributions and sales taxes illustrate the point. Unemployment Insurance contributions will be levied at $2.25 per $100 of insured earnings, with maximum contributions capped at roughly the average industrial wage. Thus low and high income earners will experience similiar increases in U.I. contributions even though their ability-to-pay is very different. Similarly in the case of higher sales taxes. Low income individuals consume a higher share of their income and pay proportionately higher taxes. Sales tax increases are attractive to the government, particularly increases in the manufacturers' sales tax, because they are a less visible way of raising money and their regressivity can be masked.

The net result of the budget measures is to enhance the degree of tax progressivity at the low end of the scale, but to sock it to all the rest of Canadians more or less on a proportionate basis. Generally, those families with earnings below $20,000 will be little affected by the budget or will experience a slight improvement. The bulk of Canadian families earning over $35,000, however, will experience a 1.3-to-1.5 percent decline in consumable income (i.e., the income left after paying income and commodity taxes). Only when incomes are in the $150,000 range does the tax bite become more severe - up to 1.8 percent on consumable income.

The message is clear. The burden of tax increases to reduce the deficit are being shared relatively proportionately by middle and upper income Canadians. The high income surtax and recapture of family allowances and OAS benefits notwithstanding, upper income Canadians are not bearing the brunt of deficit reduction.

The mix of tax increases and expenditure cuts in the budget clearly reveal the government's beliefs about the preferences of Canadians. Of the $9,029 million in deficit-reducing measures introduced in the budget for the 1990-91 fiscal year, $7,165 million or four fifths were tax increases and only $1,864 million or one fifth were expenditure restraint measures.

The total spending cuts announced in the budget amount to 1 1/4 per cent of projected spending in 1990-91. The government's new Expenditure Review Committee evidently was unable to come up with any larger spending cuts that the government believed to be politically saleable.

The politics of tax increases versus expenditure cuts is compelling. Most spending programs develop a special interest constituency of beneficiaries that has a large stake in the continuation of the program. These groups have resources at their disposal and will fight hard if their programs are threatened. Politicians are understandably reluctant to tangle with such groups for fear of losing their political hide, or worse their seats.

Taxpayers, on the other hand, while more numerous, have less at stake and, judging from their reaction to the budget, do not tend to put up much of a fight when accosted. Politicians, shrewdly, favour tax increases over expenditure cuts.

The budget spells out the harsh tax realities of providing a high level of government goods and services. In spite of the tax increases, 20 cents out of each dollar of spending will still be financed out of borrowing, an obviously unsustainable situation. If the taxpaying public remains docile and is unwilling to push for substantial cuts in government spending, then more tax increases are in store for the future.

And we know who's going to pay the taxes. It's going to be you, and it's going to be me, and not the fellow behind the tree.