



Policy Briefing Paper

No. 10 April 2007

Budget 2007 – KAIROS Report Card

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Budgets are moral blueprints for society. They define a set of ends towards which we seek to move as a society. Our values are informed by our Christian belief that:

- all people have the right to be treated with dignity and respect;
- our social policies are effective in reducing poverty in this country and that priority is given to the needs of the marginalized in society;
- we are called to honour and respect God's creation – nature and the planet around us, and to preserve it for future generations.

The 2007 pre-budget theme of "Canada in a Competitive World" focused on the goal of increasing economic growth and prosperity in Canada. KAIROS argued in its pre-budget submission that there are other equally important objectives for the 2007 Budget, namely opportunity, compassion, fairness, stewardship of nature and citizen engagement. Below, in reference to our own positions and our pre-budget recommendations, we assess the 2007 Budget in terms of its performance in key areas of 1) Domestic social policy; 2) Energy and the Environment; 3) Overseas assistance and 4) Aboriginal issues.

Grading Scheme

- A = Excellent
- B = Good
- C = Satisfactory
- D = Needs Improvement
- F = Failure
- I = Assignment Incomplete

I. Domestic Social Policy

A) Child care

KAIROS position: All children should have access to high-quality early learning programs and care. The KAIROS pre-budget submission called for bilateral funding agreements with provinces and territories to ensure the 125,000 promised child care spaces (over 5 years) are of high quality and are accessible to all families.

2007 Budget: \$250 million a year to provinces through the Canada Social Transfer "earmarked" for child care. Tax credit to businesses to create new spaces.

Assessment: **D-** \$250 million a year is minimal compared to the \$5 billion over five years committed under the cancelled Early Learning and Child Care Agreements. The new money has no accountability mechanism to ensure it creates high-quality care. The business tax credit has little support from the child care or business community and is not expected to create a significant number of new spaces.

B) Support for Working Poor

KAIROS position: In order to reduce the number of low-wage, low-income workers, increases to minimum wages at both the federal and provincial levels are required. However, government also needs to play a role in ensuring that part-time, temporary workers and low-wage workers do not fall below the poverty line. A benefit for low-income workers, in tandem with increases to minimum wages, is one part of a poverty reduction strategy. Our pre-budget recommendation called on the government to introduce a Working Income Tax Benefit of up to \$2,400/year for workers in households with incomes between \$4,800 and \$21,500.

2007 Budget: A new Working Income Tax Benefit of up to \$500 per year for single individuals earning between \$3,000 and \$9,500, and up to \$1000 for single parents and couples earning between \$3,000 and \$21,167.

Assessment: **C-** This is an important innovation in income support. It is not sufficiently funded (\$550 million per year as opposed to approximately \$3 billion per year called for by many groups), only providing a small amount of support to very low income families, but it is something to build on. Also, it needs to be combined with increases to minimum wages by both federal and provincial governments.

C) Income Supports for Families

KAIROS position: Government should ensure that all families have adequate incomes to raise healthy children, as well as access to services and supports like early learning and child care, and public and post-secondary education. KAIROS has called for a plan to increase the Canada Child Tax Benefit to \$4,900 to better cover the costs of raising children, and an end to the claw back by provinces of the CCTB from children in families receiving social assistance.

2007 Budget: No further increases to the CCTB from its current level of about \$3,200. Introduced a Child Tax Credit, a non-refundable credit of up to \$310 per child per year that goes to families with incomes over \$20,000. Not a cent will go to the poorest families whose incomes are so low that they owe no tax in the first place.

Assessment: **F** The Child Tax Credit is a wasteful and inequitable tax credit that will cost the government \$1.5 billion per year. It does nothing to help low-income families. It constitutes a meaningless drop in the bucket for middle and upper income Canadians. It will make income inequality among families worse.

D) Poverty Reduction

KAIROS position: Several provinces in Canada (QC, NL, NS) have developed poverty reduction strategies. Canada needs to do so as well. The KAIROS pre-budget recommendation was for the government to develop a long-term poverty reduction plan with clear goals and strategies.

2007 Budget: No mention of poverty reduction strategy or income security reform.

Assessment: **I** A major omission. No mention even of the need to modernize and improve the messy patchwork of outdated income security programs in Canada. In fact, the ad hoc provisions such as the Child Tax credit and Universal Child Care Benefit have made the patchwork more of a confusing and illogical muddle.

E) Affordable Housing

KAIROS position: Housing is a right for all Canadians. More than one and a half million Canadians are homeless or underhoused. Our pre-budget recommendation calls for the renewal of the Supporting Communities Partnership

Initiative at current funding levels until 2012 and the creation of 20,000 new affordable units per year.

2007 Budget: SCPI was replaced in 2006 by the two-year Homelessness Partnering Strategy. No long-term housing plan was announced in the budget. The increase in transfers to the provinces may free up some money for housing but there is no guarantee of this.

Assessment: **I** Another huge omission in the budget.

F) Supports for Unemployed and Underemployed Workers

KAIROS position: Access to Employment Insurance by unemployed workers declined from 80% in 1990 to 40% in 2004, in large part due to the rise of short-term and part-time work. Our pre-budget recommendation called for an increase in access to EI (e.g. reduce hours for eligibility).

2007 budget: **I** Nothing

G) Income Supports for Seniors

KAIROS position: While poverty among seniors has dropped dramatically, many seniors, particularly women, continue to live in poverty.

2007 Budget: In the midst of the pre-budget consultations, the Harper government announced its intention to allow seniors with pensions to split their pensions with spouses to reduce income tax payable. This was formalized in the budget, in a measure that will cost the federal government \$6-billion over the next six years. The budget also included an increase to the non-refundable age credit for seniors.

Assessment: **D-** Like the Child Tax Credit, these two measures together are hugely regressive, and will not benefit the 1.7 million seniors whose incomes are so low they do not pay taxes. It will not significantly benefit single seniors. Seniors with \$100,000 in pension income will receive a \$7,280 tax reduction; nine times the saving of a couple with a \$30,000 pension, and 23 times the saving of a couple living on \$20,000.

H) Supports for People with Disabilities

KAIROS position: We recognize that people with disabilities are over-represented among the poor. Reducing poverty among people with disabilities should be the key part of a poverty reduction plan

2007 Budget: Established a Registered Disability Savings Plan so that family members of people with disabilities can invest up to \$200,000 tax free in a plan. Also recommended a Canada Disability Savings Grant to match (1 to 3 times) investments by low-income families.

Assessment: **D+** Important steps but will not dramatically reduce poverty. Income security programs and disability supports, rather than tax measure, needed to do that.

II) Energy and the Environment

A) Energy Policy – Subsidies

KAIROS Pre-Budget Recommendation: Increase investment in non-fossil fuel and non-nuclear energy production, through tax incentives and a new energy policy, and decrease subsidies to the oil and gas industry.

2007 Budget: No comprehensive “new energy policy”, only a slow phase out for the Accelerated Capital Cost Allowance (ACCA) for tar sands projects by 2015. Ottawa will also spend \$60 million over the next 2 years on a Major Projects Management Office to streamline regulatory approvals for major resource projects.

Assessment: **D** The ACCA is the most important tax expenditure benefiting tar sands projects. It permits companies to defer 100% of their income taxes until all capital costs are paid off and will continue for 9 years at an annual cost of \$300 million a year. The Budget did not reduce three other tax expenditures worth about \$1 billion a year that are available to tar sands projects and conventional oil and gas industries.

B) Energy – Tax Incentives for Renewable Energy

KAIROS Pre-Budget Recommendation: Increase investment in non-fossil fuel energy through tax incentives.

2007 Budget: Added a few new items to an existing 50% ACCA for Clean Energy Generation. The existing policy allows firms to defer taxes on half their capital spending for wind, solar, small hydro, landfill gas, manure, wood waste and high efficiency cogeneration projects. The 2007 Budget extends this deferment to wave and tidal energy. Currently available support for active solar devices for industrial processes or greenhouses is extended to space heating of commercial and apartment buildings and hot water for laundries, car washes and hotels.

Assessment: **C-** KAIROS welcomes these changes as a step forward but we question why there is no additional support for active solar systems for individual houses.

C) Energy – Other Incentives for Renewable Energy

KAIROS Pre-Budget Recommendation: Increase investment in non-fossil fuel energy production.

2007 Budget: Includes up to \$2 billion for promoting renewable fuels.

Assessment: **D** \$1.5 billion of the total is to support renewable fuel production which involves ethanol produced from corn and biodiesel from oilseeds. These fuels offer only marginal gains in net energy output and marginal reductions in greenhouse gases and they may put upward pressure on food prices. The other \$500 million targeted at assisting the development of the next generation of renewable fuels (from switchgrass, agricultural and wood wastes etc) is only marginally better.¹

¹ See KAIROS Briefing Paper No. 9 “Are Agrofuels Alternatives to Oil?” for a fuller analysis and critique.

www.kairoscanada.org/e/resources/policyBriefing9Agrofuel0703.pdf

D) Climate Change – Greenhouse Gas Emissions

KAIROS Pre-Budget Recommendation: Regulate levels of greenhouse gas emissions by industry, with clear financial penalties for non-compliance.

2007 Budget: The budget is silent on this demand although the Environment Minister has said the government will release a plan for reducing the “intensity” of GHG emissions, allowing total levels to rise.

Assessment: **I** Assignment Incomplete.

E) Incentives for Energy Conservation and Efficiency – Tax Rebates and Levies

KAIROS Pre-Budget Recommendation: Fund education and incentive programs to shift public behaviour and attitudes toward energy conservation and efficiency.

2007 Budget: Includes a \$2,000 rebate for purchasers of high efficiency vehicles and a \$1,000 rebate for medium efficiency vehicles. It also imposes a Green levy of \$2,000 to \$4,000 on low-efficiency vehicles and includes \$36 million to promote the replacement of pre-1995 vehicles.

Assessment: **D+** In principle this program taxes vehicles that are bad for the environment while reducing the costs of more efficient alternatives. The \$36 million incentive for scrapping older cars will amount to just \$15 per vehicle.

F) Spending for Energy Conservation and Efficiency

KAIROS Pre-Budget Recommendation: Fund education and incentive programs to shift public behaviour and attitudes toward energy conservation and efficiency.

2007 Budget: Re-announces the government’s eco-ENERGY Renewable, Efficiency and Technology Initiatives and other spending for an Eco-Trust for Clean Air and Climate Change to be dispersed among the provinces. The budget includes other spending for infrastructure that may favour either more private vehicles or public transit depending on how the money is spent.

Assessment: **D+** It is unclear how much of the amounts in the various eco-ENERGY funds are new monies and how much are re-announcements of programs that are already funded. The Eco-Trust for Clean Air and Climate Change may include some worthwhile initiatives like an East-West electricity grid or dubious projects like a CO₂ pipeline.

III) Official Development Assistance

KAIROS Pre-Budget Recommendation: Develop a plan for raising Canada’s overseas development assistance to 0.7% of Gross National Income by 2015 reaffirming poverty reduction as the primary objective of foreign aid.

2007 Budget: \$315 million will be added to ODA for the current fiscal year but there is no new funding for next year.

Assessment: **F** ODA will be 0.34% of GNI this year but drop to 0.31% next year. There will be more aid for Afghanistan at the expense of other countries.

IV) Aboriginal Issues

A) Aboriginal Justice Strategy

KAIROS position: Work with Aboriginal peoples to enhance Aboriginal self-determination and self-governance.

2007 Budget: \$15.5 million over the next two years. Government will expand the Aboriginal Justice Strategy to significantly increase the number of Aboriginal communities and people that have access to community justice programs. This will lead to further reduction in crime and have positive impacts at the community level as Aboriginal communities take greater responsibility for the administration of justice.

Assessment: F Asking Aboriginal communities to shoulder more of the responsibility for the administration of justice without investing in Aboriginal governments and addressing underlying issues of poverty, decision-making power and jurisdiction, is misguided and unrealistic.

B) Housing in First Nations Communities

KAIROS position: Implement the Kelowna Accord, which includes a housing strategy for First Nations communities that incorporates and builds on Aboriginal approaches and initiatives, and that has the agreement of all levels of government.

2007 Budget: Government will develop approaches to support the development of individual property ownership on reserve, encourage lending for private housing, and increase accountability, both institutional and personal. To this end, \$300 million will be dedicated to the development of a housing market in First Nations communities.

Assessment: F The AFN estimates that 80,000 new houses are needed on reserves. This budget contains no new money to build new homes, or even to repair existing houses. Further, while developing housing markets in First Nations communities may make sense for a few First Nations communities, for the vast majority it is essentially a useless gesture because it is economically unfeasible. Home ownership is impossible if people can't afford the mortgage. Aboriginal peoples also fear that introducing individual property ownership on reserves lacking an economic base will ultimately lead to the fragmentation or loss of reserve lands, a scenario all too common in other countries.

C) First Nations Participation in Integrated Atlantic Commercial Fisheries

KAIROS position: Support First Nations communities in the design, development and implementation of an Aboriginal fishery, as per the Supreme Court of Canada *Marshall* decision, which recognized the Aboriginal right to earn a "moderate livelihood" from the fishery. Attempts by First Nations communities in Atlantic Canada to exercise this right by establishing an Aboriginal fishery have been repeatedly and consistently thwarted by the federal government.

2007 Budget: The 2007 budget further undermines the Supreme Court decision by identifying the government's priority for an "integrated commercial fisheries, in which all

commercial participants fish under common and transparent rules." The government is also promoting enhanced Aboriginal participation in the existing commercial fishery by providing "\$20 million over the next two years to ensure that First Nations in the Maritimes and the Gaspé region of Quebec have the capability to more efficiently manage and maximize their existing access to the commercial fishery."

Assessment: D- Why this issue received attention while many others were ignored is incomprehensible. Also of note is that part of the \$20 million committed here will come from "the reduction in licence revenues collected by the Department of Fisheries and Oceans following the transfer of licences to First Nations under the Marshall Response."

D) Specific Claims

KAIROS position: Act immediately and work with First Nations to improve the process for resolving Specific Claims.

2007 Budget: "The Government is committed to achieving fair and timely resolution of First Nations claims for compensation relating to unfulfilled lawful obligations. Currently, specific claims take years to deal with... In the coming year, the Minister of Indian Affairs and Northern Development and Federal Interlocutor for Métis and Non-Status Indians will work with First Nations leadership to move forward an action plan to accelerate the resolution of specific claims and will explore alternatives such as providing for independent adjudication of claims that cannot be settled by negotiations. Canada's New Government is committed to ensuring that settled claims are paid promptly."

Assessment: F No new money. This position is as unfathomable as it is offensive to Aboriginal peoples. When he was co-chair of the Indian Claims Commission, Indian Affairs Minister Jim Prentice described the settlement of specific land claims as "fundamentally a human rights issue." To propose "exploring alternatives" without committing any financial resources is not only discouraging, it is also insulting and irresponsible, especially in light of the recently released Senate Standing Committee Report: "First Nations cannot wait any longer to be empowered by the settlement of their Specific Claims. These settlements must provide First Nations with justice, with resources, and with a fair and reasonable opportunity to make important decisions about their own future and welfare."

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