



Policy Briefing Paper

KAIROS Policy Briefing Papers are written to help inform public debate on key domestic and foreign policy issues

No. 15 February 2009

KAIROS Analysis of Budget 2009

KAIROS called for decisive action, guided by lasting moral values, to respond to the global financial crisis in a January 24, 2009, letter to the Prime Minister and the Leaders of the Provinces and Territories. It looked to them for transformative policies to “invest meaningfully in a new economic framework that will combat poverty, ill health and climate change.” The letter set our four ethical principles as the essential foundation for public policy to respond to the economic crisis:

Solidarity: a commitment not to abandon either people or creatures, but to stand with them as companions and allies – in one Earth community – reflecting deep respect for the diversity of Creation.

Sustainability: adopting of environmentally fitting habits of living and working that enable life to flourish.

Sufficiency: a standard of organized sharing, which requires basic floors and definite ceilings for equitable or “fair” consumption.

Equity: fairness in decision-making as well as in outcomes, requiring socially just participation in decisions about how to obtain sustenance and to manage community life for the good in common and the good of the commons.

The first major test of these principles came with the Government of Canada’s federal budget on January 27. KAIROS offers an analysis of *Budget 2009: Canada’s Economic Action Plan* through the lens of its letter to the country’s leaders. This analysis focuses on three key areas: Indigenous Peoples; Energy and Climate Change; and Poverty Reduction.

1) Indigenous Peoples

The federal government’s commitment to Indigenous peoples in its 2009 budget is \$1.4 billion. Most of these funds are earmarked for improving living conditions on reserves and in the North by building, fixing and servicing houses (\$600 million), repairing or replacing health and police stations, building schools, and providing greater access to clean, safe water (\$515 million over two years). The budget also provides \$325 million for job and skills training and for improving the delivery of health, child and family services.

Reaction to the budget among Indigenous peoples in Canada is mixed. While the \$1.4 billion investment is appreciated, there is concern that First Nations, Inuit and Métis peoples will remain among the poorest and most marginalized members of Canadian society without structural changes to address systemic problems and remove obstacles to economic self-sufficiency, including the implementation of Indigenous rights. The 2009 budget has no incentives for Indigenous peoples to reduce their fiscal dependence on the federal government by investing in Indigenous economies and Indigenous self-determination. More specifically, it fails to address the Assembly of First Nations (AFN) proposal for collaborative initiatives on sustainable “approaches to clean, green energy.” It also has very little for Indigenous peoples who live off-reserve.

AFN National Chief Phil Fontaine welcomed the federal government's decision to begin reducing the socio-economic gap between Indigenous and non-Indigenous peoples, especially since the Conservatives' previous budgets held very little in terms of economic assistance for Indigenous peoples. Describing the 2009 budget as "helpful and fair," he noted that \$1.4 billion is approximately 2% of the budget, roughly the percentage of Indigenous people in Canada's population.¹ However, since Indigenous peoples are so far behind their non-Indigenous neighbours on almost every economic indicator, he believes the investment should have been greater. The budget needed a "comprehensive plan that lifts First Nations out of poverty," providing First Nations governments with "access to credit to spark their economies and develop partnerships with the private sector."

Mary Simon, president of Inuit Tapiriit Kanatami, echoed this sentiment, welcoming the additional funds to help Indigenous peoples consult on the Mackenzie Valley Pipeline and to improve the harbour in Pangnirtung. Yet she was disappointed with the "modest" \$10 million-over-two-years contribution in the new Northern Economic Development Agency, the exclusion of two Inuit regions – Nunavik and Nunatsiavut – from renewed social housing programs, and the fact that no additional monies were set aside to improve the implementation of Inuit land rights agreements.²

In response to the global economic crisis, the AFN had developed a \$3 billion First Nations specific economic stimulus plan that would support Canada's economy by investing in infrastructure. It built on the 2005 Kelowna Accord which committed \$5.1 billion over five years to First Nations, Inuit and Métis peoples. The stimulus plan, which received wide support at the January 15 meeting between Indigenous leaders and First Ministers, calls for investments in housing and water systems, education, and skills development. These are addressed in the Conservative budget, although not in the amounts proposed.

The AFN plan also stressed the importance of developing partnerships with First Nations in sustainable and long-term economic projects that include the recognition and implementation of First Nations' resource rights and calls for a \$1 billion "repayable loan fund" to encourage these joint ventures. As the AFN explained: "First Nations are in a unique position to promote access to development

opportunities, provide a pool of human resources in remote and resource rich-areas, and work with government and industry on innovative approaches to clean, green energy. Cooperative and fair economic and social practices require the full and equal participation of First Nations governments."³

In previous budgets, the Conservatives were soundly criticized for not honouring the more the \$5 billion commitments of the 2005 Kelowna Accord. While the 2009 budget commits more than in previous years, it does not, as the government suggests, "exceed" Kelowna's targets by bringing "the amount of new funding" for Indigenous peoples since 2006 to almost \$6.3 billion, since the total includes the approximately \$2 billion payment to former Indian residential school students.

2) Energy and Climate Change

KAIIROS called on our governments to invest in "conservation, efficiency and renewable sources of energy, and low-carbon transportation infrastructures in order to facilitate a transition to a sustainable economy." Unfortunately the 2009 federal budget continues to offer subsidies for fossil fuels without significant commitments to new spending on conservation, efficiency and renewable energy.

While the budget adds \$150 million in each of the next two years to the ecoENERGY Retrofit program, Greenpeace reports that the government is preparing to substitute tax credits for the \$5,000 grants now available for energy-efficiency home improvements. A portion of the \$3 billion Home Renovation Tax Credit announced in the budget may be spent on energy-saving renovations, but there is no guarantee that will happen. Similarly, who knows what proportion of the \$1 billion to renovate and retrofit social housing will go to energy saving investments?

The \$1 billion over five years promised for a Green Infrastructure Fund is intended to build systems that support the creation of sustainable energy. But no information is given as to how this money will be spent beyond the example of building "modern energy transmission lines." The Pembina Institute calculates that on a per capita basis the Harper government will spend four times less than U.S. President Barack Obama who has pledged US\$55 billion for clean energy.

The budget fails to recognize that Canada is facing an ecological crisis as well as an economic one. With Canada's need to dramatically reduce carbon emissions, it is deplorable that there are no new budget initiatives specifically for energy conservation. KAI-ROS believes that Canada must consume much less energy overall, and that a significant proportion of the energy we do consume must come from renewables. Not only is there no new money specifically earmarked for investment in renewable energy, the ecoENERGY for Renewable Power program that has offered major support for wind power will run out of money at the end of March, two years ahead of schedule. This will slow down the development of some \$5 billion of "shovel ready" wind power projects in Canada and lead to job losses that will go to jurisdictions offering more support.

While some of the \$1 billion set aside for "Transformation to a Green Energy Economy" might be spent on the development of solar, wind, tidal or geothermal energy, this appears not to be the intent. The only technology mentioned in this section of the budget is carbon capture and storage (CCS). After describing how the government has already provided \$375 million for the development of CCS technologies since 2006, the 2009 budget promises an additional "\$150 million over five years for research, and \$850 million over five years for the development and demonstration of promising technologies, including large-scale carbon capture and storage projects."

The budget also promises a tax deferment for assets used in a CCS project in the form of an accelerated capital cost allowance. One reason for the budget giving priority to CCS is the Harper government's need to demonstrate to President Obama that Canada can be both a secure source of petroleum and an ally in the fight against climate change. This requires the "dirty oil" from the tar sands to be rendered clean.

CCS would perform this alchemy by capturing carbon dioxide emitted during the extraction of bitumen and piping it underground. It would not, however, remove other chemicals that cause acid rain, respiratory problems and ozone depletion.⁴ Furthermore, CCS is an unproven and highly expensive technology, an irresponsible gamble in this time of both ecological and economic crisis. A communiqué from the Prime Minister's Office on the occasion of his visit to a CCS demonstration project in Saskatchewan cites the Canada-Alberta Carbon Capture and Storage Task Force

estimate that Canada has the potential to store some 600 million tonnes of CO₂ a year underground, "roughly equal to three-quarters of Canada's current annual emissions of greenhouse gases."⁵

CCS has not yet been implemented on a large scale and there are unanswered questions about public safety, the permanence of storage, monitoring and liability. Who will monitor whether CO₂ pumped underground or into an aquifer remains there? Who takes responsibility if CO₂ leaks out of a storage cavern? In 1986, some one million tonnes of CO₂ bubbled up from the bottom of Lake Nyos, in Cameroon. "Being denser than air, the gas formed a blanket that asphyxiated ... 1,700 people."⁶ Although this was a natural disaster, it has raised concerns about what could happen if large concentrations of CO₂ were ever accidentally released.

It would be more appropriate for this government to increase its spending in the area of renewable energies such as wind, solar, and tidal, which are proven to reduce our dependency on fossil fuels and lead us into a new sustainable era. Such investments would also create green jobs and stimulate a faltering economy.

3) Poverty Reduction

The 2009 budget lacks a clear vision for creating greater social and economic equality in Canadian society, even though it would appear that it attempts to construct a four-pronged strategy around poverty reduction: implementing income support, skills training for the unemployed, social housing, and public works.

The government has used a piecemeal and top-down approach based on the reduction of taxes and investment in infrastructure. The budget could have engaged with other levels of government that have taken on poverty reduction plans, such as Quebec, Newfoundland/Labrador, Ontario and Nova Scotia. Outlays could have been provided to the many civil society groups working on eradicating poverty, including the hundreds of faith-based initiatives found across the country. Supporting such initiatives could have created spin-off opportunities, not only for reducing poverty but also for preventing other segments of the society from falling into poverty.

Of the four parts of Budget 2009, the largest allocation went to the category of "Action to Help Canadians". Out of the \$13.5 billion of planned expenditure,

about half (roughly \$6.9 billion) is for tax relief measures, 73% of which are geared to higher income groups. The other half went to Employment Insurance payments and skills training (\$6.3 billion) and was primarily targeted at people living with low incomes such as workers, seniors, Indigenous people, and youth. This is a relatively integrated program with an emphasis on retraining. Although \$1.9 billion (over two years) remains small for the number of people likely to lose their jobs in certain sectors of the economy, it is an important beginning and could have a longer-term impact.

Under “Action to Stimulate Housing Construction,” the government focused both on the upstream and downstream linkages. People with inadequate housing are able to benefit from some substantial resources, providing the government spends the resources in a timely manner. The social housing initiatives include upgrading existing housing (\$1 billion) and building on-reserve Aboriginal housing (\$400 million); housing for seniors (\$400 million) and for people with disabilities (\$75 million); and Northern housing (\$200 million). This will be combined with the ongoing Homelessness Partnering Strategy of \$1.9 billion for the next five years.

Other benefits that are targeted to low-income people include:

a) The National Child Benefit (NCB) supplement for low and middle-income families is a monthly payment providing families with much needed income. In the 2009 budget, the maximum NCB for a family earning less than \$20,000 was raised to \$3,913. According to Campaign 2000, the minimum standard for raising a child is \$5,100 which leaves the benefit \$1,187 short. Those making \$20,000 to \$35,000 a year are given an increase of \$436 but *this is for a two-year period only*. There is no specific mention of expanding early learning and childcare services.

b) The Working Income Tax Benefit is a supplement for those engaged in temporary work, those who are underemployed or those working full-time at minimum wage who are not able to get out of poverty. The 2009 budget doubles the benefit to just over \$1 billion per year. This will translate into providing more than \$2,000 to single parents and couples earning between \$3,000 and \$21,167 and is seen as an incentive to encourage people to work. However, it falls well short of the \$3 billion per year that many groups had been calling for as the minimum needed to reduce poverty.

c) The budget extends existing maximum Employment Insurance benefits from 45 to 50 weeks, which will provide a marginal benefit to the Canadians who qualify. It also extends the scope of EI slightly to groups who have had long-tenure, the self-employed who are on maternity leave, and work-sharing programs. However, 60% of unemployed persons in Canada continue to be excluded from this program. This exclusion has been a key factor in increasing poverty levels and there is no indication in the budget that the eligibility criteria will be reviewed. Groups are calling for EI to be restored to 360 hours with benefits based on the best 12 weeks of earning at 60% of earnings.

d) Housing is a right for all Canadians, yet more than one and a half million people are homeless and three million live in inadequate housing. About 5% of Canadians live in social housing with a lack of funds for maintenance. The \$1 billion upgrade and retrofits proposed in this budget will assist with maintaining units and conserving electricity. The funds set aside for seniors, people with disabilities, on-reserve Indigenous and Northern communities will be helpful, but without a national housing strategy, it is difficult to build enough housing to reduce poverty.

While Budget 2009 contains some initiatives that will have a positive impact, it falls far short of offering the transformative vision that KAIROS is calling for – a vision embodying the principles of solidarity, sustainability, sufficiency and equity.

¹ Assembly of First Nations, Media Release - January 27, 2009. “AFN National Chief Says Federal Budget Fair on Infrastructure But Needs to Do More for First Nations.”

www.afn.ca

² Inuit Tapiriit Kanatami, Media Release – January 27, 2009. “National Inuit Leader Gives Mixed Review to Federal Budget.” www.itk.ca

³ Assembly of First Nations, “An Open Letter to Parliament from the National Chief of the Assembly of First Nations: First Nations Role in Canada’s Economy: Sustainable development and return on investment.” December 8, 2008

⁴ Alan Woods “Tar sands smog seen worsening” *Toronto Star* January 21, 2009.

⁵ Prime Minister’s Office News Release March 25, 2008.

⁶ Fred Pearce, “Burying the Problem.” *New Scientist* 27 March 2008.