

# Economic stimulus 2009: opportunity lost



Budget 2009 was an opportunity for the Government to lessen the blow of the recession by focusing on the most vulnerable citizens, but political jockeying led to a short-sighted economic stimulus plan that does not meet the needs of the thousands of citizens feeling the brunt of the crisis. Jobs being created by Government investments are in male-dominated industries, while women are over-represented in part-time and precarious work and are often the first to be laid off. Civil society organizations are concerned that, as Canada focuses on reversing the economic downturn, environmental and sustainability standards will drop.

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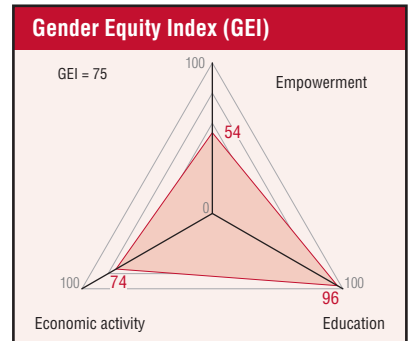
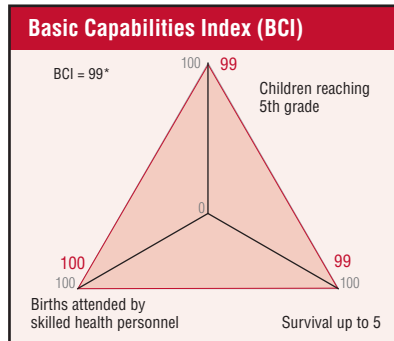
During the October 2008 General Election, which coincided with a growing awareness that Canada could face a possible recession, Prime Minister Stephen Harper assured voters that the economy would be immune to the global difficulties, that their savings, pensions and assets would be secure and that his Government would never go into deficit. He asserted this on the basis that Canada's banking system is well regulated and stable, and largely ignored the fact that the country would be heavily affected as the United States is, by far, the country's largest trade partner.

What the Prime Minister did not say was that the unemployment rates would likely skyrocket, or that low-income Canadians would feel the brunt of a weakened economy, especially since there had been so little investment in social programmes in the previous decade. He also said very little about the choices his Government – if elected – would make to head off the worst effects of a possible recession. Despite the fact that many Canadians were worried about this “head in the sand” approach, the governing Conservative Party was re-elected with 37.6% of the vote (on the basis of less than 60% of the eligible vote, the lowest turnout in history).<sup>1</sup>

When the newly elected Government set out its priorities, Canadians were expecting a solid economic stimulus package in order to protect jobs, invest in a strengthened social safety net for low-income citizens and make strategic investments to lessen the blow of the recession. Instead, it delivered a highly partisan and ideological agenda that would, among other measures, eliminate financial support for political parties and no longer uphold pay equity in the public service as a human right, leaving it to unions to negotiate this through the collective bargaining process.

## Parliamentary response

In an unprecedented step, the three elected opposition parties then negotiated an agreement to form a



coalition government. Many civil society organizations were supportive of this move to replace the Conservative government with a more progressive one that would represent the majority of Canadians. However, as the proposed coalition government gathered momentum and threatened to take power through a vote of no confidence in Parliament, the Prime Minister requested and was granted prorogation (essentially an extended parliamentary break) from the Governor General, Canada's head of State. The Government committed to reconvening Parliament six weeks later with a full budget outlining an economic stimulus plan. During the six weeks of prorogation, the leader of the official opposition party resigned, a new leader was named, and the coalition alternative was taken off the table.

## Budget 2009 and civil society

During the prorogation of Parliament, individuals and organizations were invited to make submissions to the Department of Finance consultations regarding what should be included in the budget. During this period, the Canadian Centre for Policy Alternatives (CCPA) released their annual Alternative Federal Budget (AFB), a participatory budget created by civil society with a heavy focus on creating and sustaining green jobs, investing in social and physical infrastructure, strengthening employment insurance and supporting low-income Canadians. Participants proposed five tests for the efficacy of the federal budget:<sup>2</sup>

- Does it help the hundreds of thousands of newly unemployed Canadians by increasing employment insurance benefits from 55% to 60% of insured earnings and extending the period for receiving those benefits to 50 weeks?
- Does it support those who need it most, such as unemployed, low-income Canadians and hard hit communities, by making a commitment to reduce poverty by 25% in the next five years?
- Does it implement an ambitious social, physical and green public infrastructure programme, creating jobs in both male- and female-dominated professions?
- Does it support key value-added sectors with restructuring criteria to ensure they become green and sustainable?
- Does it emphasize spending over tax cuts?

Budget 2009 failed all five tests.

## Support for unemployed workers

In terms of employment insurance, Budget 2009 announced changes that allow claimants five additional weeks of benefits over the next two years. This is not sufficient given the record job losses being reported. Moreover, relatively few Canadians are eligible to receive these benefits despite all workers earning taxable income making mandatory payments into the programme. Some 44% of those who are currently unemployed are drawing insurance benefits. In 1990 that figure was 83%.<sup>3</sup>

\* “Children reaching...” estimated following procedure “1” in p. 209.

1 CBC. “Voter Turnout Drops to Record Low”. 15 October 2008. Available from: <[www.cbc.ca/news/canadavotes/story/2008/10/15/voter-turnout.html](http://www.cbc.ca/news/canadavotes/story/2008/10/15/voter-turnout.html)>.

2 Canadian Centre for Policy Alternatives (CCPA) “Five Tests for Canada’s Next Federal Budget”. Press Release, 23 January 2009. Available from: <[www.policyalternatives.ca/news/2009/01/pressrelease2080/](http://www.policyalternatives.ca/news/2009/01/pressrelease2080/)>.

3 Battle, K., Mendelson M. and Torjman S. *Towards a New Architecture for Canada’s Adult Benefits*. Ottawa: Caledon Institute of Social Policy (2006).

The employment insurance programme was greatly weakened by deep government spending cuts made in the 1990s. Although before the recession Canada saw nearly a decade of economic growth and government surpluses, spending to social programmes was never restored. There is almost universal agreement across the political spectrum and among analysts that employment insurance needs to be fixed to improve access to jobless benefits. The opposition parties unanimously supported a motion in the House of Commons calling for reform in the programme. It is only the minority Conservatives who are opposed.

### Canada's weakened social safety net

Although touted as the Government's economic stimulus package, Budget 2009 saw no commitment to reduce poverty or any measures to help Canada's most vulnerable. In November 2008, the UN Committee on the Elimination of Discrimination against Women called on Canada to act immediately to address inadequate and impoverishing social assistance rates.<sup>4</sup> As jobs are lost and people are not qualifying for insurance benefits, more and more Canadians will need to turn to social assistance. Deep cuts to these programs in the 1990s means that that form of income support will not be available to hundreds of thousands of unemployed Canadians. Substantial investments are needed to improve the rates as well as undertake welfare system reform so that eligibility requirements are broadened, clawbacks of Government benefits for recipients are eliminated and recipients can earn more income. This would enable more low-income Canadians to lift themselves out of the poverty trap that the current welfare system has become since the spending cuts mentioned above.

### Budget 2009 and infrastructure

Budget 2009 saw some investment in physical infrastructure projects. Canada has an estimated USD 105 billion municipal infrastructure deficit due to years of under-funding and the amount announced is a drop in the bucket. Further, it relies heavily on Government partnership with private industry.<sup>5</sup> In most cases, municipalities have to match federal funding in order to access these infrastructure monies.

The Budget made some investments in key sectors, although many sector representatives argue that these are not strategic and do not foster the

growth of a sustainable, green economy. Civil society organizations are concerned that, as Canada focuses on reversing the economic downturn, environmental and sustainability standards will drop. Further, jobs that are being created are in male-dominated industries such as bridge building and road repair. Women continue to bear the brunt of this economic crisis. They are over-represented in part-time and precarious work and are often the first to be laid off. Because of this work pattern, women are more likely to be ineligible for employment insurance benefits.

### ODA: good news and bad

One of the most significant advances in 2008 was the passage of the Official Development Assistance Accountability Act, which requires the Government to report to Parliament on how Canada's aid coincides with official human rights commitments, relieves poverty and meets needs expressed by the poor. All parties supported the motion. However, later in the year, the Government announced that it was removing a number of African countries from priority focus (including Cameroon, Kenya, Malawi and Zambia) and focusing instead on a number of Western Hemisphere countries including Bolivia, Colombia, Haiti, Honduras and Peru. The full implications of the change are not yet visible, but in such fields as HIV and AIDS and poverty relief, it means a switch from high-incidence countries to low. The Government assures Canadians that the long-standing commitment to increase aid to Africa, overall, remains.

### Tax cuts for the wealthy over social investment

While civil society groups have long called on the Government to make lasting social investments that would be of most benefit to low-income Canadians, Budget 2009 continued a trend of tax cuts and credits targeted to high income Canadians and corporations. Before Budget 2009, the Government had introduced \$ 200 billion (USD 184.2 billion) in tax cuts. The "stimulus" budget added another \$ 20 billion (USD 18.4 billion) in permanent tax cuts. Nearly 40% of women in Canada and 24% of men earned so little income in 2007 that they do not pay income taxes,<sup>6</sup> and thus do not benefit from any of the proposed tax credits and cuts aimed at stimulating the economy (all of the tax cuts are permanent, except for one temporary capital cost allowance for computers purchased between 27 January 2009 and 11 February 2011). In contrast, every single spending measure is temporary, with a "best before" date stamped on each measure of no longer than two years from the adoption of the budget.

Canada's fiscal situation going into the recession was increasingly precarious due to aggressive tax cutting, with budget balances so razor thin that

spending cuts were all but assured by 2010. The economic crisis was an opportunity to use government stimulus to start to address a number of unsustainable features of the economy such as inequality, climate change and overstretched public infrastructure, including soft infrastructure such as health care and child care. The Government chose to deal with the circumstances by consistently underplaying both the severity and potential duration of the downturn, and by treating the stimulus plan as something for getting the economy "back to normal". This is short sighted and does not do enough to meet the needs of the thousands of Canadians feeling the brunt of the economic crisis. ■

4 Canadian Feminist Alliance for International Action (FAFIA). "UN Asks Canada to Report Back on Poverty and Murdered Aboriginal Women". Press Release, 24 November 2008. Available from: <[www.fafia-afai.org/files/CEDAW\\_PR\\_EN.pdf](http://www.fafia-afai.org/files/CEDAW_PR_EN.pdf)>.

5 "Federal Budget 2009 and Municipal Infrastructure". Canadian Union of Public Employees (CUPE). 29 January 2009. Available from: <[cupe.ca/budget/2009-budget-municipal-infrastructure](http://cupe.ca/budget/2009-budget-municipal-infrastructure)>.

6 Canada Customs and Revenue Agency (2007). "Tax Statistics".