

Canada: plummeting dollar producing policy split

Keith Jones
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The Canadian dollar continued to plummet in value this past week, reaching a record low vis a vis the US dollar almost every trading day. By week's end the Canadian dollar was hovering around 66 cents US.

The plunge of the dollar--it has declined by some 9 percent since June 1997 and 6 percent since March of this year--has provoked a policy split in ruling class circles. Angered by the Liberal government's failure to act to stop the dollar's slide, some editorialists are questioning whether Jean Chretien has the mettle to remain prime minister.

Others support the government's apparent indifference to the dollar crisis, contending it would be folly for Canada to raise interest rates at a time when a slew of economic indicators show that the economy is slowing. Their fears of a recession have been further augmented by a Statistics Canada report Friday that the country's gross domestic product did not grow in June for the second month in a row.

The president of the Business Council on National Issues, which represents the 150 largest banks and corporations operating in Canada, is among those pressing for the government to halt the dollar's slide. 'This has gone on long enough,' Thomas D'Aquino told the *Ottawa Citizen*, 'We have to start sending some signals that we are prepared to defend the dollar.'

D'Aquino urged the government to instruct Canada's central bank to raise interest rates and to 'talk up the dollar' by outlining plans to slash income taxes and speed up repayment of the federal government's \$600 billion accumulated debt. The government, said D'Aquino, must 'send some very powerful signals to Canadian investors and to American and global investors that the remaining macro-economic problems that we have are going to be dealt with in a much more serious way.' In other words, Canada must be made

more profitable for investors by reducing taxes on the rich and once again slashing social spending.

D'Aquino's call was soon echoed by Preston Manning, head of the Official Opposition in Parliament and leader of the right-wing populist Reform Party. Accusing the government of learning 'nothing from the Asian financial crisis,' he demanded that the Liberals present a new budget to parliament when it reconvenes in September outlining tax and spending cuts and placing permanent restrictions on government spending.

Finance Minister Paul Martin, who has refused to comment on the dollar's plight on the grounds that his remarks might be 'misinterpreted,' reaffirmed his belief that the crisis would soon blow over when he met with reporters Tuesday. 'When you take a look at the basics of the Canadian economy and you compare them to other G-7 [Group of Seven] countries, I've got to say we are in very good shape.'

The dollar crisis and the slowing of the Canadian economy have come as a shock to Martin and the Liberals, who for the past year have been claiming that after a decade of wrenching economic change Canada has entered a new period of steady economic growth. Elected in 1993 on a wave of popular indignation over the 1990-92 slump, the Liberals spearheaded massive social spending reductions. Between 1995 and 1998 they slashed transfers to the provinces by \$6 billion annually. Unemployment Insurance, meanwhile, was reorganized to deny the majority of the jobless access to financial assistance.

These measures won the Liberal government accolades from big business the world over. The British *Economist* called Canada 'a fiscal virtuoso.' But with the crisis in East Asia ushering in a new year of global economic upheaval, capital's search for the best rate of

return has become still more frantic. Whatever their disagreements over the wisdom of an interest rate rise, all sections of big business are now taking up the refrain that Canada's tax structure, which has supported a higher level of social spending than in the US, must be made 'competitive' with that south of the border. This can only mean that a new offensive against the working class is in preparation.

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