Canada: Chretien government resists calls for increased social spending

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The Chretien Liberal government is pledging to resist calls for increased social spending and to make paying down the federal government's $580 billion (Canadian) debt its budgetary priority.

Finance Minister Paul Martin told the annual meeting of the International Monetary Fund October 5 that any budgetary surplus in the current fiscal year 'will be fully applied to the debt.' Then, in last week's '1998 Economic and Fiscal Update,' Martin said that the only commitment the government will give about next year's federal budget is that substantial monies will be set aside to reduce the federal debt. 'Safeguarding our financial health at home is the sina qua non of riding out the global storm we are in now,' Martin declared.

Already last month, in an address to the annual meeting of the Canadian Chamber of Commerce, Prime Minister Jean Chretien signaled that his government will heed big business's calls for it to shift still further right in response to the developing world economic crisis. Chretien said that with the federal accounts in surplus for the first time in three decades his government faces growing pressure to increase social spending, but 'We must, and we will resist, these pressures.'

First elected in 1993, the Chretien Liberals have presided over the greatest social spending cuts in Canadian history. Total federal program spending (as opposed to debt payments) has been reduced from $120 billion annually to $109 billion. The transfer payments that the federal government makes to the provinces to help finance health care, welfare and post-secondary education have been cut by a third or more than $6 billion per year.

In 1997, the Liberals narrowly won a second majority mandate by promising that the end of the era of budget cuts was at hand and that the populace would soon benefit from the 'fiscal dividend' that would result from the Liberals' successful 'war on the deficit.' The Liberals' election platform--known as the 'Red Book'--promised that half of any such dividend would be used to finance increased social spending, while the other half would be used for debt reduction and tax cuts.

Now the Liberals have abandoned all talk of a 'fiscal dividend,' repudiated their '50-50' pledge regarding the use of future budgetary surpluses, squelched all plans for increased social spending, and proclaimed that the 'war on the deficit' is to be followed by a 'war' on the federal debt.

Twelve months ago, in his '1997 Economic Update,' Martin boasted that Canada was at 'a new beginning' and mused about a veritable golden age of noninflationary economic growth. This year's 'Update,' observed one journalist, 'painted an excruciatingly somber picture ... of paradise lost.... [Martin] is back to being the minister of austerity.'

Canada has already been rocked by the world economic crisis. Since March, the dollar has depreciated by about 7.5 percent vis a vis the US dollar and it is now trading at 65 cents US, only slightly above the record low reached in August. Meanwhile, signs that Canada is entering a recession continue to mount. Only in two of the first seven months of 1998 did the Canadian economy grow. Canada's West Coast province, British Columbia, is already technically in a recession, which is defined as two consecutive quarters of economic contraction.

The economic crisis has not only sideswiped the Liberals' economic and political agenda, it has provoked a sharp split in the ruling class over how to stem the decline in the value of the dollar and mitigate the effects of a recession. Only on one essential point is there any consensus: there can be no respite in the dismantling of social programs.

Chretien made his pledge to resist calls for increases in social spending just one week after the Business Council on National Issues, the voice of Canada's 150 largest banks and corporations, had issued a statement urging the government to make eliminating the debt its top priority and delay plans to invest new funds in the health care system for at least a year. Subsequently, BCNI President Thomas d'Aquino was quick to applaud Chretien's repudiation of the '50-50' plan. 'This makes a great deal of sense given the dramatically changed economic circumstances,' he declared.

The BCNI also supports the governments plans to continue diverting into general government coffers the multibillion dollar surplus that is accruing in the Employment Insurance Fund because of a drastic tightening of eligibility rules for jobless benefits. The BCNI believes paying down the debt will lessen Canada's dependence on world financial markets and ultimately boost the value of the dollar and thus the worth of the bourgeoisie's Canadian-denominated assets.

The Reform Party, the Tories and other sections of business, particularly small business, on the other hand, want the Chretien government to make cuts in Employment Insurance premiums and other taxes, not reducing the national debt, its top priority. Such cuts they calculate will stimulate the economy, while perpetuating the federal government's fiscal crisis, thus compelling the Liberals to slash social spending still further.

The *Globe and Mail*, Canada's leading business newspaper, was critical of Martin's economic update speech, saying it 'reflected the government's continued uncertainty about what to do.' It went on to call for dramatic income tax cuts like those implemented by Ontario's Tory government. 'Canada still has lots of room for non-inflationary growth,' declared the *Globe* 'but to realize that promise requires that the surplus be directed to income tax cuts--not debt repayment.' The *Montreal Gazette* complained that Martin 'chose to sit on his hands.' 'With consumer confidence sliding along with the dollar, what better time to stimulate the economy than now--with a credible, long-term plan for tax cuts.'

Thanks to the complicity of the trade unions and the social democratic New Democratic Party, big business has succeeded in the 1990s in rolling back decades of working class social conquests. But the world economic crisis and the realization among working people that capital's demands for sacrifice and austerity are never-ending will lead to a questioning of the market mania, provoke growing working class resistance, and impel the search for an alternative political program that begins with human need, not capital's drive for profit.

See Also:

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