Canadian big business rattled by deteriorating economic situation

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The federal opposition parties and much of the corporate media are urging Canada's Liberal government to introduce a new budget to arrest or at least counteract the slide into slump.

Last October, just before they called a general election, the Liberals introduced a “mini-budget” that slashes personal income, capital gains and corporate taxes by $100 billion over the next five years. The mini-budget was hailed by big business, for it has ensured that the lion's share of the federal government's projected budget surpluses will be expended on tax cuts, rather than on refurbishing dilapidated public services and repairing the gaping holes in the country's social safety net. The tax cuts, moreover, are skewed to disproportionately benefit the well-to-do.

The Liberals had been expected to follow the Canadian tradition and introduce a full budget this February or March. But shortly after the government won reelection, Finance Minister Paul Martin announced that there would be no “spring budget” in 2001. Last October's mini-budget would thus serve as this year's budget. This decision was meant to allay ruling class fears—fears that had been stoked by the government's opponents on the right—that the Liberals were preparing to announce one or more major public spending initiatives.

But as signs have mounted that the economy is faltering, pressure has begun to build in business circles for the government to shift gears and table a new budget. Canada's corporate bosses, or at least a goodly number of them, want the government to “stimulate” the economy by slashing taxes still further and to cut public spending so as to offset the reduction in tax revenue that will result from a recession. In arguing for the government to cut taxes just months after it announced the biggest tax cut in Canadian history, big business, its media outlets, and the Official Opposition Canadian Alliance are also pointing to US President George W. Bush's 10-year, $1.6 trillion (US) tax-cut plan. Although Bush advocated such a tax cut well before economic growth in the US economy began to slow, he is now promoting it as a recession-fighting measure. In any event, those pressing the Chretien government to cut taxes still further, argue that the US Congress is all but certain to pass some version of Bush's tax cuts and this will leave Canadian tax rates, especially for high-income earners, well above those in the US.

Complained the *National Post* in a recent editorial, “After having delivered on a series of tax cuts in October, [the Liberals] appear to believe there is nothing left to do.... In the United States, by contrast, where a tilt toward recession likely foreshadows our own downturn, strong medicine is being considered.... [S]et beside Mr. Bush's proposal, Ottawa's plan looks rather timid.”

To date, Prime Minister Jean Chretien, Martin and Bank of Canada Governor David Dodge have taken their cue from US Federal Reserve Board Chairman Alan Greenspan and are insisting that there is no cause for alarm. While conceding that the economy is not expanding at the same pace as the middle of last year, they argue that a recession can be averted through timely interest rate cuts.

“Despite the near-term uncertainties, the bank remains positive about our economic prospects for 2001,” Dodge told a press conference February 6. In response to the evident weakening of the North American economy, Dodge reduced the central bank's forecast of the growth in the Canadian economy this year to 3 percent.

Speaking in London last Thursday, Martin reiterated

Dodge's denials that the Canadian economy is in danger of going into a significant downturn. “What's the No. 1 reason for the slowdown?” asked Martin. “It's inventory correction.” He predicted that the running down of inventories would propel the economy sharply forward in the second half of the year.

Martin then repeated his earlier claims that Canada is better positioned to weather a US slump than at any time in recent decades. “I'm not saying we're not going to be affected,” said Martin. “But it's very clear and economists who look at the public sector agree that we're going to get through it.”

The truth is the Canadian economy is more far dependent on the US than ever before. More than 85 percent of Canada's exports go to the US and some 40 percent of the country's total GNP is trade-dependent.

Evidence that Canada's economy has been sideswiped by the slowdown in economic activity south of the border has been gathering for months.

* According to the government agency Stastcan, the Canadian economy grew at an annual rate of just 1.2 percent in November. The biggest negative was a .5 percent drop in manufacturing output from the previous month. Auto production fell 4.6 percent, its third consecutive monthly decline, while auto parts makers cut their output by 5.4 percent.

* A Canadian business conditions survey released last week showed the biggest drop on record with employers reporting weak orders and anticipating reduced production. Of 4,000 businesses surveyed, 48 percent reported declining orders, up sharply from 18 percent in October. Just 15 percent of companies surveyed said they anticipate increasing production.

* Unemployment rose in January by .1 percent to 6.9 percent and, with a growing list of employers announcing layoffs and plans to slash jobs, will in all likelihood rise in coming months.

In terms of layoffs, the hardest hit sectors are the auto industry and the high tech sector. The former is the mainstay of Canada's industrial economy, while high tech has been far and away the sector experiencing the most rapid growth in recent years.

On Thursday, Nortel Networks, the crown jewel of Canada's high tech industry, announced that it would be slashing its worldwide workforce by 10,000, not the 6,000 it announced only five weeks ago. About one quarter of the layoffs, or 2,500, are expected to be in Canada. Nortel coupled its layoff announcement with a sharp reduction in its growth forecast for the current year. This triggered a sharp decline in Nortel's share price. Last July, Nortel's capitalization represented more than a third of the value of all the companies listed on the Toronto Stock Exchange. Since then, Nortel has lost more than two thirds of its value, causing widespread losses among investment houses and individual investors.

JDS, the world's dominant player in the design and manufacture of fiber-optic components and modules for telecommunications networks, recently sent pink slips to 700 contract workers at its Ottawa operations.

But the biggest job losses have come in the auto sector. As part of its plans to slash 26,000 jobs in North and South America, DaimlerChrysler has announced it will cut about 4,300 blue-collar and salaried jobs in Canada. In addition, the jobs of 1,200 workers who assemble full-sized vans at a Windsor, Ontario assembly plant are in jeopardy if no new product is found for the plant by next year.

General Motors, which is set to trim North American production by 25 percent this quarter, has announced the temporary closure of assembly plants in Oshawa, Ontario, and Ste-Thérêse, Quebec. Ford has cut its North American production plans by 17 percent this quarter.

Inevitably, job cutting by the Big Three will spill over into the auto parts industry and other key supply industries, such as plastics, rubber and textiles, threatening at least 10,000 more auto-related job this year. Already, the automotive wheel firm Alloy Wheels International (Canada), one of the largest employers in Barrie, north of Toronto, has filed for bankruptcy, putting 505 people out of work.

Cars, trucks and auto parts account for more than 40 percent of Ontario's exports and one in six jobs in Canada's most populous province. Seven percent of the country's gross domestic product comes directly from the auto industry.