

# Canada: Financial crisis intrudes on federal election campaign

## Ombudsmen and commissioners in the face of a Depression-type crisis

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**24 September 2008**

The meltdown of the US and global financial system, the panic sell-offs on international stock exchanges, and the unprecedented plans by the US Treasury Department and Federal Reserve Board for a massive \$700 billion bailout of collapsing American banks and other financial institution, all made a rather rude intrusion into Canada's federal election campaign last week. The financial calamity severely disrupted the scripted campaigns of all the parties vying for votes in the October 14th poll.

Even before last week's global financial panic, there was an air of unreality surrounding the campaigns of all the contenders. The election was called by Conservative Prime Minister Stephen Harper in an effort to get the poll out of the way and gain a parliamentary majority before the Canadian economy slipped into recession. Yet Harper, Liberal Opposition Leader Stéphane Dion, and New Democratic Party (NDP) leader Jack Layton have conducted campaigns that desperately downplay, if not outright ignore, the crisis in the world economy, a crisis that by the end of last week even the corporate media was comparing to the Wall Street crash of 1929 and the Great Depression.

The parties, at least until last week's financial convulsions, were content to jockey for electoral advantage in this or that region of the country by making reactionary law and order appeals, advancing various "targeted" tax and spending proposals—all of them framed within the straitjacket of a business-friendly, "balanced budget"—and trumpeting their rivals' media-christened "gaffes."

The systemic crisis of capitalism and the manifest failure of the ideology of the "free market" have not been the only taboo subjects on the campaign trail. The Canadian Armed Forces' (CAF) leading role in the Afghan war—an involvement opposed by the majority of Canadians—has rated only rare mention. The Liberals and Conservatives are not eager to remind voters that they joined forces earlier this year to ensure that Canadian troops will be waging war in Afghanistan till 2012. The NDP, anxious to reassure the Canadian elite that it is a "responsible player," meanwhile is soft-peddalling its call for a quick end to the CAF counter-insurgency mission in Afghanistan.

But reality can be quite persistent. The growing resistance to the US-NATO occupation forces in Afghanistan, and the resulting rise in the Canadian soldier body count combined with the US drive to extend the conflict into neighbouring Pakistan, forced the party leaders to briefly speak about the Afghan war in the first days of the campaign. So too, the global economic meltdown—and subsequent bailout package—briefly flushed the various electoral contenders from their set-piece presentations.

At the outset of the financial calamity that began on Wall Street Monday, September 15 and quickly impacted the institutional stock portfolios on Toronto's Bay Street, Harper took a rather sanguine

approach. "I don't think the atmosphere should turn to one of complete doom and gloom," said the prime minister. "My own belief is that if we are going to have some kind of big crash or recession, we probably would have had it by now." Harper then went on to extol the resiliency of the American economy.

But as the bloodletting continued on financial markets the following morning, Harper was forced to wipe the egg from his face and adjust his diagnosis. "At the moment there are problems in the Canadian economy, but we aren't in a recession...There are and will be difficulties in the world economy. At the same time, Canada is not in the same situation as the United States." Taking a page from the playbook of US Republican Presidential nominee John McCain, Harper then went on to pronounce the national economy still "fundamentally sound."

Of course, Harper knows full well that the "fundamentals" of the Canadian economy are anything but sound. Fears of an impending recession were why he called the election in the first place—over-riding, at some political cost, his own earlier legislation that set the next election date well into 2009!

Canadian home sales fell almost 20 percent in August from a year earlier, new car sales took a steep plunge this summer, the manufacturing sector (particularly in Ontario and Quebec) is being decimated by a spate of plant closures and layoffs, inflation rates remain elevated, growth has stagnated, productivity ratios are falling and the commodity bubble that has kept various financial instruments afloat has been pierced. At the same time, the US is already in recession with all that that entails for a Canadian economy in which US exports account for some 30 percent of GDP.

And last but not least, the Canadian banks and other financial institutions are, Harper's claims notwithstanding, caught in a vast web of credit-debt dependency with Wall Street. It is simply a lie to say that Canada's financial institutions don't have serious exposure to the US financial crisis.

### **An interconnected, imploding world financial system**

For the past year Canadian banks, investors, and other financial institutions have been squabbling over an emergency plan to liquidate \$30 billion in so-called Asset-Backed Commercial Paper, whose value collapsed in the wake of the eruption of the sub-prime mortgage crisis south of the border.

The Canadian Imperial Bank of Commerce (CIBC) wrote down \$6.8

billion for the nine months ending July 31st. Another \$3.2 billion have been lost by their banking competitors. In addition, Royal Bank faces a payout of over a billion dollars from exposure to near worthless “auction rate securities.” And both the TD Bank and Bank of Montreal own troubled banks in the United States.

Far from Canada’s financial institutions being spectators to the financial crisis on Wall Street, they are currently mounting a ferocious struggle to be included in the US Treasury’s bailout package. (Under this package, the bad debts of the major US financial institutions are being “nationalized” at the cost of working people.)

According to an article in Tuesday’s *National Post*, lobbyists representing the TD Financial Group, Bank of Montreal, Royal Bank, Manulife Financial Corp., and other Canadian-based companies are pressing hard to ensure that the US Congress does not back away from a pledge by Treasury Secretary Henry Paulson to include “foreign flagged” firms in the US bailout.

Canada’s central bank, the Bank of Canada, has been working closely with the US Federal Reserve and other central banks in a so far unsuccessful attempt to inject enough liquidity into the world financial system to staunch the hemorrhaging.

Finance Minister Jim Flaherty has insisted that Canadian financial institutions are not in need of a US-style bailout. But on Monday, following the issuing of a statement signed by him and the other G-7 finance ministers that promised they would take “whatever actions may be necessary” to sustain the world financial system, he conceded that were it to become necessary Canada would follow the US in removing “illiquid assets that are destabilizing financial institutions,”—that is, mount a bailout.

A key plank in the Conservative election strategy has been to speak to concerns about the state of the economy. But it is one thing to champion Harper as the “prudent and steady” leader the country needs at the helm in a period of economic turbulence and denigrate the Liberals’ “Green Shift” tax plan as a “risky experiment”; quite another to concede that Canadians are confronted with an historic crisis of the profit system.

Hence the Conservatives’ complex and contradictory stance. They are appealing for votes on the basis that only they can provide the “strong leadership” in a time of global economic trouble,” while systematically covering up the fragility of the Canadian and world financial system.

In truth the Conservatives are appealing first and foremost to the corporate elite, urging big business to rally behind their push for a majority government. The unstated argument is that a government that has no fear of an election till at least 2012 will be more insulated from popular opposition and thus better-positioned to act ruthlessly in imposing the full burden of the economic crisis on working people.

To underline this, Harper in his opening election speech pledged that the Conservatives will press forward with fiscal policies that are aimed at channeling an ever-greater proportion of national income to the most privileged sections of society and at hobbling the state’s ability to fund public and social services. The Conservatives, proclaimed Harper, “will continue to lead Canada by keeping taxes down, keeping the budget in surplus and limiting spending to clear and affordable objectives.”

### **The Liberals shift still further right**

The Opposition Liberals jumped at Harper’s September 15 assertion that the economy would already be in recession if one were indeed coming, noting that by some important measures the Canadian economy has performed worse than that of the US during 2008. After pointing to the crisis in manufacturing, Dion even resurrected the cynical “Jobs, Jobs,

Jobs” slogan Jean Chrétien employed in leading the Liberals to victory in the 1993 federal election.

But the Liberals’ response to the mounting economic turmoil, and to ruling class criticisms of their plan to use “environmental” policies to strengthen the competitive position of Canadian capital, has been to shift sharply to the right. The Liberals are now bragging that it was they, not the Conservatives, who imposed the greatest public spending and corporate and personal income tax cuts in Canadian history.

Summoning former Ontario NDP Premier Bob Rae cum Liberal “star” candidate to lead the charge against “Harpernomics,” the Liberals have pointed out that whilst their party under Jean Chrétien and Paul Martin slashed public spending in the 1990s to such a draconian degree that a \$13 billion surplus was placed at the disposal of the incoming Harper regime, the Conservative government wasted no time in rendering the surplus down to “zilch” with its “irresponsible” two-percentage point cut in the Goods and Services Tax (GST). (Big business economists almost universally favour consumption taxes, which fall more heavily on working people, over personal income, capital gains and corporate taxes.)

On Monday, the Liberals announced that they would eliminate the tax the Harper government imposed, to a storm of protest from Bay Street, on “investment trusts,” a new form of corporate organization invented for the sole purpose of escaping taxation.

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Jack Layton, the leader of the NDP, Canada’s social-democratic party, has made only the most limited, essentially vapid, appeals to the popular anger over mounting economic insecurity and social inequality. Layton’s NDP is increasingly casting itself as a consumer watchdog, promising to restrict banking fees and appoint a “gas price ombudsman” and “jobs commissioner.”

Responding to a statement by Harper in which the prime minister defended the elimination of jobs as the price to be paid for a well functioning, competitive economy, Layton agreed that every job can’t be preserved. He then went on to say that, unlike the Conservatives, the NDP will establish a “jobs commissioner” to “fight” against layoffs.

“No politician can guarantee jobs,” said Layton “but what they can guarantee is that [they] are going to fight for those jobs.”

In response to the meltdown of the financial system, Layton said the NDP favors increased regulation and other rule changes, such as eliminating non-voting shares, which will better protect investors. Layton called for a “top-to-bottom review” of the Canadian banking industry. “We’ve got to ensure that our financial institutions are properly capitalized, that they fully expose all of their risks to investors, that they don’t substitute flawed ratings systems for real risk management, and that they function with due care and prudence.”

Needless to say, Layton and the NDP have not so much as breathed a word about the irrationality and injustices of a social system in which socio-economic life is subordinated to the pursuit of profit for a few.

The NDP’s most “radical” proposal is to rescind the escalating scheme of corporate tax cuts introduced by the Harper government. These cuts are but the latest in a long series of corporate tax breaks, including many instituted at the provincial level by NDP governments.

Moreover, much of what the NDP taketh away it proposes to return in the form of subsidies to attract investment and assist companies in developing or adopting “green technology.”

A week can be a long time in bourgeois politics. With financial markets rallying at the end of last week in response to the Bush administration’s

bailout announcement, the three main parties were quick to jettison any discussion of the financial crisis. Instead they returned to the small change of political fence mending and announcements tailored to this or that “demographic”—almost always presented in the form of TV sound bites in the constituencies most “up-for-grabs” according to this or that latest opinion poll.

Whatever the coloration of the next government, the convulsions in the financial markets, announcing as they do a systemic crisis of the capitalist system, will have a far, far greater impact on the policies that it will pursue, than their respective programs and platforms.



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