Canada: As economic crisis deepens

Conservatives to press ahead with right-wing tax-cutting agenda

Keith Jones
27 October 2008

Canada's Finance Minister announced a further emergency measure to prop up the country's banks Thursday, then reiterated the minority Conservative government's commitment to cutting corporate and personal income taxes.

During their first 31 months in office, the Conservatives implemented massive tax cuts with the double aim of transferring wealth to big business and the most privileged sections of society and hobbling the state's capacity to fund public and social services.

In appearances Thursday and Friday, Finance Minister Jim Flaherty promoted tax cuts as the best means of stimulating the economy and counteracting recession.

"I certainly am of the view as a fiscal conservative that paying down debt and reducing taxes are certainly ways of creating economic stimulus," said Flaherty in Niagara Falls, Friday.

Flaherty claimed that voters had rejected the "big spending plans" of the opposition parties in the Oct. 14 federal election, which saw the Conservatives win an increased number of seats, but fail to secure a parliamentary majority.

In fact, the Liberals, social-democratic NDP, and Bloc Québécois urged only modest increases in government spending, some of it in the form of increased support for manufacturers, and repeatedly vowed that their spending proposals were subordinate to balancing the federal budget.

As the world financial system unraveled during the course of the five-week election campaign, the opposition parties also proposed accelerated expenditure on public infrastructure.

In his speech Friday, Flaherty repeated criticisms that he had made previously of the government of Ontario, the country's most populous province, for reputedly not doing enough to attract corporate investment.

Earlier last week, Ontario's Liberal government announced it was delaying plans to hire more nurses and other new spending initiatives, but would, nonetheless, incur a half-billion dollar deficit in the current fiscal year, ending in March 2009, due to a $900 million revenue shortfall.

Flaherty decried the Ontario Liberals' failure to cut corporate taxes in its "economic update." If Ontario were to adhere to the neo-liberal mantra against budget deficits that Flaherty and his boss, Prime Minister Stephen Harper, have so often invoked, such a tax cut would have necessitated far steeper budget cuts.

Flaherty observed that "other governments" have taken a different approach to that of Ontario's, a reference to the right-wing governments of British Columbia and Saskatchewan, both of which announced tax cuts last week. In the case of Saskatchewan, whose provincial coffers have been swelled by an oil- and potash-boom, the tax cuts were the largest in a single year in the province's history.

The corporate media has noted that the Conservatives, while continuing to insist that the federal government will not go into deficit during the current fiscal year, have not ruled out the possibility of Ottawa incurring a deficit in fiscal 2009-10.

Last week, the Toronto-Dominion Bank forecast that Ottawa will face a deficit of in excess of $10 billion in the 2009-10 budget year if the government proceeds with previously announced budget changes (the lion's share of them tax cuts).

There are two reasons the Conservatives are now willing to contemplate violating the fiscal orthodoxy that they have hitherto preached. First, they are determined to press ahead with their right-wing tax-cutting agenda. If and when a world recession blows a hole in the government's finances, they will argue that tax cuts, including massive reductions in corporate taxes, are a vitally needed stimulus. Second, Harper and Flaherty recognize that the economic crisis may compel Ottawa, as it has Washington and a host of European governments, to use taxpayers' money to bail out the shareholders of banks and/or other corporate giants.

If tax cuts are untouchable, the converse is true for public and social services.

At Harper's and Flaherty's direction, federal ministers and bureaucrats have prepared, reported the Canadian Press, Oct. 16, a "menu" of possible federal government spending cuts, "including a public-service hiring freeze." One government source said that even cuts to "transfers to provinces [which fund health care and post-secondary education] and individuals [i.e. income support programs]" have not been ruled out, "if the fiscal hole is deemed sufficiently deep."

Deepening crisis

The Conservatives spent much of the just-concluded election campaign claiming that the Canadian economy is strong and that the financial meltdown on Wall Street will have only a limited impact on Canada.

With the financial crisis spreading to Europe, the plunge of the US (far and away Canada's largest trading partner) into recession, and the plummet in oil an other commodity prices, the claims of a Canadian “exception” have become utterly untenable.

Canada’s central bank slashed its projections of economic growth in a report released last week. According to the Bank of Canada, the Canadian economy will contract by 0.4 percent in the last quarter of 2008 and experience no growth in the first quarter of 2009.

The bank further forecast that Canada will experience anaemic growth during the remainder of 2009, thus narrowly escaping a recession (defined as two successive quarters of negative growth.) But its president, Mark Carney, conceded that the tremendous volatility in the world economy places a large question mark over the bank’s forecasts.

There is good reason to believe the bank projections are, to say the least, rosy.

Canada’s manufacturing sector, which is massively dependent on the US market, has been shedding jobs for the past five years. Its two principal engines, the auto and forestry industries, are in deep crisis, with the US house-construction market mired in slump and the Detroit-based Big Three automakers threatened with bankruptcy.

A commodity price boom has fuelled economic growth in Canada in recent years. Oil exports alone accounted for ten percent of all Canadian exports last year and energy companies have launched some $150 billion worth of projects to exploit the Alberta oil tar sands.

But in recent months the resource boom has been punctured by fears of a world recession and growing production cuts. With oil prices halved since the early summer, major oil companies, including Suncor and Petro Canada, have signalled that they will be slowing, even delaying, major oil sands projects, so as to slash billions in expenditure next year.

The Toronto Stock Exchange, meanwhile, has suffered losses commensurate with those in the US and other advanced capitalist countries. The Toronto Stock Exchange’s Composite Index is down more than 32 percent since the beginning of the year, while the Dow Jones has fallen 38 percent.

When one factors in the plummeting value of the Canadian dollar, the losses on Bay Street are in fact greater than those on Wall Street. The Canadian dollar, which only a few months ago was flirting with par with the US dollar, closed Friday at 78.8 cents US. During the course of the last week, the Canadian dollar fell 6 percent against the US dollar and it has lost 16 percent of its value since the beginning of the month.

The wild fluctuations in the dollar’s valuation, like those of commodity prices, are having a hugely disruptive impact on corporate planning, turning winners to losers and vice versa virtually overnight.

Canada’s bank bailout

On Thursday, Flaherty announced yet another measure to boost Canada’s banks, notwithstanding the government’s repeated claims that they are the world’s strongest and best-capitalized.

Under the “Canadian Lenders Assurance Facility,” Canada’s chartered banks will be able, for six months, to purchase insurance from the government guaranteeing the principal and interest payments on all inter-bank borrowing for the next three years.

In announcing this measure, Flaherty was at pains to insist that the banks will have to pay “commercial rates” to have their lending guaranteed and that other countries’ offer of similar loan-guarantees to their financial institutions had forced Ottawa’s hand.

Unquestionably the foreign loan guarantees, especially Washington’s did place pressure on the Canadian banks. According to a news report, “Canadian chartered banks had pushed Ottawa for some form of government-backed guarantee since Oct. 13, when Washington signaled it was taking this step…. [The Canadian banks] were concerned about getting elbowed out of North American borrowing markets once US banks had this assurance.”

But the truth is the Conservative government is refusing to come clean about the Canadian banks’ exposure to the world financial crisis and about the extent to which the Canadian treasury is being mobilized in their support.

Flaherty refused to offer any information as to how much the government’s loan guarantee is expected to cost, nor how much lending might be covered. The *National Post*, however, has reported that the government could ultimately guarantee more than $200 billion worth of loans.

Moreover, under pressure from the banks and with no fanfare, Ottawa has expanded a potentially far more expensive lifeline to the banks. Earlier this month Ottawa agreed to buy up $25 billion worth of bank mortgages, claiming this would make it easier for the banks to resume normal lending.

Already $12 billion worth of mortgages have been bought up by the CMHC (Canada Mortgage and Housing Corporation) and the government has now reportedly agreed to expand the program beyond $25 billion. According to the *National Post* some bankers are pushing for Ottawa to ultimately purchase up to $200 billion in mortgages.

The government has again claimed that this will ultimately cost taxpayers little, if anything, noting that the mortgage default rate in Canada is at this point only 0.3 percent. But obviously the banks are eager to offload such mortgages for a reason.

“Before we all get too cocky,” Paul Ashworth of Capital Economics told the *National Post* last week, “it is worth remembering that house prices have barely started to fall here [in Canada]. When they do, and they will, then the rate of defaults will begin to shoot up here as well.”

As in the US, Britain, and elsewhere, the government has rushed to place vast sums at the disposals of the banks, so as to rescue the financial plutocracy, and without any debate.