Canada: Conservatives provide austerity to workers, aid to banks

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The annual fall update on the Canadian economy delivered by Finance Minister Jim Flaherty Thursday had two central themes: the need for austerity in public spending and for the government to be equipped with new powers to come to the aid of the banks.

Flaherty announced that in the fiscal year starting April 2009, Canada's minority Conservative government will cut federal spending by C$2 billion and raise an additional C$2.3 billion in revenue through a new privatization drive.

The government will also impose wage austerity on federal government employees. Legislation will be introduced to strip federal workers of the right to strike through March 2011 and to limit public service wages increases to 2.3 percent in 2007-2008 and to 1.5 percent annually in the following three years.

Only a few weeks ago, in the face of what economists and government leaders in other countries were terming the worst financial crisis since the Great Depression, Flaherty and Conservative Prime Minister Stephen Harper persisted in claiming that Canada would escape recession and that the federal government would not incur a budget deficit.

They have since changed their tune. In Thursday's update, Flaherty said the Canadian economy would be in recession until April 2009 and projected a tiny budget surplus of C$100 million in the coming year. Most economists consider the projections on which Flaherty based his update as rosy, if not wildly optimistic.

The finance minister himself all but announced that his claim the government will avoid a deficit next year was posturing, aimed at underlining that the Conservatives are not about to countenance any return to Keynesian attempts to manage the business cycle and modestly redistribute income in favor of working people. Flaherty told parliament that a future government economic stimulus package or a "further deterioration in economic conditions" could well throw the budget into deficit. He insisted, however, that any deficit would not be "structural."

The reality is the Conservatives—following on the path blazed by the Liberal governments that preceded them—have slashed tens of billions of dollars from the taxes of big business and the well-to-do, with the aim of redistributing wealth in favor of the most privileged and permanently limiting the federal government's fiscal capacity so as to compel the dismantling of public services.

Flaherty made reference to this when he boasted in his update that federal taxes as measured as a share of Gross Domestic Product are projected to decline by 2013-2014 to their lowest point in close to half a century.

Flaherty pointed to the Conservatives' tax cuts—which include a whopping C$50 billion five-year cut in corporate taxes—as proof that the government has already done much to stimulate the economy.

The only new economic stimulus measure announced in Thursday's update was the injection of C$700 million in capital into two government-owned financial institutions, Export Development Canada and the Business Development Bank, so as to boost their capacity to provide businesses with loans and loan guarantees.

The three opposition parties all attacked the government for not doing more to stimulate the economy, in particular to boost the auto and forest industries. They are threatening to vote against the update, which, since the Conservatives do not have a parliamentary majority, would spell defeat for the government.

The government has also been criticized in business circles. Douglas Porter, the chief economist of the Bank of Montreal's brokerage subsidiary Nesbitt Burns, called the Conservative stance "unusual" given that the world economy is in recession: "On balance, it's quite the opposite of supporting growth."

In an editorial Friday, the *Globe and Mail*, the traditional voice of the Toronto financial establishment, declared that the economic update did "not inspire confidence." "The sense of urgency, felt by governments and peoples round the world, seems to have eluded our leadership," declared the *Globe.*

The Conservatives have signaled that they will announce a package of "stimulus" measures in a federal budget early in the new year. They clearly want to have a better handle on what the incoming Barack Obama administration intends to do.

Just as importantly, they want to ensure that any aid to the big auto companies is tied to wage cuts and other contract concessions on the part of auto workers.

The *Globe* and the Liberal government of Ontario, the province that is home to most of Canada's auto industry, have been urging Ottawa to provide immediate assistance to the Big Three. But the Ontario Liberals, close allies of the Canadian Auto Workers union (CAW), have no quarrel with the Conservatives in using such aid as a means to extort further concessions from the autoworkers, concessions that will then be used to extort "givebacks" form workers in other industries. The *Globe* has a similar position.

The Conservatives' hostile attitude towards the autoworkers stands in striking contrast to their treatment of the banks. Without any approval from parliament or even general public knowledge, the Conservative government has committed hundreds of billions of dollars to boosting the banks' balance sheets over the past two months. And far from asking that the bank executives and bank shareholders make "sacrifices" in return, the government has repeatedly modified its assistance package at the banks' demand.

The government-owned Canada Mortgage Housing Corporation is now committed to buying up C$75 billion of mortgages from Canada's banks and the government has pledged to guarantee more than C$200 billion worth of interbank lending.

In his speech to parliament Thursday, Flaherty said that the government will be introducing legislation to give Ottawa the authority to prop up financial institutions by injecting capital into them and to direct the Canada Deposit Insurance Corporation to make the financial stability of the banks, not its obligation to prudently manage taxpayers' money, its first priority.

Flaherty claimed that the government never expects to have need of these new powers, but wants to ensure it has "the flexibility to respond quickly and decisively, and protect our financial system from global risks."

The opposition parties' threat to defeat the government has apparently taken the Conservatives by surprise. While the Liberals, Bloc Québécois, and social-democratic NDP have been urging the government to provide greater support for Canada's beleaguered manufacturing sector, what has incensed the opposition parties is the Conservatives' decision to eliminate a C$1.75 per vote annual subsidy paid all parties that win a minimal share of the national popular vote.

The Conservatives are demagogically presenting the elimination of this subsidy, which was introduced when the previous Liberal government severely restricted union and corporate political donations, as a cost-cutting measure. In fact, it is aimed at bankrupting the opposition parties, which have been far less successful in building up a financial base of support under the new rules.

The Conservative maneuver has so shaken the Liberals, the principal losers in the October 14 general election, that they have been forced to join the other opposition parties in threatening to topple the government if it doesn't back down by the time of an initial vote on the economic update scheduled for this Monday.

According to press reports, on Thursday evening the Liberals and NDP were involved in informal negotiations on a governmental alliance or even a coalition government. Canada's social democrats have a long history of aligning with the Liberals, the Canadian bourgeoisie's traditional party of government. For half a year in 2005, the NDP propped up a Liberal minority government headed by Paul Martin, who as finance minister had presided over the biggest spending and tax cuts in Canadian history.

The fall of the government cannot be precluded. But it is probable that either the Conservatives or Liberals will back down.

The capitalist press has almost universally condemned the Conservative maneuver over party financing as an ill-conceived and transparent political power-play.

The Liberal party is mired in crisis—a crisis rooted in corporate Canada's strong support for the Harper government—and is in the midst of changing leaders. The current party leader, Stéphane Dion, is slated to be replaced at a leadership convention scheduled for next May.

Negotiations between the Liberals and NDP could well falter over questions of policy and/or the division of power. And even if the Liberals could see their way to accepting the pro-Quebec independence Bloc Québécois as a *de facto* third partner in the replacement of the current Conservative government, the BQ may well balk at helping its longtime principal federalist rival return to power.