Canada plunging into recession

Keith Jones
17 December 2008

Canadian Prime Minister Stephen Harper expressed shock Monday at the rapid deterioration of the Canadian economy and, in response to a reporter's question, conceded that a depression could not be excluded.

"The truth is, I've never seen such uncertainty in terms of looking forward to the future," said Harper. "I'm very worried about the Canadian economy."

Harper and his Conservatives long insisted that Canada would be largely unscathed by the world economic crisis. In early October, as banks were collapsing and credit markets were seizing up, the prime minster famously declared that there were probably many "good buy" opportunities on North American stock markets.

The Conservatives' failure to include measures to stimulate the economy in the "fiscal and economic update" they presented to parliament three weeks ago—the government actually proposed to cut government spending so as to avoid a budget deficit—provoked an outcry and triggered a political crisis that brought the minority Conservative government to the brink of collapse. Ultimately, the Conservatives were able to avoid being ousted by a triple alliance of the Liberals, NDP, and Bloc Québécois, only because they prevailed on the unelected and unaccountable governor-general to violate the basic precepts of Canada's parliamentary democracy and proclaim parliament suspended till January 26. [See Canada's constitutional coup: A warning to the working class]

An avalanche of bad economic news, growing demands from business for emergency assistance, and their near-death experience in parliament have given the Conservatives pause.

Harper signaled Monday that his government now accepts that a stimulus package is needed. "Obviously, we're going to have to run a [budget] deficit," he told CTV. "We're talking about spending billions of dollars that was not planned."

The *Globe and Mail*, Montreal's *La presse*, and other big business dailies that have been critical of the Conservatives for failing to act even as the US and various European countries have taken steps to stimulate their economies, are urging the Conservatives and the Liberals, now led by the right-winger Michael Ignatieff, to work together in formulating a crisis budget.

These entreaties notwithstanding, it is far from certain the Canadian bourgeoisie's principal parties will find common ground. The Canadian elite remains bitterly divided over the size, form, and target of any attempt to stimulate the economy. Moreover, these divisions have a strong regional element, pitting the western-based resource sector against the manufacturers of Ontario and Quebec.

While the Conservatives, with the full support of the opposition parties, were quick to commit tens of billions of dollars to propping up the banks, they have had to be prodded by the opposition, the Ontario Liberal government, and sections of Bay Street, into providing assistance to the Detroit-based Big Three. Last Friday, federal Industry Minister Tony Clement announced that the Canadian and Ontario governments have reached a tentative agreement with the automakers on a support package, but it is contingent on the US government also supplying aid.

British Columbia Premier Gordon Campbell, a notorious right-winger, has repeatedly spoken out against an auto "bailout," denouncing autoworkers as "fat cats," while arguing that "regional fairness" requires that any support for the auto sector be matched by comparable support for BC's beleaguered forest industry.

Alberta Premier Ed Stelmach, in a *National Post* op-ed piece welcoming the governor-general's shutting down of parliament, spelled out his Progressive Conservative government's opposition to support for "uncompetitive" industries and increased social spending. "[O]ur focus must be on measures that will support a sustained recovery … We will not," wrote Stelmach, "support policies that divide us and unfairly target particular regions and industries."

The Conservative cabinet itself appears to be divided along regional and ideological lines over how to respond to the deepening slump. Last week, shortly after Finance Minister Jim Flaherty had once again poured cold water on calls for urgent government action saying "panicking and making the wrong choices would be devastating for the Canadian economy," his fellow Ontarian, Industry Ministry Tony Clement, said the Conservatives stand ready to help industries in "distress."

Meanwhile, the economic crisis continues to accelerate. 70,600 jobs were lost in November, the biggest monthly job loss since 1982, driving up Canada's jobless rate to 6.3 percent. Given that the US is roughly ten times larger than Canada, November's job loss in Canada was proportionately greater than the half-million jobs eliminated in the US.

Well over half the jobs lost in Canada last month, 42,000, were in manufacturing and 66,000 of them were in Ontario, Canada's industrial core and the province, with the possible exception of Alberta, most economically integrated with the US.

A PricewaterhouseCoopers' report released Dec. 8 and based on earnings statements from 15 publicly traded forest companies said Canada's forest industry lost $553 million in this year's third quarter. This included $303 million in restructuring and "asset-impairment" costs, that is costs related to production cuts and mill closures. And the spate of closures is far from over. Earlier this month AbitibiBowater announced that it will close its mill in Grand Falls-Windsor, Newfoundland at the end of March, eliminating an estimated 800 jobs.

Canada's housing sector is being battered. Housing starts fell 19 percent in November, bringing the seasonally-adjusted annual rate of housing starts to 172,000, the lowest level since late 2001. House re-sales, meanwhile, were 42 percent lower last month than in November 2007 and are now at their lowest level since January 2001.

Canada's manufacturing sector has arguably been in recession for some time, but the Canadian economy was buoyed in recent years by soaring commodity prices, especially the run-up of oil prices. The recent plunge in commodity prices has roiled the Canadian economy, driving down the value of the Canadian dollar—it is currently trading just above 80 cents US, although as recently as last June it was close to par—and forcing resource companies to slash investment.

This is especially true in the Alberta tar sands, the pivot of Canada's oil industry. In recent weeks, EnCana Corp, Petro-Canada, Canadian Natural Resources, and Suncor Energy, among others, have postponed billions in spending on tar sand projects. According to one newspaper report, "The slowdown effectively means that at least $40 billion of investment destined for Alberta may now not be spent."

Mining and smelting companies are also slashing production and investment. Rio Tinto, which last year purchased the aluminum maker Alcan, announced last week that it is delaying or suspending "more than $6.8 billion in Canadian spending commitments," including an $800 million expansion of its iron ore operations in Labrador and expenditures on three aluminum smelter projects in Quebec and BC. "Everything has fallen off a cliff to a degree no one anticipated," Rio Tinto Alcan CEO Dick Evans told the *Globe and Mail*.

Xstrata is closing two Sudbury nickel mines once owned by Falconbridge and Brazil-based Vale is closing Sudbury's Copper Cliff Mine, a former Inco property.

The economic crisis also caused the collapse of a deal to purchase Bell Canada Enterprises (BCE), a deal that had been celebrated by Bay Street as the largest M&A (merger/acquisition) in Canadian corporate history and which had required an expedited Supreme Court ruling to proceed. (Canada's highest court reinforced proprietary rights, by stating that the company's board only had to take into account the best interests of shareholders, and not holders of BCE bonds, in negotiating the takeover deal.)

The BCE takeover fell apart after an audit determined that after the leveraged buyout, BCE, whose stock, like that of other blue chips has fallen precipitously in recent months, would be insolvent.

According to the *Wall Street Journal,* Nortel Networks, once, like BCE, a crown-jewel of Canadian capitalism, is considering filing for bankruptcy. North America's largest telephone equipment manufacturer, Nortel reported a $3.4 billion quarterly loss last month and announced it was laying off five percent of its staff or 1,300 workers and freezing salaries.

In an attempt to stimulate economic activity, the Bank of Canada announced a .75 percent cut on Dec. 9 in its trend-setting bank rate. The cut reduced the bank rate to 1.5 percent, its lowest level since 1958.

In explaining its actions, the bank said it is no longer concerned about combating inflation, since inflation will inevitably subside in the face of the world recession.

Traditionally, Canada's banks have reduced their interest rates in lock-step with the Bank of Canada, but, as was the case when the central bank last reduced the rate at which it lends money to major financial institutions, the banks failed to follow suit. Instead they reduced their prime lending rate by just .5 percentage points to 3.5 percent.

The banks only agreed to pass on the Bank of Canada's previous rate cut after the federal government agreed to launch a program to buy up, through the Canada Mortgage and Housing Corp. (CMHC), $25 billion worth of mortgages. In mid-November this program was tripled in size. The government has also said it will guarantee more than $200 billion worth of inter-bank lending.

Nancy Hughes Anthony, head of the Canadian Bankers Association, justified the commercial banks' failure to pass on the rate cut, telling the *Globe and Mail* that the net cost of borrowing has increased and will continue to increase till "the banks can ease some pressure on their profit margins."

The government has refused to criticize the banks. A spokesman for Finance Minster Jim Flaherty said the banks "made an independent decision to respond to the steps taken by the Bank of Canada. … All Canadians clearly would like to see lower interest rates and the Bank of Canada's full-rate cut be passed on to consumers. However, we have a situation where global credit conditions have tightened to an unprecedented degree, making borrowing and lending very difficult."

In their requests for government support, one industry lobby group after another has pointed to the drying up of credit. In Canada as elsewhere the banks and other financial institutions that have been the beneficiaries of government-aid packages are using them to further the interests of their owners—bolstering balance sheets, making acquisitions, and paying out dividends—rather than extending credit.

"The first priority here is to ensure that companies that see this sharp downturn in new orders continue to have access to credit," declared Jason Myers, president of the Canadian Manufacturers and Exporters. "The issue is really about credit right now."

Workers in Canada and around the world confront a massive assault on their jobs and living standards, as big business and the capitalist state work hand-in-glove to make them bear the burden of the economic crisis.

The trade unions and the social-democratic NDP have, for their part, demonstrated their utter subservience to the profit system and uselessness as a means of worker self-defence. Their first response to the economic crisis was to join hands with the Canadian bourgeoisie's traditional party of government, the Liberals, in seeking to bring to power a Liberal-led coalition government. Such a government, were it ever to come to office, would be a right-wing government, committed to implementing the Conservatives' $50 billion plus, five-year program of corporate tax cuts, to waging war in Afghanistan through 2011, and to organizing bailouts of industry—as in the auto sector—in which government aid would be tied to further job cuts and contract concessions. (See Canada: Liberal-NDP coalition would be a tool of big business.)

Now that the Canadian bourgeoisie has demonstrated through its strong support for the Conservatives' constitutional coup its opposition to the coalition, the NDP is signaling its readiness to work with Harper as well as with the Liberals. In a CTV "Question Period" interview last Sunday, NDP leader Jack Layton said he understood why Michael Ignatieff, who became Liberal leader in the middle of last week, has backed away from the coalition and declared it first and foremost to be a means of pressuring the Conservatives into introducing a large stimulus package in the forthcoming budget. Said Layton, "I can understand that. He's brand new in the job. I think it's a reasonable position for him to take."

The NDP leader added that he, like Ignatieff, will not exclude supporting the Conservative budget, although he doubted the Conservatives would take the necessary measures. Showing utter indifference to the questions of democratic rights involved in the Conservatives' shutting down of parliament, Layton declared, "It's the season of miracles. Are we going to get a miracle in the budget? I mean, maybe we have to be open to that possibility."