Canada: Furor over soaring federal budget deficit

Keith Jones
29 May 2009

Canada's Finance Minister, Jim Flaherty, conceded Tuesday that the federal budget deficit for the fiscal year that began April 1 will surpass $50 billion, almost 50 percent more than the $34 billion deficit he forecast in the budget tabled in late January.

Flaherty has attributed the sharp rise in the projected deficit to plummeting tax revenues, increased Employment Insurance (EI) claims, and the cost of the auto industry bailout.

The sharp contraction of the Canadian economy—the economy shrank at an annualized rate of 7.1 percent in the first quarter of 2009—and resulting declines in corporate profits and employment have caused a large drop in government revenue.

Since October almost 350,000 fulltime jobs have been eliminated. The official jobless rate has risen from 6.2 to 8 percent and Statistics Canada's broadest measure of unemployment (those who are looking for work, waiting to be called back from layoff, or who have been forced to accept part-time employment) has risen 4.4 percentage points to 12.4 percent.

Regressive changes over the past decades to the rules that govern Canada's jobless insurance scheme mean that a majority of the 1.46 million unemployed are ineligible to receive jobless benefits. Nevertheless, the number of EI recipients has increased sharply. In March, the number of EI claimants jumped by 65,300 or 10.6 percent over February. In the six-month period October 2008 through March 2009, the number of EI recipients rose 36.2 percent to 681,400.

While Flaherty is claiming that there is evidence that the worst of the slump is over—he and Conservative Prime Minister Stephen Harper famously declared last September that Canada would not go into recession—he concedes that unemployment will continue to rise for months to come. The OECD and other financial forecasters, including the Toronto Dominion Bank, have predicted the jobless rate will exceed 10 percent in 2010.

So as to prevent the outright collapse of the auto sector, one of the major drivers of the Canadian economy, and with the aim of making it once again a lucrative source of profits for investors, Canada's federal government has joined with the province of Ontario and the US government to provide financial support to Chrysler and General Motors. This assistance has been tied to the ripping up of the rights and benefits won by generations of auto workers through militant struggle. The Harper Conservative and Ontario Liberal government threatened to push first Chrysler, then GM into bankruptcy unless the Canadian Auto Workers union imposed changes in work-rules, and benefit, wage, and pension cuts sufficient to reduce Chrysler and GM's per-worker, hourly labor costs to the level of the non-union Asian transplants.

Pending a financial update next month, Flaherty is refusing to provide details on the government's latest deficit projection, including how much the government is putting aside to cover the cost of the loan guarantees and other aid it is giving the automakers.

A $50 billion deficit would be the largest in nominal terms in Canadian history. But Flaherty has been quick to point out that the deficit constitutes little more than 3 percent of Canada's GDP, significantly less than deficit-to-GDP ratios of the US and other G-7 countries. As a ratio of GDP, a $50 billion deficit would also be smaller than many of the deficits accrued by Canadian governments in the 1980s and early 1990s.

Still the sharp rise in the federal deficit has been the occasion of much alarmed comment from Canada's business establishment. First and foremost, because it is yet another indicator of the breadth and depth of the slump. Second, because big business believes the relatively strong fiscal position of the Canadian state has afforded it advantages in the scramble to attract investment and accessing cheap credit. Thirdly, because it wants to use the government's budgetary woes—as it did in the 1990s—to press for new cuts in public and social services, so as to place the full burden of the economic crisis on working people.

The Conservatives have cited the rapid rise in the deficit as reason to resist opposition calls for broadening EI coverage and increasing infrastructure spending above and beyond that announced in last January's budget.

Flaherty insisted this week that the government will fulfill its pledge to eliminate any annual budget deficit by the 2013-14 fiscal year and do so without any tax increases. Even under the rosiest recovery scenarios this would require significant spending cuts. Said BMO Nesbitt economist Douglas Porter, "We're too far away from balance to get there just relying on the rebound in the economy."

The Official Opposition Liberals—who, in keeping with demands from Canada's corporate elite, abandoned their bid to topple the Conservatives last December and voted for Flaherty's subsequent "stimulus" budget—are raising a hue and a cry about the deficit rise. Liberal leader Michael Ignatieff has accused Flaherty of mismanagement and demanded he resign, while Liberal finance critic John McCallum has said that "severe" measures will have to be taken to bring an early end to large deficits.

The Liberal attack on the "run-away" deficit is meant to highlight their own record of imposing the demands of big business. Under Jean Chretien and Paul Martin, the Liberals in the 1990s imposed the greatest spending cuts in Canadian history, then beginning in 2000 moved aggressively to slash corporate, capital gains, and personal income taxes, while paying down tens of billions on the national debt. The tax cuts had a double aim: to redistribute the national income in favor of the most privileged sections of society and to strip the state of the means to initiate major new social spending initiatives.

The Harper Conservatives have continued on this rightwing trajectory.

While appealing to big business for support as the true party of "fiscal responsibility," the Liberals are making a cynical appeal for popular support by pointing to inequities in the Employment Insurance system and demanding a "temporary" easing of eligibility requirements.

It was the Liberals who in 1995, as part of their massive assault on public and social services, radically scaled back the entitlement to jobless benefits as symbolized by their rechristening of Unemployment Insurance as EI. Moreover, over the next decade, the Liberals siphoned off tens of billions of dollars from the EI "surplus" as part of their campaign to eliminate the deficit at the expense of working people.

Taking up complaints first raised by the unions and the other opposition parties, the Liberals are demanding that EI eligibility be uniform across the country and that all those who have worked a minimum of 360 hours in the last 12 months be allowed to collect some benefits. At present, EI eligibility varies according to the regional unemployment rate, with those in areas of very high unemployment having to work a minimum of 420 hours in the preceding year and those in low-unemployment regions needing to have worked 910 hours to draw any benefits.

The Liberals calculate that this modest demand will serve them as a "wedge-issue" in rallying popular support, especially as the Conservatives have adamantly condemned any easing of EI eligibility, even under conditions of the greatest economic crisis since the Great Depression, as a "tax" on "hard-working Canadians."

The Liberals' call for a "single national standard" for EI eligibility, however, is also meant to appeal to big business. Corporate Canada has long complained that the easier access to jobless benefits in regions with high unemployment has served as an impediment to "labor mobility." That is, it has constituted an obstacle to compelling workers in impoverished areas in the Atlantic provinces, Quebec, and northern Ontario to uproot themselves and their families and move to places where business can profit off their labor.

The NDP has joined the Liberals in decrying the rising budget deficit in essentially right-wing terms. NDP finance critic Thomas Mulcair, himself a former Quebec Liberal Cabinet minster, said Tuesday, "The Conservatives are in the process of breaking all the records of economic mediocrity. They are in the process of recording the worst deficits in the history of Canada, worse even than those of [Progressive Conservative Prime Minister] Brian Mulroney, which is to say a lot."

The NDP and the unions have responded to the capitalist crisis by lurching still further to the right. In late fall, they allied with the Liberals, the traditional governing party of Canadian big business, in an abortive bid to form a coalition government—a government that would have been committed to implementing that Liberal-Tory scheme to cut corporate taxes by $50 billion over five years and to waging war in Afghanistan. Then, when the Conservatives shut down parliament using the arbitrary powers of the un-elected Governor-General, they meekly fell in line, refusing to rally the population against this anti-democratic act.

Even after the notorious rightwinger Michael Ignatieff used the political crisis to stage his own "coup" in the Liberal Party, the NDP continued to cling to the idea of the coalition, touting Ignatieff's "progressive" bona fides right up to the moment that he formally proclaimed his support for Flaherty's budget.

The CAW, the country's largest industrial union, has joined hands with the automakers, and the federal Conservative and Ontario Liberal governments, to blackmail workers into accepting massive concessions and job cuts, arguing that they are the only alternative to bankruptcy.

These developments underscore the urgency of workers adopting a radically new strategy. The working class must be mobilized in independent industrial and political action against all the attempts of big business and its political representatives to make the working class pay for the failure of the profit system through the cutting of jobs, wages, and public and social services, and in the fight for a workers' government.