Canada: Conservatives initiate anti-working-class austerity drive

Keith Jones
9 March 2010

In the federal budget tabled March 4, Canada's minority Conservative government proclaimed its commitment to at least five years of spending restraint, freezes, and cuts.

Under conditions where the world economic slump has driven the official unemployment rate to 8.5 percent and placed in peril the pensions of hundreds of thousands of workers and retirees, the Conservatives declared that the elimination of the annual federal budget deficit must be the first objective of government socioeconomic policy.

Yet Finance Minister Jim Flaherty also boasted that Canada's deficit-to-GDP ratio is markedly better than that of any other G-7 country. And even as the Conservatives decry the size of the deficit, they are proceeding with a further reduction in the corporate tax rate worth an estimated $5 billion annually. Fully a third of this $5 billion will go to boosting the balance sheets of the country's big banks and oil companies.

As in the 1990s under the Liberal government of Jean Chretien and Paul Martin, the Conservatives intend to use deficit reduction as the justification for sweeping cuts to public and social services.

That the ruling class overwhelmingly supports the government's anti-working-class austerity program was underscored by the speed with which Michael Ignatieff, the leader of the official opposition Liberals, hastened to announce his party will ensure that the budget is adopted by parliament and that the minority Conservative government survives.

Initially, the brunt of the Conservatives' austerity program will be borne by the more than 300,000 federal government workers.

Although the Conservatives previously agreed to collective agreements with federal workers calling for wage increases this year of on average 1.5 percent, they have refused to raise federal departments' salary budgets in line with this pay rise. Departments will therefore be compelled to slash their labor costs by cutting positions and/or reducing work hours, resulting in a diminishing of the quality of the services they provide.

In subsequent years, the jobs cuts and erosion of services will rapidly accelerate. The Conservatives have announced a two-year freeze, covering the 2011-12 and 2012-13 fiscal years, in all departmental operating budgets, meaning that they will have to make do with this year's already depleted allocation till at least 2013-14. The sole exception is the Defence Ministry's budget.

When inflation and the increase of the population are taken into account, this amounts to a cut in real terms of well over 10 percent.

Additional cost reductions are to come through a review of all government programs and a concerted drive—announced in the March 3 Throne Speech—to reduce environmental and other regulations.

The targeting of federal workers is a crude attempt to split the working class and foment a middle-class "taxpayers' revolt." The Conservatives and media are seeking to portray federal workers as privileged fat cats who haven't had to make the slump-induced sacrifices of other Canadians.

The attack on federal workers is also driven by the Conservatives' electoral calculations. By targeting federal workers, the Conservatives hope to convince big business that they can be counted upon to mount an aggressive assault on public and social services, while putting off—till after another bid to secure a parliamentary majority—across-the-board cuts in programs and services. Such cuts, they rightly fear, would provoke widespread popular opposition.

The Conservatives' purported cuts in military spending are not cuts at all. The government has excluded the military from its austerity program altogether till the 2012-13 fiscal year on the grounds that cuts would weaken the Canadian Armed Forces' (CAF) leading role in the Afghan War. Once that mission ends—the CAF is slated to withdraw all 3,000 troops by the end of the 2011 calendar year—the government has said it will scale back the rate of the projected increases in military spending.

According to the budget, increases in the CAF budget will be reduced by a total of $2.5 billion over the three fiscal years beginning in 2012-13. This will still leave the CAF with a budget climbing well above $20 billion per year and Canada with the sixth largest military in NATO.

By contrast, the government is gutting the already miniscule foreign assistance budget, reducing it by $4.4 billion over the next five years.

To much applause from big business, the Conservatives have repeatedly vowed that they will not include tax increases in their deficit-reduction program. But the budget did impose a major tax hike, one that adversely impacts on working people. Starting in 2011 and continuing at least through 2014, the government will impose annual increases in the premiums workers and employees pay into the Employment Insurance (EI) program.

Meanwhile, the government rejected calls for any further extension in EI eligibility or any significant new job-creation measures, even though half a million jobless workers will exhaust their entitlement to EI benefits in coming months.

Only after a major political crisis in late 2008, which climaxed with Prime Minister Stephen Harper prevailing on the Governor-General to temporarily shut down parliament, did the Conservatives agree to implement a two-year, $50 billion economic stimulus package.

In the run-up to last week's budget, a smattering of neoconservatives, including the editors of the *National Post*, urged the government to cancel some or even all of the second year of the stimulus measures. But the Conservatives heeded calls from big business not to jeopardize the "fragile" recovery by prematurely withdrawing increased infrastructure spending and other stimulus measure.

At the same time, the most powerful sections of Canadian capital are anxious that the government gird itself for pushing forward with major cuts to public and social services.

For weeks, the editorial pages of the country's dailies have been filled with commentary arguing that as soon as the recovery "takes hold" Ottawa must make "tough" and "unpopular" decisions to eliminate the annual federal deficit. While some of the commentators questioned the wisdom of the Harper's government's two-percentage-point reduction in the Goods and Services Tax (GST), virtually without exception they took it as necessary given the radical restructuring of the tax system carried out under Liberal and Conservative governments over the past decade. With the aim of redistributing the national income to favor still more the most privileged sections of society, Canada's governments have slashed corporate, capital gains and income tax rates and almost entirely abandoned the notion of progressive taxation.

With last week's budget, the Conservatives sought to demonstrate to big business that their government is now transitioning to austerity mode. They spurned all calls for stimulus measures above and beyond those previously announced and laid out a framework for dramatically scaling back the deficit from $54 billion in the 2009-10 fiscal year (which ends this month) to $1.8 billion in 2014-15.

Criticism of the budget, such as there was, from the corporate media and big business focused on the government's reputed failure to cut spending quickly and deeply enough. Many editorialists and economists warned that the government's deficit reduction plan was based on rosy economic projections, including an annual economic growth rate of about 3 percent between now and 2015.

The *Globe and Mail*, the traditional voice of the Bay Street banks and brokerage firms, has long been urging the Conservatives to repudiate their pledge to eliminate the deficit without making cuts to the transfers Ottawa makes to the provinces to fund health care, post-secondary education and social-welfare programs or to various income support programs, including age pensions and child tax benefits

This pledge is a patent ruse meant to sow popular complacency until the Conservatives or Liberals secure a parliamentary majority, thereby further insulating themselves from public pressure.

In any event, the existing federal-provincial agreement transfers will expire in 2014 giving the federal government of the day a golden opportunity to restructure and reduce federal-provincial transfers.