Canada’s banks received tens of billions in government support during 2008 crisis

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Canada’s largest banks received $114 billion in liquidity support from the government of Conservative Prime Minister Stephen Harper and the United States Federal Reserve between 2008 and 2010, reveals a recent report from the Canadian Centre for Policy Alternatives (CCPA), a think tank with institutional backing from the trade unions. The Canadian government support included buying up $69 billion in mortgage-backed securities and issuing attractive short-term loans to loosen up credit markets.

Entitled *The Big Banks’ Big Secret: Estimating Government Support for Canadian Banks During the Financial Crisis*, the CCPA report gives the lie to the assertions of the government and the corporate media that the Canadian banking system, unlike that of the United States, weathered the 2008 financial collapse due to its sound and prudent risk management practices.

In the report, senior economist David MacDonald wrote, “Ever since the global financial crisis struck in 2008, Canadians have been subjected to a constant refrain: Canada has ‘the most sound banking in the world.’ During the worst of the crisis—2008-2010—the official line was that Canada’s banks did not require the extraordinary bailout measures that were being offered in other countries, particularly in the U.S.”

To put the $114 billion support into perspective, the report continues, the bailout “would have made up seven per cent of the Canadian economy in 2009 and was worth $3,400 for every man, woman and child in Canada.” By contrast, the Bush-Obama Troubled Assets Relief Program (TARP)—from which Canadian banks accepted about $33 billion—was worth approximately $3,000 for every person in the United States.

Such was the extent of the government’s rescue operation that “three of Canada’s banks—CIBC, BMO and Scotiabank—were at some point completely underwater, with the government support” they were drawing exceeding their respective values. “In March 2009, CIBC stood out for receiving support worth almost one and a half times the value of all outstanding shares. It would have taken less money to have simply bought all the shares in CIBC instead of providing it with support.”

MacDonald remarked that “uncovering the extent to which Canada’s big banks relied upon federal government support during the crisis requires considerable digging. While the details around the American bank bailout are fully available to the public, the Canadian federal government and the Bank of Canada offer far less transparency.”

The study also points out that during the two-year period of the bailout Canada’s banks remained highly lucrative. They reported a total of $27 billion in profits and quickly rewarded shareholders with fat dividends and their leading executives with handsome raises to their pay packages. All of the major banks’ CEOs ranked, and continue to rank, among the highest paid of the country’s top one hundred executives. TD Bank’s Edmund Clark, for example, accepted a pay increase from $11.1 million in 2008 to $15.2 million the following year.

The massive state aid to Canada’s big banks was proffered with no strings attached. Interest rates were nominal and the banks were under no obligation to lend out money so as to help generate economic activity, although it was hoped that they would. By contrast, when it came to the auto industry, the Harper Conservative and Ontario Liberal governments made loans and other aid contingent on the Canadian Auto Workers union imposing massive wage and benefit concessions. These concessions have since been used to drive down the wages and conditions of workers across industry.

The mainstream financial press, as well as banking industry and government representatives, were quick to denounce the CCPA report. A load of “hooey” and a “conspiracy theory” screamed the right-wing tabloid

Toronto Sun. The *Globe and Mail*, the traditional mouthpiece for Bay Street financiers, ended their "investor" coverage with a quote from Steve Foerster, a finance professor at the University of Western Ontario who stated, "I would not put much credence in this report. It will have zero impact on Canada's reputation as a country with a strong central bank and a well-managed banking system with careful oversight."

A spokesperson for Conservative Finance Minister Jim Flaherty called the findings of the study "completely baseless," but nonetheless felt it prudent to state that all loans had been repaid. The Canadian Bankers' Association, eager to spin the report so as to minimize an ever-growing public distrust of the banks, offered a semantic argument: "The Oxford dictionary defines bailout as 'financial assistance to a failing business or economy to save it from collapse.' That definitely was not the case here: not one bank in Canada was in danger of going bankrupt or required the government to buy an equity stake under tax-payer-funded bailouts."

Whether one wishes to call the unprecedented actions of the government a "bailout" or simply "liquidity support," the fact remains, says MacDonald, that "there was a massive failure in the private sector market…that was far more substantial than the official line would suggest."

If the relief provided to the banks, particularly from the Canadian Mortgage and Housing Corporation, was not exactly "secret," it was certainly obscured, downplayed and un-vetted by the government, opposition parties, and press alike. MacDonald restricts his criticisms to the Harper government but many of the steps taken to jumpstart the bailout during the 2008 election were taken in consultation with the leaders of the Liberal and New Democratic parties. Neither opposition party raised any objection, nor deigned to make the government's readiness to fully backstop the banks' shareholders a campaign issue.

The CCPA report seems most concerned with the "secretive" bailout process and demands more transparency so that the information can "be used to strengthen financial sector regulation." The secrecy of the Harper government—whether it concerns the full ramifications of its bailout provisions or more recently its voter-suppression tactics and its dubious bookkeeping on fighter jet purchase proposals—should come as no surprise to observers of its actions and record. But in the CCPA report little is said about the rapacious nature of financial institutions in this era of global capitalist crisis.

Why, for instance, did some banks require more support than others? And to what exactly were the bailout funds applied? The funding contributed by the government was "fungible"—i.e. to be disbursed in any way the banks desired. Between 2008 and 2010, the leading Canadian banks substantially increased their corporate power and the viselike grip that they wield over the economy. The Royal Bank spent billions on acquisitions of American and Canadian financial institutions and expanded its footprint in Brazil. CIBC laid out $2 billion for MasterCard's Canadian portfolio. The Bank of Montreal (BMO) acquired additional American holdings. TD Bank paid nearly $9 billion for Commerce Bancorp of New Jersey and Scotiabank made major acquisitions in Puerto Rico, Guatemala and Thailand.

While the government funds poured into Canada's banks during the 2008-9 financial crisis were unprecedented, the bailout was a continuation of the policies pursued by all governments—Conservative, NDP, Liberal, and Parti Quebecois—in the provincial legislatures and federal parliament for decades.

Governments of all political stripes have redistributed wealth in favour of the owners of capital through the wholesale slashing of public services and the implementation of massive tax cuts and loopholes for corporations and the richest layers of society. The ruling elite is now using the government deficits incurred by these tax cuts as a pretext for an all-out assault on what remains of the social gains made by the working class through the great struggles of the past century.

The extensive transfer of wealth from Canadian working people to the banks and the corporations entails the impoverishment of whole swathes of society. The bank bailout program is already widely reviled in the United States, and the bankers who benefited are seen as no better than criminals. If public knowledge of the extent of government aid to Canadian banks is not so well known, that has not prevented mounting unease and anger over the growth of social inequality and unfettered corporate power. All of this has explosive implications. It is for this very reason that both the media moguls and the government prefer to keep the facts of the Canadian bank bailout out of the public's consciousness.