Canada's finance minister postpones budget as economic turmoil deepens

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Canadian Finance Minister Joe Oliver announced Thursday that the Conservative government will not table the 2015-16 budget before April, due to on-going economic volatility. Canada's federal budget is usually presented in February or March.

"Given the current market instability, I will not bring forward our budget earlier than April," Oliver told a meeting of the Calgary Chamber of Commerce. "We need all the information we can obtain before finalizing our decisions."

The drop in world oil prices by more than half since last June has roiled the Canadian economy, which in recent years has become heavily reliant on energy for export-earnings and on the development of the Alberta tar sands to drive economic growth. On Tuesday, oil prices closed at a six-year low of US $45 per barrel, before increasing slightly to $48 on Wednesday.

By contrast, when Oliver boasted in last November's "fiscal update" that the Conservatives would balance the books for the first time since 2007-8 in 2015-16, his calculations were based on oil prices stabilizing at no less than $81 for the coming five years.

The Conservative's "anti-deficit drive," which kicked into high gear at the beginning of the decade, has involved sweeping social spending cuts and an ever-widening assault on the workers who administer public and social services. The Conservatives have eliminated more than 25,000 federal worker jobs, raised Canada's retirement age, further restricted eligibility for unemployment insurance, and expanded the use of Public-Private Partnerships, enabling big business to make guaranteed profits from public infrastructure projects.

A failure to reach the government's balanced budget target would inevitably be used by Oliver and Prime Minster Stephen Harper as the pretext for a further assault on public spending.

In his remarks Thursday, Oliver expressed hope that oil prices may quickly rebound. These hopes ignore the fact that their decline is just one expression of the deepening economic crisis around the globe. As the World Bank conceded earlier this week when it slashed its global growth predictions for 2015, the outlook for world capitalism in the period ahead is characterized by economic instability and anemic growth, if not stagnation.

Due to Canada's exposure to the energy industry, figures within the financial sector are already sounding the alarm bells. Investment firms are advising clients to favour US stocks over Canadian investments, given the imminent threat of a sharp downturn north of the border. The Toronto TSX stock exchange is down by more than seven percent since the beginning of October 2014.

According to a *Bloomberg* report, concern is growing that the oil price collapse could trigger a housing crisis. The ratio of Canadian household debt to disposable income rose between July and September to a record 162.6 percent. Pointing to housing bubbles that have been fueled in Vancouver and Toronto by unprecedented low interest rates, *Bloomberg* cited the remarks of Brian Yeung, global equity strategist at Meryl Lynch, who remarked, "Given the high cost of production of Canadian oil sands, unless you think oil is going back to $70 or $80 a barrel they'll suffer and we think that'll have collateral damage to the financial sector in Canada."

Timothy Lane, the deputy governor of Canada's central bank, the Bank of Canada, acknowledged in a speech earlier this week that oil prices could fall further and with no bottom in sight. He indicated that as well as resulting in slower economic growth, reduced oil prices would continue to push down the value of the Canadian dollar and delay plans by the bank to raise interest rates back toward "normal" levels. The Canadian dollar is already down by 8.4 percent against the US dollar from a year ago.

In a separate report, *TD Bank* argued that Oliver will fall well short of his goal of eliminating the deficit. The paper claimed that the achievement of a surplus would be delayed by two years, until fiscal year 2017-18. For the coming year, the bank anticipated a deficit of C$2.3 billion, and C$600 million in 2016-17. These numbers were premised on an oil price of $67, i.e. requiring an increase in prices by around a third from current levels. If prices continue to fall to around the $40 mark, the *TD* predicted the deficit would rise to over $4 billion.

Oliver's intention to delay the budget was announced in Calgary, Canada's oil industry capital and the largest city in Alberta, the province which is set to bear the brunt of the oil price drop. Alberta has seen a vast growth in oil operations in the tar sands over recent years, but falling royalties and tax revenues are predicted to blow a hole of $7 billion in next year's provincial budget—a shortfall equal to 15 percent of all provincial government spending.

A growing number of economic analysts are warning that the combination of oil production cuts, scrapped or delayed investments, and provincial spending cuts will tip the province, which has regularly more than doubled Canada's annual growth rate in recent years, into recession.

While on a trip to Toronto Wednesday, Alberta's Progressive Conservative Premier Jim Prentice set the stage for dramatic government spending cuts and demands for wage and other concessions from public sector workers. Noting that Alberta had coupled low taxes with "expensive" public services, he then added, "Those two realities have coexisted because we've been able to draw about $10 billion in oil royalties each year to finance these public services. Those oil royalties at this point have essentially evaporated.

"From my perspective," continued Prentice, "we need to work together with public sector employees to deal with the fiscal constraints that we are now seeing." He then announced his intention to have "respectful discussions" with union leaders in the coming weeks "to discuss possible solutions."

No one should be fooled by Prentice's low-key call for "discussions." A former Harper cabinet minister and top bank executive, Alberta's Premier is intending to impose massive concessions on public sector workers, as well as slashing the services that they administer.

Alberta's oil companies are already slashing jobs wholesale. Suncor, Canada's largest oil producer, revealed plans this week to slash 1,000 jobs in Alberta, and CNRL, its closest competitor, is cutting its annual spending plans by over C$2 billion. Shell Canada also stated it would cut between 150 and 300 jobs. According to figures collected by *Bloomberg*, oil companies active in Alberta have slashed their spending plans since November by a total of C$12 billion.

Prentice's thinly veiled threat of public sector wage cuts was seconded by Andrew Leach, professor of energy policy at the University of Alberta. Explaining that the spending reductions by oil companies was not all bad news, he said, "The shrinking budgets in 2015 should also take pressure off the labour market and other variables will work in favour of the companies. You just get more done for the same dollar."

In other words, workers will be forced to accept lower wages with the threat of unemployment hanging over them.

The energy crisis is only the sharpest expression of a broader economic malaise that is touching all parts of Canada. On Thursday, US-based retailer Target announced plans to shut down its Canadian operations, eliminating 17,600 jobs across its 133 stores. The loss-making concern had only opened its doors in Canada, after buying out a Canadian chain, Zellers, two years ago.

Sony also declared it would halt its retail operations in Canada within the next two months, leading to the closure of 14 stores.

Montreal-based transportation company Bombardier released plans this week to shed 1,000 jobs in the US and Mexico, driven by poorer than expected orders for its latest jet aircraft. In the wake of the announcement, Bombardier shares fell by 25 percent.

The thousands of workers left without a job will be entering a labour market with little prospect of success. Last week, the jobs figures for 2014 were published, painting a dismal picture for workers. While the headline figure of a growth in jobs by 180,000 last year was trumpeted, much less attention was paid to the fact that less than a fifth of the new jobs created were full-time, permanent positions. In December, the emergence of 54,000 full-time positions was outweighed by the loss of over 58,000 such positions.