Canada’s slumping economy rattles Liberal government

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Canada’s Liberal government is confronting a sharply deteriorating economic outlook, prompting widespread speculation that it will run a budget deficit this year that is one-and-a-half or even three times greater than the $10 billion (US$7 billion) deficit limit it committed to in last fall’s election campaign.

On Monday, the Toronto Stock Exchange fell by 1.1 percent, bringing its losses in the past two trading days to 3.2 percent, and reducing its overall valuation to the lowest level since June 2013. The Canadian dollar closed below 69 US cents, and oil futures for February sank yet again, to less than US $29 per barrel.

Almost all financial commentators predict Canada’s currency, which lost almost 20 percent of its value vis a vis the US dollar last year, will continue to fall, with some even suggesting it could go as low as 60 cents.

The dollar devaluation has failed as of yet to deliver the major boost to manufacturing exports that most economic analysts anticipated. But it is having a major impact on food and other consumer prices, further squeezing workers’ incomes.

The dollar’s decline is being driven by plummeting oil and other commodity prices. This decline is indicative of the serious economic malaise gripping world capitalism, with China, whose rapid economic growth in recent years helped bolster prices for oil and other raw materials, is in the grip of a major slowdown.

The Canadian economy has been among the hardest hit by the commodity price slump. A collapse in investment in Alberta tar-sands oil and other resource projects, has led to an abrupt reversal in capital flows, with Canada suffering the largest capital outflow of any G7 country in 2015.

The Canadian Press reported last week that the rapid souring of Canada’s economic prospects is causing Prime Minister Justin Trudeau and his Liberal government to hurriedly revise their plans to increase infrastructure spending by $17.4 billion over the next four years. The government is said to now be planning to front-load the spending and to expand the program to include home and office energy conservation renovations and social housing so as to provide an immediate stimulus to the economy.

Economic conditions are worsening so rapidly that speculation is growing that the Bank of Canada (BoC) will slash its key interest rate to .25 percent at its meeting this Wednesday. During 2015 the bank twice cut its base rate, halving it from 1 to 0.5 percent, and last month BoC Governor Stephen Poloz said that the bank would be prepared to adopt unconventional measures, including quantitative easing and negative interest rates, if conditions demanded it.

The prospect of a rate cut grew after last week’s BoC Quarterly Business Survey revealed the economic slowdown crisis has long since spread beyond the oil and natural resources sectors. According to the survey, investment and hiring plans are at their weakest levels since the global economic recession of 2009 for businesses across the board. This comes on top of growing evidence the economy stagnated in the fourth quarter and mounting fears that continuing low oil prices could lead to a recession.

Emanuella Enenajor of Bank of America-Merill Lynch predicted a BoC rate cut, noting, “If energy prices remain persistently low, one rate cut will not likely be enough to stimulate the economy back to a reasonable growth path. In that case, the BoC may adopt forward guidance later in 2016.” This was the policy pursued by Poloz’s predecessor, Mark Carney, during the financial crisis of 2008-09, when the BoC pledged not to increase interest rates for a year.

Trudeau and Finance Minister Bill Morneau have responded to the recession fears by trumpeting the Liberals’ pledge to stimulate the economy by investing in infrastructure spending. But even bourgeois economists acknowledge that the spending boost the Liberals proposed during last year’s election campaign is a drop in the bucket compared with what would be required to counteract the fall in private sector demand and investment, especially as growth in the US is anaemic at best.

The *Globe and Mail*, speaking on behalf of the Bay Street elite, declared last week that economic stimulus in the form

of oil pipeline and other big business infrastructure projects, is desirable, but any increase in social spending is to be avoided. “Much of the new spending promised in the Liberal platform is not one-off infrastructure spending,” complained a January 11 *Glob*e editorial. “It’s ongoing, permanent, social spending.” The paper went on to urge Morneau to “take a hard look” at the Liberals’ election promises and have the courage to jettison those that would not boost big business profits.

Trudeau is scheduled to travel to the World Economic Forum in Davos, Switzerland, this week, where he will deliver a speech to the global financial elite touting Canada as an ideal location for foreign investment. But concerns are also mounting on this score, leading to increasingly shrill demands that the government push through unpopular projects and measures.

Last week, the British Columbia government announced it does not approve of expansion of the Kinder Morgan Trans-Mountain oil pipeline, which would significantly boost the amount of oil being shipped from Alberta to the Pacific Coast. Coming just two months after the Obama administration rejected the Keystone XL project, and with the Energy East alternative route to the Atlantic under severe political pressure, the oil sector faces mounting challenges in getting its product to market under conditions where low prices are already threatening the viability of many, especially smaller, Canadian oil producers. (See: Bank of Montreal stress testing assets for $25 per barrel oil)

Other representatives of the ruling elite, such as the *Globe*’s Jeffrey Simpson, are warning of a “productivity” crisis, a euphemism for corporate Canada’s demand that the Liberal government press ahead with attacks on workers’ jobs, living standards and social rights. In a recent comment, Simpson cited an aging population and Canada’s social welfare provisions, arguing that what remains of public and social services after decades of cuts by Liberal, Conservative, NDP and Parti Quebecois federal and provincial governments must be slashed if productivity, i.e. profitability, levels are to improve. The Liberals are already committed to finding at least $6 billion in annual savings in public spending during their first term in office.

The economic downturn is also having a dramatic impact on the financial position of provincial governments. In Alberta, the province most heavily dependent on the oil sector, conditions have continued to deteriorate since the New Democratic Party (NDP) government tabled its first budget in October. It forecast a record $6.1 billion budget deficit for the 2015-16 fiscal year.

Last Wednesday, Alberta Finance Minister Joe Ceci announced a two-year wage freeze for 7,000 non-unionized public sector workers to save $57 million. Leaving little doubt that the government will push for similar “savings” in upcoming contract talks with civil servants, teachers, nurses and other health care workers’ unions, Ceci stated, “I assume when collective bargaining occurs, that the situation, the economy as we are in today will be part of those discussions.”

Alberta Environment Minister Shannon Phillips told the Conference Board of Canada’s Oil and Gas Summit last week that some of the NDP’s election promises will have to be delayed and that the government is preparing to curtail social spending. Ominously, Phillips declared, “Everything is certainly on the table.”

The federal government is so concerned with the deepening crisis in Alberta that it is sending senior officials to consult with corporate chiefs and NDP Premier Rachel Notley. One senior Liberal described it as “a very serious situation.” Last month, ratings agency Standard and Poor’s downgraded the province’s credit rating.

The Liberal government in Nova Scotia, which is closely aligned with the Trudeau government, rushed legislation to enforce a two-year wage freeze for public sector workers through the provincial parliament last month. The legislation was introduced after rank-and-file workers rebelled against the trade unions by voting down a tentative agreement that incorporated the wage freeze, and indicated their readiness to vote down a second such agreement in a vote scheduled for this month. The freeze will be followed by paltry increases of just 1.5 percent in the third and fourth years. The government is also capping payouts for unused sick days.