Canada’s Liberal government tables first budget amid mounting economic turmoil

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Tabled Tuesday, the first budget of Canada’s Liberal government touted a plan to use deficit spending to stimulate an economy that has experienced slow growth for a decade and been roiled by the collapse in world oil prices and commodity prices since the fall of 2014.

Among OECD countries, only Switzerland, Norway and Greece have experienced slower growth than Canada during the past year.

It is the fallout from this downturn and the resulting decline in government revenues that accounts for the lion’s share of the government’s projected deficit of $29.4 billion or 1.5 percent of GDP in the 2016-17 fiscal year.

Canada’s budget has been in deficit in every year since 2008, although Stephen Harper and his Conservatives pursued a harsh austerity agenda, cutting tens of billions from social spending. The difference is the Liberals are eschewing austerity rhetoric and championing a multi-year deficit-spending plan, including some very modest social spending increases and an enhanced infrastructure-building program, as a means of restoring the economy to high growth.

In last year’s election, the Liberals ran on a pledge to take on $26.5 billion in new debt over the next four years. But due to the deterioration in the economic situation, they are now projecting $113.2 billion in deficits over the coming five years.

In his budget speech, Finance Minister Bill Morneau claimed the Liberals’ deficit-spending plan is aimed at helping “grow the middle class” and compared it with the Keynesian economic policies that were pursued by Canadian governments in the decades immediately following the Second World War. “In the post-war years,” declared Morneau, “Canadians built the St. Lawrence Seaway and the Trans-Canada Highway. They constructed new airports, subways, pipelines and communication networks. They created new colleges and universities—and parents sent their children to those institutions in record numbers.”

Morneau said the additional spending the Liberals plan during their first four-year term will boost economic growth by 0.5 percent annually and could create 100,000 jobs.

His claim that this will help rekindle the high-growth of the post-war years is a pipe-dream. The relatively brief period of rapid post-war capitalist expansion and stability arose on the basis of the three decades of world wars and depression that preceded it and out of which US imperialism emerged as the preeminent world power. Today, global capitalism is in its deepest crisis since the Great Depression of the 1930s and the US is at the very heart of the crisis.

Furthermore, Canada has witnessed a vast transfer of wealth into the hands of the wealthiest sections of society over the past three decades, as successive governments have slashed public spending and handed out lavish tax breaks to big business and the rich. All their talk of supporting the “middle class” cannot disguise the fact that the Liberals intend to leave this reactionary fiscal framework almost entirely intact. Even the Liberals’ proposal to implement a modest tax on stock-options over $100,000 turned out to be empty “progressive” election campaign rhetoric. To enthusiastic applause from corporate executives and business lobby groups, Morneau announced in Tuesday’s budget speech that the tax is “not in our plans” for this or future budgets.

Even if the Liberals implement their spending plans in full, government spending as a percentage of GDP is slated to be 15.1 percent in 2021 or very close to its record low-level since 1950.

Rather than the “middle class,” those who will benefit most from many of the Liberals’ new measures are upper-income families. According to economists’ calculations, the households that stand to reap the largest reward from the small tax cut the Liberals made at the end of last year and the new child benefit are families with an annual income of between $90,000 and $130,000.

The budget aims to uphold the interests of the ruling elite through infrastructure investments of $6.8 billion over the next two years targeted at accelerating business activity and boosting corporate profits and by pursuing big business-dictated trade and investment agreements, such as the US-led Trans-Pacific Partnership.

Overall, the Liberals’ infrastructure spending program is heavily back-loaded, meaning that just $11.9 billion in new funding will be forthcoming in the first four years, with a further $48 billion promised over the six fiscal years beginning in 2020-21.

The Liberals’ deficit-financed infrastructure plan has won support from broad sections of the ruling class. In line with debates within the bourgeoisie internationally, much of Canada’s business elite has concluded that, under conditions of anaemic economic growth worldwide and the threat of further financial crises, the commitment to a balanced budget and relentless austerity is counterproductive. Both the IMF and OECD have advocated member states take advantage of unprecedentedly low interest rates to finance infrastructure projects in the hopes of kick-starting economic growth.

For his part, Bank of Canada Governor Stephen Poloz, who in

January 2015 cut interest rates to 0.5 percent, has repeatedly said Canada's central bank has all but run out of room to provide further stimulus and that the Bank's monetary stimulus should now be supplemented by government "fiscal stimulus."

In elaborating their plans, Prime Minster Justin Trudeau and Finance Minister Moreau are collaborating closely with leading figures from the global financial elite, as demonstrated by their appointment of Canadian Dominic Barton to head the recently-created council of economic experts that is tasked with formulating the government's "economic innovation and growth strategy." Barton is the managing director of McKinsey, a consulting group that advises the world's largest corporations. A recent McKinsey report concluded that the next decade will see a significant decline in profit rates, and that "[g]overnments all over the world will face new questions about what it means to develop a comparative advantage that can last in this fast-changing environment."

Morneau's deficit targets are widely seen as readily achievable, since the government has built in a $6 billion annual contingency fund, twice the norm of recent budgets.

However, for all the talk in the corporate media, from both right-wing Conservative-aligned opponents of the budget and its "left" and liberal proponents, about the budget breaking the austerity mould, the Liberals are in fact committed to continuing to cut social spending.

Under the fiscal plan that Morneau tabled Tuesday, government operating expenses are to flatline after 2017. The Finance Minister also reiterated the Liberals' commitment to find $6 billion in annual "savings" by their fourth year in office and, so as to underscore the government's long-term commitment to spending restraint, he went out of his way to praise the Chretien-Martin Liberal government, which in the mid-1990s carried out the greatest social spending cuts in Canadian history, for its "wise management of the nation's finances."

Most revealingly, the Liberals' indicated they intend to implement the Harper government's health-care funding formula, which calls for tens of billions of dollars' worth of health care spending cuts over a 10-year period beginning in 2017.

As for the military, the Liberals reiterated their commitment to maintain the 3 percent annual increase in base defense spending slated to begin in 2017 and last for at least nine years. The Trudeau government has already expanded Canada's role in the US-led war in the Middle East and is currently considering military interventions in multiple countries in Africa, and in Haiti.

With the assistance of a compliant media, the Liberals are promoting their budget as a massive reinvestment in social needs. In fact, many of the budget's "progressive" measures largely involve a repackaging of existing measures, or are back-loaded, so much of the promised spending will only take place years down the road.

The government's much-heralded $23 billion "Canada Child Benefit," which it extravagantly asserted during the election campaign will lift over 300,000 children out of poverty, replaces the previous government's "Universal Child Benefit" and various child tax benefits. The government made a mere $4.5 billion of new funding available for the program, under conditions where child poverty and daycare costs continue to rise. Moreover, the new benefit will not be indexed to inflation.

Morneau pledged $8.4 billion in new money for services for Canada's impoverished native people, but this is spread out over five years. Even if the government fulfills its pledges, per capita education spending on Native children will still fall well under the Canadian norm. Since 1996, Liberal and Conservative federal government have restricted increases in social transfers to Native communities to 2 percent—meaning, due to inflation and population growth, 20 years of annual spending cuts in real terms.

Similarly, the $3.5 billion made available to provide a 10 percent increase for single elderly people claiming the Guaranteed Income Supplement and to undo the Conservatives' move to increase the age of eligibility from 65 to 67 for Old Age Security is much more modest than the headline figures suggest.

As for the unemployed, the majority of whom no longer even qualify for Employment Insurance, the government offered the thinnest of gruel. Workers in the areas of Alberta, Saskatchewan and Newfoundland worst affected by the collapse of the energy sector will be able to more easily qualify to receive jobless benefits and receive them for longer.

In a sop for the trade union bureaucracy, which strongly backed the Liberals in the name of "Anybody But Harper" in last October's election and whom the government is now grooming to serve as a means of smothering social opposition, Morneau reinstated the special tax privileges for union-controlled investment funds the Conservatives eliminated in their 2014 budget. The largest of these funds, Quebec Federation of Labour's Solidarity Fund, has more than $10 billion in assets and serves to cement the tripartite ties between the union apparatuses, big business and government.