Canadian provinces and cities confront huge deficits as economic crisis deepens

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Ontario predicted this past week that its deficit will grow to a record $38.5 billion in the 2020-21 fiscal year as a result of massive revenue shortfalls and increased provincial spending due to the coronavirus pandemic. Canada's most populous province, currently governed by the hard-right Doug Ford-led Conservative government, is only the latest in a growing number of provinces and municipalities reporting record-breaking deficits following the economic collapse triggered by COVID-19.

In a report released late last month, the City of Toronto said it expects to go $3 billion deeper into debt this year and next. The analysis recommended that municipal authorities impose mass job cuts and privatize public assets to balance the books.

One proposal was a voluntary retirement program that would pay workers close to retirement a lump-sum equivalent to three months' salary in exchange for their taking early retirement. Managers would then have to keep the retired worker's post unfilled for at least six months, and find ways to offer services with fewer staff. The city has already imposed over $500 million in cost savings this year, including through temporary layoffs.

Similarly, savage austerity measures are being considered across Ontario's 444 municipalities and in other provinces. The starvation of funds for municipalities, which have suffered significant losses of income due to lockdown measures, is part of a deliberate policy by the ruling elite to enforce austerity measures at all levels of government in order to pay for the bailout of the banks and financial oligarchy carried out by the federal government. Coming after decades of austerity budgets, pay freezes, and job cuts at the federal, provincial, and municipal levels, this policy will prove devastating for already overstretched public services, particularly under conditions in which social inequality and poverty are on the rise.

The Ford government announced in late July that it would provide, in conjunction with the Trudeau Liberals, a miserly $2 billion in funding support to Ontario's municipalities. This would not even come close to meeting Toronto's financial shortfall, never mind those of the hundreds of additional municipalities also in dire need of support.

The Ontario government's funding deal is part of a $19 billion package agreed to between the Trudeau government and the provinces with the aim of accelerating the reopening of the economy, regardless of its consequences for public health. Ford explained that the funding would "help restart our economy and come back stronger than ever before."

The all-party support for the reckless back-to-work drive, which is being accompanied by the reopening of schools in the face of opposition from teachers and parents, is aimed at making working people pay for the more than $650 billion the Trudeau government, Canada's central bank and various government agencies have poured into the financial markets and corporate coffers since March to bail out the rich and super-rich.

At the end of this month, the federal government will allow the Canada Emergency Response Benefit (CERB) to expire. It intends to force the millions of workers still out of a job either on to less generous Employment Insurance benefits or a new makeshift benefit for gig economy, contract and self-employed workers that will provide substantially less than the CERB's meagre $2,000 per month stipend.

The ruling elite is seizing on increased government deficits to justify its reopening of the economy and gutting of financial aid, even though the real source of the growing public debt levels is the virtually unlimited support extended to the super-rich. Finance Minister Bill Morneau revealed last month that the federal government's budget deficit is expected to reach $343 billion this year. The projected debt before the pandemic was $34 billion. Proportionately, the 2020-21 federal deficit will be far and away the largest since the Second World War. The overall federal debt is expected to surpass the trillion-dollar mark for the first time in Canadian history, at $1.2 trillion, a figure equal to more than half of the country's gross domestic product.

The economy is expected to contract by nearly 7 percent, the most severe slowdown since the Great Depression.

Morneau tried to paint a rosier picture by pointing out that the government has been able to borrow at low interest rates, keeping the cost of servicing its debt relatively low. The degree to which government debt is an attractive investment is bound up with the extreme volatility of global financial markets that are increasingly relying on massive influxes of capital from the world's central banks to stave off collapse.

Morneau also cited the government's expectation that economic growth would rebound to 5 percent in 2021, although this is contingent on businesses returning to something resembling pre-pandemic levels. Much the same can be said for the government's optimistic prediction that unemployment will drop to 7.8 percent next year from 9.8 percent this year.

In the already depressed economies of eastern Canada, the pandemic has hit public finances hard. In Nova Scotia, the premier announced that the deficit is now $852 million and the debt nearly 40 percent of GDP. In Newfoundland & Labrador, the government is considering allowing desperate residents to dip into their pensions to offset their financial troubles, forcing them to use their retirement funds to ride out the pandemic. Even prior to the pandemic, there was increasing discussion in ruling circles about the need for Ottawa to organize a rescue package to prevent the Newfoundland government from sliding into bankruptcy.

Concerns over the state of Canada's economy have been growing since the pandemic erupted. In late June, the ratings agency Fitch downgraded Canada's credit rating from AAA, the highest investment rating, to AA+. It cited the pause of several provinces in implementing their debt reduction plans as something that could impede efforts to stimulate growth moving forward.

Voices in the corporate-controlled media have begun demanding that governments do more to reduce their deficits and overall debt burden. Michael Wernick, a former clerk of the Privy Council, who resigned due to the SNC-Lavalin corruption scandal last year, argued that a debt of $1 trillion or more would compel Ottawa to slash federal government employment and services and that this correction must come in a year or two. He argued that the experience of working from home during the lockdown should provide ministers with information on where to reduce staff and spending.

The former parliamentary budget officer Kevin Page argued in an interview that austerity would be the inevitable result of the pandemic. He predicted the government would have to increase taxation and cut back programs. The *Financial Post,* meanwhile, wrote that the government must put in place debt ceilings and that, to cover repayments, they must not only privatize state assets but do so at bargain rates. It argued that tax increases should come in the shape of regressive consumption taxes and used the opportunity to call for further reductions to Canada's already low corporate tax rates.

Former Conservative Prime Minister Stephen Harper has also joined in, calling for severe austerity in a May column in the *Wall Street Journal*. Harper, who was prime minister during the 2008-09 global financial crisis, made clear he would have made similar demands even if the pandemic had not erupted. Looking back at the 2008-09 crisis, he noted that "this time will probably be much worse … Unless we experience a period of astronomical global growth, simple arithmetic dictates that many governments, both national and subnational, will experience debt crises or at least severe pressures, in the years to come. If they fail to practice mild austerity proactively, a brutal kind will be thrust on them."

Many commentaries have drawn comparisons to the 1990s when Liberal Prime Minister Jean Chretien and his finance minister, the future Prime Minister Paul Martin, instituted massive social spending cuts and privatizations, and have pointed to these measures as the way forward. Wernick recalled that the government in the mid-90s slashed "45,000 public service jobs, eliminated 73 federal agencies, reduced foreign aid by 21 percent, and privatized Canadian National Railways." He predicted that a similar future is now in store for Canadian workers.

Andrew Scheer, the current Conservative Party leader, crudely illustrated the basic interests animating this class-war policy, noting that "coming out of the pandemic, every single country on the planet will be desperately competing for the same opportunities and the same investments, so where is the prime minister's plan to set us apart?"

As the official opposition Conservatives choose a successor to Scheer next weekend, they are making clear that vicious cost-cutting will be on the order of the day, should they come to power. "Many on the left are going to try to use the pandemic as a justification for a return to the failed policies of the past," declared Scheer in a Wednesday interview with the Canadian press. To oppose this, he continued, his successor would need to let "people and markets take the lead" by cutting back on government, i.e., by gutting what remains of the public services and social protections the working class won as the result of the mass struggles of the last century.