Canada’s finance minister acknowledges sharp economic slowdown

By Roger Jordan
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Bill Morneau, the Finance Minister in Canada’s new Liberal government, presented his department’s annual “Fall Fiscal Update” Friday. It revealed that Canada’s economy and federal government finances have both deteriorated sharply since the Conservatives presented their budget last April.

Economic growth, estimated at 2 percent for the year in the spring budget, is now anticipated to reach only 1.2 percent. The Conservatives had forecast a $2.4 billion surplus in the 2015-16 fiscal year. Morneau says the government now anticipates a deficit of around $3 billion, and this is before taking into account any of the Liberals’ election promises.

Canada experienced a recession in the first six months of 2015. The figures presented by Morneau showed GDP contracted 0.8 percent in the first quarter and 0.5 percent in the second. “Going forward, the risks to the Canadian outlook remain tilted to the downside,” he told a press conference Friday.

The Conservatives claimed to have set Canada on the path of balanced budgets, but the fiscal update shows that even if none of the Liberals’ spending plans are factored in Ottawa would continue to rack up deficits for the next three years.

Morneau, a multi-millionaire former pension management CEO with close ties to Bay Street, acknowledged growth in Canada’s economy would be anemic over the next four years, hardly rising above 2 percent in any year.

The new finance minister put the blame for Canada’s stalling economy on worsening global conditions. He noted that other countries had reported facing similar challenges at the recent G-20 summit in Turkey, which he attended with Prime Minister Justin Trudeau.

Canada’s economy has been hit hard over the past year by the deepening global crisis of capitalism, above all the sharp drop in oil and other commodity prices. In the wake of the 2008 world financial crisis and slump, Stephen Harper’s Conservative government relied heavily on strong growth and huge investments in the oil-producing provinces of Alberta and Saskatchewan to propel the economy and boost Canada’s geo-political importance on the world stage as a so-called “energy superpower.”

The collapse in oil prices from over $100 per barrel has seen the Albertan economy fall into recession this year, after attaining 3 and 4 percent growth respectively in 2013 and 2014.

The broader economy’s heavy reliance on oil was shown symbolically last week when the Canadian dollar slipped below US $0.75 on the same day that crude dropped below US$40 per barrel.

The Canadian Association of Oil Well Drilling Contractors reported last week that drilling projects are down by 58 percent this year. Meanwhile, billions in investments in Alberta tar sands projects have been shelved. Late last month Shell took a $2 billion loss when it announced that it was halting work on an 80,000 barrel-per-day tar sands projects at Carmon Creek, Alberta. Enbridge announced 500 job cuts last week, and Husky reduced its workforce by 1,400 globally in late October, with most of the cuts to be made in Canada.

The huge reduction in activity in the energy sector has caused unemployment to rise sharply in Alberta. In September twice as many workers were drawing employment insurance in Alberta as a year ago.

Trudeau and his big business Liberals won a majority government in last month’s election by hypocritically appealing to popular concern over the economy and anger over increasing social inequality.

The centerpiece of their economic platform was a plan to “kick-start” the economy by increasing infrastructure spending. This was to be achieved by running three years of deficits, up to $10 billion in each of the first two full fiscal years under Liberal rule, and a $5 billion deficit in the third. The Liberals also vowed to find at least $6 billion in per annum savings so as to balance the books in 2019-20.

At Friday’s press conference, Morneau insisted the Liberals will proceed with the promised boost in infrastructure spending, while ducking questions as to what this would mean for their previously announced deficit limits.

Even if the Liberals do implement their infrastructure program fully, the additional spending will prove little more than a drop in the bucket. According to the most optimistic forecasts the added stimulus will boost GDP by a mere 0.5 percent. Other economists estimate the increase in annual GDP at just 0.2 or 0.3 percent.

More fundamentally, there is no prospect of any sustained upswing in global capitalism. This will mean at best ongoing stagnation or minimal growth for Canada's economy, which is heavily dependent on high commodity prices driven by growth in China, and on exports to the US. Despite a significant depreciation in the value of the Canadian dollar over the past two years, Canadian exporters continue to lose market share in the US, particularly to China and Mexico.

This is a reality that the bourgeoisie now openly admits. A research paper released by the Bank of Canada the day before Morneau's fiscal update referred to slow growth as "the new normal." Admitting that the recovery in the wake of 2008 had been very weak, the paper's authors wrote, "Overall, there is increasing evidence that growth in advanced economies may remain slow in the immediate future compared to its pre-[financial] crisis average, as a result of a combination of cyclical and structural factors." The study raised the possibility of Canada adopting "unconventional" policy measures, including quantitative easing as practiced by the US Federal Reserve and European Central Bank.

Morneau's fiscal update largely mirrored figures presented earlier this month by the Parliamentary Budget Office (PBO). The PBO warned that the government's deteriorating fiscal position threatens the Liberals' pledge to balance the budget in its fourth year in office. "If they maintain the plan that they have announced, then based on our forecast, it would be difficult to reach a balance in 2019-20," said assistant parliamentary budget officer Mostafa Askari.

At his Friday press conference, Morneau reaffirmed the Liberals' pledge to balance the budget by 2019, referring repeatedly to the need to take a "prudent" approach. He promised in addition that the Liberals will ensure that the debt to GDP ratio falls in each year of their government. Given that higher budget deficits are now inevitable if the Liberals implement their infrastructure investment plan, this can only mean deeper austerity measures going forward.

That the Liberals were able to sell their reactionary agenda to voters as a "progressive" alternative to the balanced budget mantra trumpeted by Harper and NDP leader Thomas Mulcair speaks volumes about just how far to the right the Conservatives and New Democrats campaigned.

On top of the billions in spending cuts the Trudeau government is pledged to make, its right-wing agenda is further illustrated by its commitment to upholding the reactionary fiscal framework created by decades of massive tax handouts to big business and the rich and cuts to social spending.

During the just-concluded election campaign Trudeau flatly rejected any increase in corporate taxes, while justifying a tiny increase in the taxes of the top 1 percent of income-earners on the grounds that a "fairer" tax system would prevent Canadians turning to more "radical" options.

As for the Liberals' "middle-class tax cut," its benefits will go largely to the most privileged sections of the middle class. Almost two-thirds of Canadians—those with taxable incomes of less than $45,000—will receive not a single penny from the tax cut. Meanwhile, about half of the total "savings" will accrue to those in the 90 to 99th percentile of highest income-earners.

Broad sections of the ruling elite are fully on board with the Liberal government's deficit-spending plan. After two interest rate cuts by the Bank of Canada in less than six months halved the base lending rate from 1 to 0.5 percent, they believe it is now the government's turn to take steps to boost corporate profits. As even the right-wing *Financial Post* acknowledged late last month, "We can't continue to rely on the Bank of Canada to do the heavy lifting."

Several factors point towards the risk of still greater economic instability in the coming period. It is now generally acknowledged that the recovery in oil prices will take place even more slowly than was previously assumed, with the per barrel price likely failing to surpass $60 before 2018.

There are also widespread concerns about the potential for a severe "correction" in the housing market, which is considered to be highly inflated, particularly in Toronto and Vancouver. A sharp reduction in housing prices would have serious consequences given that household debt, at over 160 percent of GDP, is at unprecedented levels and among the highest in the world.