Economic Crisis Slams Canada

Federal Government Denial

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As the grim news of growing job losses mounts in Canada, the federal Conservative government is continuing the politics of denial that marked last autumn's election campaign. Especially troubling for the working class is that opposition political parties, including the trade union-based New Democratic Party, are offering no substantial alternative.

Economic collapse by the numbers

The first two months of 2009 were a disaster for working people; 240,000 workers lost their jobs. The job losses in January were the largest monthly loss ever in Canada. November to February losses are the steepest since the crushing recession of 1981/82.

Since June of 2008, Canadian households have lost 8% of their net worth. Household credit debt grew by 2% in the fourth quarter of 2008.

Two of the big three U.S. automakers in Canada, General Motors and Chrysler, say they will pack up operations in Canada if they don't receive nearly $10 billion of taxpayer bailout money. Together they employ some 20,000 workers in vehicle assembly and tens of thousands more in parts manufacture, sales, and service. Chrysler wants its workforce to concede even deeper cuts in wages and benefits than those voted by GM Canada workers in mid-March.

Cuts to social services will soon be the order of the day as governments cry poverty and deficits mount. Bank analysts say the federal government will have a budget deficit of $40 billion in fiscal 2009. The government of Ontario, the province with the largest manufacturing employment, has announced the largest budget deficit in the province's history for 2009, $14.2 billion.

If deep cuts to social services have not already begun, it's because the federal government and some provincial governments, notably in British Columbia, are positioning themselves for re-election before swinging their axes.

The social wage threatened

Among the first victims of the economic downturn have been laid-off workers trying to collect unemployment insurance, and workers who are retired or soon to be.

Laid-off workers receive fewer benefits for shorter periods of time as a result of drastic cuts to the federal unemployment insurance program over the past years. According to Winnie

Ng of the Good Jobs For All Coalition in Toronto, only 31% of unemployed workers receive benefits. Under pressure, the federal government recently extended by five weeks the length of time that recipients can collect. It did nothing to improve access.

Workers with retirement savings connected to the stock market have suffered double digit losses in the past six months. Meanwhile, company pension plans at many of Canada's largest employers no longer have enough funds to pay established benefits, in part because companies have unilaterally cut their contributions in recent years. The highly profitable Canadian Pacific Rail, for example, allowed its pension deficit to triple in 2008, to $1.6 billion. Air Canada's deficit rose 172% that same year. GM Canada's shortfall is somewhere around $6 billion. Only 50% of GM's unionized workers' present and future benefits are covered.

The federal government is considering legislation that would extend to ten years, from the current five, the time allowed companies to make up pension plan shortfalls.

The public pension picture, once thought impervious to the vagaries of the stock market, is starting to look grim. The manager of public pension plans in the province of Quebec announced in February an astounding loss of nearly $40 billion in 2008, one-quarter of the value of its holdings, due to substantial investment in the stock market, including the riskiest of assets.

Losses in Canada's public plan, which covers residents of all provinces and territories except Quebec, were $18 billion, or 14% of value. A big part of the losses can be traced back to a decision by the federal government in 1999 to allow the plan to invest 25% of its assets in the stock market. One can only guess what the size of the 2008 loss would have been without that 25% cap.

What economic collapse?

In the face of the grim economic news, the message from the federal government is, "Don't worry, be happy." Prime Minister Stephen Harper told a business audience in Brampton, Ontario on March 10: "Canada was the last advanced country to fall into this recession. We will make sure its effects here are the least severe, and we will come out of this faster than anyone and stronger than ever."

The latest message from Harper repeats the denials he issued when the world financial collapse escalated in September 2008, coinciding with the beginning of the last federal election. As the financial decline broke over Canada that month, Harper famously declared that it would be a good time to invest in the stock market. By November, Canada's largest stock index had declined 44%. In March 2009, it still stands 39% lower.

The government's claims are so outlandish that even big mouthpieces of capitalism have taken their distance. No less than the International Monetary Fund, itself an agency promoting rosy prospects for a quick international economic recovery, said on March 17 that Canada's economy would shrink by 2% in 2009, double an earlier "estimate" of 1%.

Former Bank of Canada governor David Dodge says that Harper's claim that Canada will experience a quick recovery and lead the rest of the world out of its decline is "totally unrealistic."

Canada’s media has been focused on the disastrous decline of the U.S. economy. But Canada’s January/February 2009 job losses are higher by 50% on a per capita basis than the U.S., wrote Vancouver Sun columnist Barbara Yaffe on March 20.

She also pointed to another ominous comparison between the two economies. Canada’s is far more dependent on exports than its U.S. counterpart. They account for 35% to 40% of Canada’s gross domestic product, compared to 12% to 15% in the U.S. More than three-quarters of Canadian exports go to the ailing U.S.

Harper’s Pollyanna-like message is echoed by the opposition parties in Parliament, all of whom followed the government’s lead in downplaying the gravity of the economic collapse. Only now are they hinting at taking their distance.

Deputy NDP Leader Thomas Mulcair expressed unease with the government’s projections during a CBC Radio on March 24, “I’d like to have a clear-eyed view of what’s really happening in the economy,” he complained.

When asked what should be done for the country’s unemployment insurance program, Mulcair said that the two-week waiting period should be eliminated. He decried the reduction in accessibility to the program but offered no measure to redress this.

The NDP announced on March 22 that it is launching a nine-week public consultation process to, “investigate the effects of the recession on ordinary Canadians, and bring new ideas to Ottawa.”

Sub-prime mortgage elephant in the room

The March 14 Globe and Mail reported on a subject that no political party has dared to talk about, namely the troubling state of housing mortgages in Canada. Headlined “Canada’s dirty subprime secret,” the article began: “A Globe and Mail investigation into more than 10,000 foreclosure proceedings has uncovered a burgeoning subprime mortgage problem that many, including Prime Minister Stephen Harper, have insisted does not exist in Canada.”

The federal government opened up Canada’s mortgage market in early 2006 to reckless and predatory practices similar to those in the U.S. For example, 40-year mortgage amortization terms became legal for the first time, extended from 25 years. Requirements for down payments were also sharply lowered for the first time in history.

The Globe article reports that in Canada, statistics on housing loans are veiled in institutional secrecy. The full extent of consumer exposure to predatory lending cannot yet be assessed. The authors write, “The spread of subprime mortgages to Canada is one of the country’s most poorly researched and misunderstood economic afflictions.”

Where the authors could find statistics — on home foreclosures in the provinces of Alberta and British Columbia — they found fully half of them last year were on sub-prime loans. Foreclosures in both Alberta and B.C. in 2008 were more than double the previous year. What is striking about those figures is that the two provinces experienced a resource-price economic boom until late in the year.

It’s not only the ability to pay, or not, that has mortgage holders threatened with losing their homes. Lenders have lost the will, or ability, to lend. As a March 27 Globe and Mail report revealed, an estimated $3 billion to $5 billion in high-risk mortgages are up for renewal in the next four years and the original lenders do not have the necessary access to capital to renew them. They want the federal government to step in and provide the financing. As many as 25,000 mortgage holders are involved.

Profitable banks?

From the capitalist standpoint, the one rosy picture in the Canadian economy is the performance of the country's highly monopolized banks. They all reported profits in the last quarter of 2008.

Government propaganda says that the banks in Canada are solid and not suffering from the same mistakes as their U.S. cousins. But that didn't prevent the government from quietly changing a law last November that would now permit it to purchase bank shares. Just in case…

The previous month, the government authorized the purchase of up to $25 billion in bad loans and securities from the banks. That was boosted to $125 billion early in 2009.

The banks lost hundreds of millions of dollars from the stock market decline in 2008. Losses will deepen in 2009 as they are hit by the manufacturing downturn, declining profit rates, and the full onslaught of foreclosures and personal bankruptcies.

The financial liberalization of recent years has simply postponed a practice that is endemic to capitalism — producing more goods and services than can be sold for a profit. In countries like the United States and Canada, government borrowing abroad, easy consumer credit and all manner of financial fraud made it possible to postpone the contradiction between growing supply of goods and services, on the one hand, and exploitation-restricted demand, on the other.

They must pay for their folly, not us

Government bailouts of the financial industry are nothing but a massive transfer of wealth from the poor to the rich in order to prop up the very institutions and wealthy families that have brought economic calamity to the world in the first place.

"Stimulus" spending by capitalist governments is proving to be a similar boondoggle. The Canadian government announced a spending package in January to the tune of $40 billion. Some of it is earmarked for road and bridge repair, in other words to line the pockets of the very transportation designers and companies that have created urban transportation gridlock and brought the world to the precipice of irreversible climate catastrophe

But where much of the spending will be targeted is completely unknown. Passage of enabling legislation is delayed because opposition parties are uneasy with a near-total lack of details of where the money will be spent and how it will be accounted for.

One thing that is known — the government has already said it will ease the process of environmental review of "stimulus" projects.

By far the most effective forms of "stimulus" spending would be to expand social services, including health care, education and child care; raise the salaries or welfare and pension benefits of the lowest paid in society; build public housing on a large scale; and undertake a massive program to redress the social and economic calamity lived by most of Canada's 1.8 million Indigenous peoples.

This kind of spending would deliver immediate aid to hard-pressed individuals and families. It would reverse the damaging cuts to social services by governments in recent decades. It would also inject money directly into local economies.

A serious fight by trade unions and other social organizations for such "social stimulus" would strengthen the entire working class movement and place it in a better position to wage struggles around a particularly vexing challenge — how to confront the jobs crisis in manufacturing industries.

A fight for an "ecological stimulus" is equally pressing. How can environmentally destructive industries such as automobile assembly, energy production, forestry and many others be transformed to produce socially useful products that do not trash the natural environment?

And how can a plan for a new economy take control out of the hands of corporations driven by greed and profit?

A future article in Socialist Voice will examine this challenge.

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