

Permanent Austerity: The Politics of the Canadian Exit Strategy from Fiscal Stimulus

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Abstract: This paper fills a gap in the analysis to date in examining the political context of Canada's fiscal stimulus rescue strategy and the subsequent turn to exit. The central question in Canada, as everywhere else, has been who will pay for the economic crisis? Canada's federal and provincial governments have answered by signaling a sharp turn to austerity in targeting public sector workers and public services. While examples of resistance are noted, these remain far too limited to effectively challenge what is becoming a return to not just neoliberalism but a more authoritarian form at that.

Keywords: austerity, public sector, deregulation, fiscal crisis,

Since erupting across the world market in 2007, the global economic crisis has held political centre-stage in the core capitalist states. What began as a liquidity crisis in mortgage markets in the heartlands of neoliberalism in 2007 – the US, Britain, Ireland, and the Baltic countries – quickly turned into an insolvency crisis in 2008, and the worst economic downturn since the Great Depression in 2009. Although the downward spiral is now contained, economic stagnation continues in the central economies of capitalism – including Canada – across 2010. Indeed, there remain palpable fears of a further slide into economic recession in economic forecasts for 2011. And slow growth is projected for the foreseeable future.

The centre of the economic turmoil has been the US, the driving force of the world economy over the last century. As a small open economy with an overwhelming trade dependence on the US, economic conditions in the US have been a crucial determinant of prospects for accumulation in Canada. A register of key de-

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velopments in the US (noted in US dollars below) is indicative of the breadth and depth of the financial crisis (IMF 2010; Office of Management and Budget 2010; Realtytrac 2010; Bloomberg 2009; ILO 2009; McKinsey 2008; Crotty 2009).

- At the height of the US housing market bubble in 2006, a startling one-fifth of new mortgages taken out are high-risk sub-prime loans, with total outstanding residential mortgages valued at over \$10 trillion. But in 2007 things turned sour: foreclosure proceedings by lenders on mortgages increase by 79 per cent from 2006 levels on 1.3 million properties; they increase again by 81 per cent for 2008 over 2007 on 2.3 million properties; and in 2009, foreclosure notices on 2.8 million properties shatter records. Into 2010, the numbers of mortgages either delinquent or foreclosed continues to climb.
- From a mid-2006 peak, US house values decline by one-quarter by September 2008 at the peak of the financial turbulence— a stunning \$15 trillion in asset value vanishing.
- In February 2007, HSBC, the world's largest bank, is forced to write-down \$10.5 billion in US sub-prime loan backed securities. This begins a chain of write-offs and bankruptcies that will take down over 100 mortgage lenders in 2007. By 2008, the IMF estimates that over \$1.5 trillion of sub-prime mortgage-backed securities have to be written-off in a total market valued at over \$7 trillion.
- In March 2008, the US government mandates the shotgun merger of Bear Stearns with JP Morgan at a meager \$2 a share after trading at \$170 per share only one year earlier.
- In September 2008, global inter-bank lending completely freezes up on realization that the sub-prime mortgage meltdown is moving from the shadow banking system into the formal banking system risking complete financial collapse.
- As a consequence, in September 2008 the major US investment houses are eliminated virtually overnight with the collapse of Lehman Brothers, the forced merger of Merrill Lynch into Bank of America and the automatic regulatory conversion of Morgan Stanley and Goldman Sachs into commercial banks.

- As well, in September 2008 the US government is forced to takeover AIG, the largest insurance company in the world with assets of some \$1 trillion and a yearly turnover in the order of \$10 trillion. By May 2009, the government has provided credit facilities to AIG in the order of \$180 billion, the largest bailout in history.
- The US government also takes over Fannie and Freddie Mac in September 2008, owners or guarantors of about half of the \$12 trillion mortgage market.
- A cut in half of global stock market capitalisation from some \$63 trillion to only \$31 trillion by November 2008.
- In December 2008, the largest Ponzi scheme in history at \$65 billion, and run by Bernard L. Madoff Investment Securities (Madoff being a former head of the NASDAQ), collapses.
- In February 2009, the Obama Administration gains Congressional support for an emergency economic stabilization package nominally figured at \$787 billion, the largest such stimulus measure in history.
- By April 2009, estimates are ranging from \$2.7 trillion to \$5 trillion for potential losses to banks for collateralized debt obligations (CDOs) assets, with half this falling on US banks. It is also estimated that an astounding half of all CDOs will default.
- The filing for Chapter 11 Bankruptcy protection by General Motors on June 1, 2009, the largest such filing by an industrial company at \$82 billion in assets and \$173 billion in debt.
- The estimated costs to US taxpayers for the financial crisis are notoriously hard to come by from the government, but one official puts the figure at a possible \$23.7 trillion dollars.
- By 2009, the numbers of officially unemployed in the US are over 15 million, or over 10 percent of the labour force, with over 20 million estimated global job losses since the onset of the crisis.
- The US budget deficit for fiscal year 2009 is estimated at a stunning \$1.42 trillion dollars, and 12.3 percent of GDP, a deficit share last seen during WW II. Budgetary forecasts for 2010 are only slightly improved.

- For the first time since the Great Depression, world output as a whole declined by 0.6 percent in 2009, with the US suffering a slump of -2.4 percent, the advanced economies of -3.2 percent and the developing economies (including India and China) growing by only 2.5 percent.

With the US mortgage meltdown and liquidity crisis triggering a global economic crisis, Canada could not be insulated from the economic turbulence. Nor was Canada cut-off from the processes of financialization and credit bubbles that formed in the US. The crisis in Canada has not been as severe as in the US, but there are certain features that bear noting (Department of Finance 2010; Bank of Canada 2009; McNish and McArthur 2008; Baragar 2009).

- From budgetary measures introduced in 2006, state mortgage guarantees in Canada more than doubled by the end of 2008. This included the move by mortgage lenders into high risk mortgages of 40 years and no down payment (after prompting from US mortgage brokers, and notably AIG). The Canada Mortgage and Housing Corporation (CMHC) effectively carrying much of the foreclosure risk, with financial institutions reaping the rewards of high leverage. This has included the CMHC taking major swaps in mortgages for 'cash' for the Banks to help bolster their balance sheets.
- In August 2007 as problems in derivatives markets began to spread, the asset-backed commercial paper market (ABCP) in Canada froze-up with some \$32 billion in paper not being able to be traded.
- After removing the 30 percent limit on foreign asset holdings in Canadian retirement plans in 2005, US bond placements in Canada increase from a mere \$1.5 billion in 2004 to almost \$27 billion in 2007.
- From the fall of 2007 through 2009, the Bank of Canada begins to take a series of measures to increase liquidity in the financial system. This included driving interest rates down to just 0.5 per cent, and injecting billions into the financial system through purchases of Government of Canada securities, but also extending to the purchase of private sector securities and commercial paper.
- While the lead Canadian financial institutions avoided collapse in 2008, Canadian equity markets more than matched the US decline, Government of Canada Treasury Bill yields collapsed, and spreads with commercial pa-

per shot up. These indications of liquidity problems moved the Finance Ministry to implement an Extraordinary Financing Framework (EFF) with \$200 billion in available funds.

- With the turbulence in world markets, Canadian growth rates fell sharply from average rates of about 3 per cent from 2004-2007, to just about 0.4 per cent for 2008, before tanking at -2.6 per cent for 2009. Positive growth is returning across 2010 but expected to remain sluggish. As a consequence, the official unemployment moved from 6.0 for 2007 to 8.3 in 2009, and has stayed in this range since.
- As a consequence of falling output and fiscal support for Canadian financial institutions, the budgetary position of the federal government moved from a surplus in 2007-08 of about \$10 billion, to a deficit of \$6 billion for 2008-09 and spiraling to \$-54 billion for 2009-10.

From Financial Rescue to Public Sector Austerity

The severity of the economic crisis left little alternative to massive state-led 'rescue strategies' across the world market, although concentrated in the core countries, including Canada. The rescue had two overarching components: a series of measures to stabilize the financial system and enhance conditions for borrowing; and fiscal stimulus to offset the demand shock from the collapse of the financial system and the severe decline in world trade (Loxley 2009; Roubini and Mihm 2010). The first and most urgent measures were to address the insolvency crisis of specific financial institutions where firms were facing massive loan losses or runs on deposits. In an unprecedented number of countries, the actions included forced mergers, bank nationalizations and, in almost all countries, specific steps to bailout banks by offloading 'troubled assets' into the state sector or central banks. As well, governments established emergency credit facilities available to financial institutions (as Canada did with the EFF and the CMHC) and boosting guarantees on deposits. Second, governments (in the form of central banks like the Bank of Canada) undertook a number of policies to re-establish liquidity in financial markets. These included: extensive interventions and guarantees for inter-bank lending market; purchases of government and private securities and commercial paper; allowing banks to increase their borrowing leverage against high-quality assets; purchase of bank equity to boost cash on balance-sheets; and by directly purchasing government debt issuances and thus government cash deposits held in banks. Third, financial regulatory institutions moved to oversee directly the operations of specific markets, deploy emergency oversight of others and arrange extensive audits of financial in-

stitutions. Finally, central banks have driven down their key market-setting interest rate, often by 2009 to the point of negative real rates, to encourage lending and widen spreads for banks. As bank lending has remained sluggish and markets highly unstable, this has included central banks radically pushing down the yield curves on 5 and 10 year government bonds. These measures occurred, to various degrees and at different stages, across the core capitalist states from 2007-10 to 'rescue' the financial system from collapsing credit markets.

To address the shock to aggregate demand, a coordinated turn to emergency fiscal expansion was led by the US government and the G20 states, with governments adopting, in general, fiscal deficits in the order of 2-5 percent of GDP (although with the severe banking crises and recession, these levels were much larger in the US and Britain) (Stiglitz 2010; Onaran 2010). As a consequence, and after two decades of neoliberal efforts to enforce balanced budgeting doctrines, to lower government debt to GDP ratios, and to reduce overall non-military and non-debt servicing expenditures (in other words, to reduce programmed social spending and activist industrial policies), government debt levels rose dramatically. (By some measures, and despite no major collapse in financial institutions, Canada had one of the largest fiscal stimulus packages and one of the most supportive monetary policies. See TD Economics 3 August 2010.)

At the first sign of the crisis stabilizing in late 2009, a campaign began being waged for 'exit strategies' from the emergency measures. This has been led by neoliberal think-tanks, the financial sector, the wider business community and international financial institutions. One exit is to leave behind the emergency oversight of financial markets and complete the installation of a new regulatory structure so that full-blown derivatives trading, particularly in credit instruments and a full-range of interest and exchange rate swaps, can be re-established. This exit includes the Dodd-Frank Wall Street Reform and Consumer Protection Act passed in July 2010, which focuses on increased transparency in derivatives trading, limits on bank proprietary trading, regulatory consolidation, financial products consumer protection, a 'resolution regime' for financial crises, and a new proposals for international financial rating and regulatory standards. The new Basel III accord agreed to in September 2010 among global bank regulators also sets higher reserves to be held against potential losses, and more than doubles the key capital ratio to 4.5 per cent from the current 2 per cent (*Financial Times* 13 September 2010). The widely discussed Financial Transactions Tax (a version of the Tobin Tax long campaigned for by progressives to slow financial speculation) has come to naught, although a few EU countries are imposing a tiny levy on certain features of financial trades. Canada, in this case, has viewed its financial regulatory regime as a success over the

crisis and mainly undertook special policy measures rather than develop emergency regulatory machinery. The Canadian exit here will simply be to tail some of the international agreements as they proceed to implementation.

A second exit is to return to a 'normal' monetary policy focused again on an 'inflation-targeting regime', and away from overly stimulative interest rates being set by central banks to spur bank lending and profitability. The Bank of Canada, for example, has moved the bank rate up three times since June 2010 to 1.25 per cent in September, to signal a return to more normal credit conditions. However, this exit remains highly contingent and no further increases are suggested into 2011 given the fragility of the recovery and the depth of problems still pervading the financial markets. And a third exit – and the focus of the most heated political debate – is from deficit-spending fiscal policies toward public sector austerity. Although there is some caution on the rush to austerity, notably from the US government, the OECD, World Bank, and the IMF are all calling for austerity, with the last notably suggesting two decades of 'fiscal consolidation' may be in order; or, more or less, 'permanent austerity' (IMF May 2010: 30).

The first two exits attempt to return to finance-led growth and financial disciplining that have been characteristic of neoliberalism. That this approach is dominating banking and monetary policies suggests how little the ruling classes have been destabilized within states (and particularly in the US and Canada where it is easy enough to see the political right and business in ascendancy) or across states (where competitive rivalries over world market shares have intensified in conditions of stagnant growth, but no general challenges or alternative approaches can plausibly be pointed to apart from the US).

The fiscal exit to austerity revolves around 'who will pay for the crisis?' and re-asserts the distributional and administrative dynamics of the neoliberal form of the state. This exit marginalizes attempts to move fiscal policy toward a 'green new deal' or rebuilding the welfare state and public infrastructure that fleetingly appeared on the political horizon in the midst of the crisis; and it insulates the financial sector and the capitalist classes for assuming the costs of the 'rescue strategies'. Instead, the fiscal exits are focused on: bolstering bank and corporate profits through further tax cuts and shifting away from taxes on property, income and capital; cutting public sector wages, pensions and employment levels; cutting welfare transfers; imposing user fees; and beginning another round of privatization and 'monetization' of public sector assets. The general notion, expressed at the Toronto G20 Summit and other international meetings, is cutting public sector deficits in half by 2013, and phasing in a reduction of debt to GDP ratios after 2016.

Across the central capitalist states, the context of the exits to austerity and the political struggles they have invoked have been quite diverse (Panitch, Albo and Chibber 2010). In the Irish case, for example, a major banking collapse has led to a severe economic crisis. As part of the Eurozone, this has left Ireland without the possibility of resort to devaluation to aid adjustment and public sector restraint has been a central focus of restructuring. Three austerity budgets have been introduced in less than 2 years. The first two largely coped with the collapse of the housing market and the main banks, while the last Budget of December 2009 shifted the cost of the crisis onto the public sector. Expenditure cuts of more than \$4 billion euros were made with \$1 billion of that coming from pay. Public sector workers are to take an average 7 per cent pay cut, while there is a 4.1 percent reduction in social benefits including for unemployment. But after a number of public sector walkouts and threats of a general strike, the Irish Congress of Trade Unions and key public sector unions have attempted to maintain the 'Irish partnership' and negotiate austerity. This led to an agreement that may result in the loss of 18-20,000 public sector jobs, largely ends overtime pay, creates a two-tier workforce marked by lower wages and pensions for all new hires into the public sector, and prohibits any industrial action for three years.

Greece faces some of the same constraints as Ireland as part of the Eurozone, but did not go through the same banking collapse. Rather, the crisis in public finances has been a result of the general weakness of Greek capitalism and the Greek state. Its exit strategy, therefore, has been a more proto-typical neoliberal stabilization programme. For example, pay for public sector workers is to be cut by 7 percent and frozen for the next five years; the value-added tax increased from 21 to 23 percent; contract/temporary workers in the public sector are to be terminated; the retirement age is to be raised; pensions will be based on lifetime earnings which will result in a 45 to 60 percent cut; and everything from water companies, railways and airlines are being discussed for privatization. This has, in turn, generated mass class conflict with five general strikes already launched by August 2010. With the social democratic PASOK party in power, Greece has been a case of 'social liberal' austerity.

In contrast to these two cases, the US has had a massive financial crisis after years of credit-aided economic expansion as the world's dominant economic power and issuer of the key reserve currency. As the world market's 'consumer of last resort', the US government has played a key role in coordinating the rescue strategies of the financial system and of the stimulus measures. Indeed, its global responsibilities for managing the world capitalist system has made the Obama Administration the most reluctant of the core states to turn to austerity. Instead, austerity has been displaced to the state level. Thirty-three states, for instance, are facing budget

shortfalls of 20 percent or more in 2010-11. Since the summer of 2008, 231,000 state and local government jobs have been lost. All states combined are running a deficit of 30.2 percent of total budgetary requirements. To deal with this public services are being cut: States have reduced health benefits for low-income earners; 25 states are in the process of cutting support to primary and secondary education; 34 states are cutting support to state colleges and universities; 26 states have implemented hiring freezes; 13 states have laid off workers; and 22 states have cut public sector wages and salaries. In California alone the governor has proposed cuts that will result in the loss of 331,000 jobs. But across the US only sporadic protests have erupted, with public sector coalition fightbacks forming, but soon faltering. Indeed, political space in the US is increasingly being taken up by the political right, most visibly seen in the emergence of the 'Tea Party' movement within the Republican Party. The US is a case where a defeated and traumatized working class is facing another period of punitive austerity in an effort to revitalize the American capitalist class and the delusions of the American Dream.

Canada: From Fiscal Orthodoxy to 'Rescue' and Back

Canada has neither had the severe financial crisis of Ireland, the UK and the US, nor the long-term competitiveness and financial problems of Greece or other countries in the European periphery. Canada's monopolistic financial sector has been protected by its market structure, the underwriting of high-risk mortgages by the state, and the support given by the Bank of Canada to the financial sector to maintain profit margins. There has been, moreover, a long-term pattern of fiscal austerity by the federal and provincial governments that dates back to the 1980s (Doern 2009; McBride 2005). Systematic reviews of programme expenditures were established in the last years of the Liberal Pierre Trudeau government, and given particular prominence in the Nielson Task Force on Programme Review of the Conservative Brian Mulroney government. These governments began the neoliberal restructuring of the Canadian state, in terms of programme administration and levels of support, shifting tax policies, and restraining expenditures and the deficit. It was, however, the Liberal government of Jean Chretien and Finance Minister Paul Martin that the deficit was reduced through a radical programme of cuts and a displacement of fiscal responsibilities through the inter-government system. The Canadian fiscal 'miracle' was founded upon the destruction of 50-50 cost sharing programs created in the 1960s to support health care, social services, income maintenance and post-secondary education. This programme spending was off-loaded onto the provinces. They, in turn, restrained expenditures and, following the same logic of displacement, dumped as much as they could onto municipalities and cities. Local governments in Canada are now entering a second decade of a fiscal crisis,

of cutbacks and astonishing levels of unmet infrastructure spending. A Canadian strategy of punitive austerity for public sector workers and services, coupled with the inter-governmental displacement of obligations, established a pattern of federal and provincial government surpluses. In coming to power in 2006, the hard right government of Stephen Harper had only to build on this financial legacy. It shaped, as will be shown, both the 'rescue' and 'exit' strategies to the financial crisis of the Canadian state.

The 2008 Fiscal Update: Fiscal Orthodoxy

Rarely does fiscal policy become the source of high drama, but that is exactly what unfolded at the national level of the Canadian state over an 8 week period spanning 27 November 2008 to 27 January 2009. Within that short timeframe, the Harper government's fiscal policy lurched from an uncompromising commitment to balanced budget orthodoxy to Keynesian style emergency stimulus. The two forces behind the fiscal re-tacking were the severity of the economic crisis and Washington's call for a coordinated global stimulus package led by the G20, and the possibility that a vote of non-confidence would see the minority Conservative government replaced in government by a coalition of Liberals and New Democratic Party (NDP) backed by the Bloc Quebecois (BQ).

On 27 November 2008, Finance Minister Jim Flaherty delivered the annual Economic and Fiscal Statement, essentially an update of the previous budget. In his address to Parliament Flaherty acknowledged that this was a dire time of "unprecedented deterioration in economic and financial systems around the world" and that such "difficult times" would require "difficult choices" (Department of Finance 2008). While governments around the globe embarked upon unprecedented public spending programs to contain the damage to their imploding economies and financial systems, Canada's Conservative government announced that their anti-recession plan was to keep the budget balanced. They did cede, however, that they would re-assess the situation in the weeks ahead (Department of Finance 2008). Alongside Flaherty's out-of-step budget orthodoxy, the minister proceeded to lay down a series of political attacks that would, on the one hand, challenge the fundraising capacity of the opposition parties to exist and, on the other, intensify the assault on federal public service unions.

Prefacing his first bombshell by saying that tax dollars should not be "spent frivolously", he announced that the \$1.95 per vote subsidy parties received would be terminated. This would deprive the political parties of a major source of income. Based on the votes received for each party in the 2008 election this would result in a loss for the Liberals of \$7.7 million, for the NDP \$4.9 million, and \$2.6 million for the BQ (CBC 26 November 2008). Second, he announced that legislation would be presented suspending the right to strike for federal public servants for 2010-11,

and that the wages of public service workers would be constrained for four years at 2.3 per cent in the first year and 1.5 per cent for the subsequent three years. Third, in an effort to undermine the success of pay equity complaints filed against the federal government and adjudicated by the Canadian Human Rights Commission, Flaherty announced that legislation would be introduced to terminate adjudication by the Canadian Human Rights Commission. Instead, they would require that pay equity be dealt with only through the collective bargaining process – a process that could itself be uprooted at any time as he had just demonstrated (Department of Finance 2008).

In the midst of an exploding financial crisis, the Conservative Government appeared adamant that they would rather cut spending than engage in the type of massive stimulus spending programs that the US and others were embarking upon. Instead, their focus was on taking advantage of a Liberal party in disarray and attempting to bankrupt the opposition parties. The opposition response was rapid. NDP leader Jack Layton, responding to earlier rumours of what the update contained, had already asked former leader Ed Broadbent to call former Liberal Prime Minister Jean Chretien to discuss how the two parties might coordinate a response (Valpy 2009, 11). The Liberals had also announced that they would be moving a non-confidence motion on 1 December, three days hence. Harper's operatives and MPs were picking up news that the three opposition parties were rapidly moving toward some form of common front. Harper moved to delay the confidence vote to 8 December and thus began a series of government retreats from what they had just announced. On 29 November, the government announced it was dropping its plan to eliminate the subsidy to political parties. The next day, 30 November, the government retreated from the strike ban and announced that it would table a Budget on 27 January 2009 to respond to the economic crisis.

The opposition parties pressed ahead saying that Harper had revealed what his real agenda was and that he had to be stopped. On Monday December 1st, the Liberals, NDP and BQ unveiled their accord that would see the Liberals and NDP share cabinet seats with the support of the BQ which would remain outside cabinet (Valpy 2009: 11-13). The Accord ensured that the coalition would command a majority in Parliament until 30 June, 2011 (Dion and Layton 2008). Harper immediately said he would seek a prorogation of Parliament: on December 3rd in an address on national television Harper poured vitriol on the coalition arguing that it was a fundamentally undemocratic maneuver that did not respect the choice Canadians had made in the previous election. His government would “use every legal means at our disposal to protect our democracy, to protect our economy, and to protect Canada” (National Post 2008). The following day Harper met with the

Governor-General, who granted his request for prorogation. The Coalition was dead. The question now turned to whether the Fiscal Update was as well.

Budget 2009: Emergency Keynesianism

A new Speech from the Throne was delivered on January 26 and signaled that the Harper government was now going to set a more conciliatory tone and, quite remarkably given the remarks just a few months prior, a budgetary u-turn. The Speech noted that “the government’s agenda and the priorities of Parliament must adapt in response to the deepening crisis. Old assumptions must be tested and old decisions must be rethought” (Clark and Galloway 26 January 2009). The Finance Minister’s conversion from the most dogmatic of balanced budget conservatives to a deficit spending ‘Keynesian’ came the next day in the 2009 Budget Speech. At the core of “Canada’s Economic Action Plan” was an emergency fiscal stimulus built on a budgetary deficit of \$34 billion and then \$30 billion over two years. Emergency stimulus measures were then to be terminated, with deficit spending steadily reduced. This included \$12 billion for infrastructure projects (Department of Finance 27 January 2009: 4). In addition, other key budget measures included a \$20 billion cut to personal income taxes, \$50 billion to expand a government program to purchase mortgages from banks, and \$13 billion in additional financing for several state-owned agencies concerned with insuring mortgages, export marketing and business loans (*Globe and Mail* 27 January 2009).

With the possibility of a Liberal-NDP coalition government all but gone, and with Michael Ignatieff, a reluctant supporter of the Coalition accord, replacing Stephan Dion as leader, the Liberals decided to support the budget if the Conservatives agreed to an amendment that required the government to a regimen of three updates on the implementation of the budget. Although the pettiest of symbols, Ignatieff characterized it as “putting this government on probation” (CBC 28 January 2009). As for the prospects of the Coalition, BQ leader Gilles Duceppe summed up: “It’s dead. It’s over. It’s finished” (CBC 28 January 2009).

Budget 2010: Back to Austerity

On March 4, 2010, Jim Flaherty tabled his fifth budget as Harper’s finance minister. The fiscal plan presented in Budget 2010 contrasts with the previous year’s reluctant ‘rescue’ budget. ‘Canada’s Economic Action Plan’ was born out of, on the one side, the efforts to coordinate emergency stimulus spending by the G20, and, on the other, the Coalition Accord challenging the political stability of the Harper minority government. In contrast, Budget 2010 assumed the corner has turned on the economic crisis and presents a plan for ‘exit’ from deficit financing and a return to balanced budget orthodoxy. Moreover, a ‘crisis in public finance’ is now assessed as the foremost problem to be addressed. The Conservatives are seizing an

opportunity to deepen the neoliberalization of the Canadian state well beyond an exit strategy from the emergency fiscal Keynesianism.

Budget 2010 proposes an aggressive plan to bring federal public finances back to balance, although the actual state of the Canadian economy and public finances measures comparatively well against other large economies. For example, through the 'Great Recession' the Canadian economy contracted less than the average of the core economies at 2.5 per cent in 2009, and is expected to grow at a faster clip for both 2010 and 2011 (IMF 2010). In 2009-10, the combined federal and provincial deficits equaled -5.5 per cent of GDP. The federal deficit alone equals -3.1 per cent of total GDP. In historical perspective, this is modest given that during the Mulroney era in the 1980s, the Federal deficit stood between 5.6 and 5.8 per cent of GDP (TD Economics August 3 2010). In comparative perspective, the Canadian position is rather modest given that deficit to GDP calculations for the US is -11.0 per cent, in the UK -11.3 per cent, and for the OECD as a whole -7.9 per cent. Similarly, with respect to debt levels, Canada falls toward the lower end of the spectrum with debt accounting for 28.6 per cent of GDP. This looks rather manageable compared with 56.4 per cent for the US, 46.9 per cent for the UK, and 50.2 per cent for Germany (TD Economics August 3 2010, 4).

While the recovery is widely regarded as fragile and uncertain, the Harper government has with Budget 2010 declared the Great Recession a historical relic. The priority now is an uncompromising five-year march to a near balanced budget in the fiscal year 2015-16. A range of constraint measures are to be deployed but without question a big part of achieving that target is the winding down of stimulus spending as of March 31, 2011. In addition to the termination of this spending, the Budget plans to cap international assistance spending at 2010 levels, reduce defense spending by \$500 million in 2012 through to 2014 as the Afghanistan mission shrinks, and a three year freeze on federal program spending that will see 11 thousand public service jobs disappear (Conference Board of Canada 2010, 11). These measures are expected to contain growth in program spending to 2.2 per cent per year. To place this in comparative perspective what this means is that within a five year frame, the federal deficit as a percentage of GDP will shrink from -3.1 per cent in 2010-11 to -0.1 per cent (TD Economics 4 March 2010, 2). One bank forecast even projects a surplus of \$1 billion in 2014-15, although there is also the caution that the scale of the cuts may slow economic growth in Canada by 0.2 to 0.4 per cent (TD Economics 3 August 2010, 6). Another forecast suggests that the government revenue forecasts are set low based on exceedingly low growth expectations. The result is that revenues to the government will be better than expected and by 2013 these may be as much as \$6.3 billion higher than forecast. If this proves accu-

rate, a fiscal balance will be achieved a full year ahead of target (Browarski, Stewart, and Derby 2010, 1; Hodgson and Stewart 29 July 2010).

But even while a program for aggressively shrinking public expenditures was being presented, the Finance Minister boasted that Canada's federal tax-to-GDP ratio had dropped to its lowest level since 1961 (Budget 2010, 10). This is astonishing given that 1961 precedes the advent of the important redistributive cost-sharing programs of the late 1960s that enabled an expansion in public health care, post-secondary education, social assistance and a myriad of other services and programs. There is clearly the fiscal space in Canada to increase spending and taxation by at least two per cent of GDP to bring Canada's spending up to the level it was during a period marked by the most progressive innovations in redistributive policy in this country's history (Yalnizyan, 22 March 2010).

In short, the response presented in Budget 2010 to Canada's federal public deficit and debt is an exaggeration. However, other policies sprinkled throughout the budget suggest that this exit is about more than public finances. Budget 2010 includes a massive deregulation program, corporate tax cuts, and a further liberalization of foreign investment. With respect to cuts to corporate income tax, the Finance Minister noted that by 2012 "Canada will have the lowest statutory corporate income tax rate in the G7" (Budget 2010, 10). The goal is to reduce the federal general corporate tax rate to 15 per cent and to move toward a combined federal and provincial corporate tax rate of 25 per cent by 2012. To place this in perspective, in 2000 the federal corporate tax rate was 28 per cent and the combined federal and provincial corporate tax rates were 43.6 per cent. Within a 12 year span, taxes on corporations operating in Canada will have been nearly halved by a succession of Liberal and Conservative governments (Budget 2010, 47; Department of Finance 2003).

The deregulatory dimension of the Budget received scant attention despite the fact that these proposals seriously erode environment protection and open the door wide for mining and hydro carbon exploration in the fragile eco-systems of the Arctic. The Budget proposes a 'Red Tape Reduction Commission' involving both Conservative Members of Parliament and 'private sector representatives', to review and eliminate federal regulations that are seen to impede investment and development. This mimics the Red Tape Commission set up by the Harris government in Ontario in 1995 but goes even further. Business interests who had been subject to regulation can now advocate from within the Canadian state to terminate or change regulations to which their industries are subjected. In the absurdly named objective of 'green jobs and growth', environmental regulations that have served to at least assess and shape investment and development projects are undermined. Indian and Northern Affairs have been directed to 'accelerate' the process of reviewing resource extraction projects in the Arctic so as to 'remove barriers to private investment'. The

regulatory system is to be 'modernized' by transferring responsibility for conducting environmental assessments of large energy projects from the Canadian Environmental Assessment Agency to the much more producer and investment friendly National Energy Board. And Budget 2010 furthers foreign investment liberalization by removing restrictions on foreign ownership in Canada's satellite sector (Budget 2010, 93-102). While the heavy hand of state regulation over the environment and economy is lightened, the Canadian Security and Intelligence Service will see its budget grow by \$28 million (Budget 2010, 127).

The Harper government's 2010 Budget is leading an aggressive attack on the fiscal deficit engendered by the economic crisis and the bailouts of the financial system. In many ways Canada is at the forefront of the central capitalist states in undermining public services as it has been since the Chretien-Martin Budgets of the mid-1990s. The punitive austerity they imposed has been sustained across the last decade and the Harper government. The 'fiscal crisis' that has been sparked by the panic rush to exit strategies from the emergency fiscal stimulus is being used as a further opportunity to intensify the neoliberal restructuring of the regulatory and redistributive remnants of the welfare state. It would not be too far off to describe the evolution of Canadian fiscal strategy as a turn to permanent austerity, particularly when the constraints on provincial budgetary policies are also considered.

The Provincial Exits to Austerity

While the federal government is attempting to move methodically toward balance within five years, the budgetary position of the Canadian provinces is much more uneven. In fiscal year 2009, the ten provinces collectively ran the largest provincial deficit in history at \$48.2 billion. This equals 3.2 per cent of provincial GDP. It is expected that a combination of improving economic conditions and the conclusion of provincial stimulus programs will help the provinces reduce this deficit to \$34 billion in 2011 (Conference Board of Canada 2010). But beyond that, how some of the provinces, especially Ontario and Quebec, exit fiscal deficit without a radical reconsideration of how revenues are raised or public services are delivered is difficult to imagine.

The provinces diverge widely in their exit planning both in time frame and policy measures. Whether social democratic or conservative, they all share a fidelity to ensuring the cost of the crisis is borne by workers via tax shifting, declining levels and quality of public services and regressive user fees. For example, various new and higher consumption taxes have been introduced in Nova Scotia, Quebec, Manitoba and Saskatchewan. Quebec has further added new user fees and introduced a health 'premium'. All provinces have presented budgets that aim to keep program expenditure growth at or below 2 per cent per year; have cut or frozen operational budgets

and introduced constraints on public sector compensation and the number of staff working in the core public services. Only Nova Scotia has introduced a tax on high income earners and only Manitoba has indefinitely postponed a planned 1 point cut in the corporate income tax rate (TD Economics 3 August 2010, 7).

Of all the provinces, Ontario's budget position is the most politically and fiscally complicated. Ontario's 'third-way' Liberals have reinvested in public services since arriving in government in 2003 after defeating a Conservative Party led largely by Mike Harris. However, they have also been committed to some of the key principles of the Common Sense Revolution—regressive taxation, a fidelity to balanced budgets, and an ongoing erosion of social assistance benefits. The finance minister, Dwight Duncan, signaled a new era of austerity in his 2010 Budget. First, the Public Sector Compensation Restraint to Protect Public Services Act was tabled and which froze the salaries and wages of 350,000 non-union public sector workers until March 31 2012. The second signal delivered was that the Liberal government would ask the unions representing 700,000 broader public sector workers to accept a minimum 2 year wage freeze. Such an agreement would yield an estimated \$750 million per year in savings (Ontario Ministry of Finance 2010). Third, Ontario will continue with its ongoing plan to cut corporate taxes. This will cost the province \$1.2 billion in each of the next three years resulting in an accumulative loss of \$3.6 billion (NUPGE 31 March 2010). Fourth, the Budget contemplates a massive privatization of public assets including the liquor control board that regulates the sale of alcohol, the Ontario Lottery and Gaming Commission, public electricity producers and distributors among others as a means to generate a large amount of revenue. (However, the political focus appears to be on public sector wage cuts, with the privatization measures being delayed or shunted to the side.) As a whole, Ontario's 2010 Budget forecasts 7 years of austerity with a plan that extends to 2017-18 when a zero-deficit is achieved. This will result in a shrinking of Ontario's public economy from a current 19.2 per cent of GDP to 15.5 per cent in 2017-18 (TD Economics 25 March 2010, 1). This translates as a nearly 20 per cent contraction of Ontario's public sector, leaving it at a size that corresponds to that of the period of the Common Sense Revolution.

If the Ontario Budget was the most complex of the provincial budgets in the hardest hit economy from the financial crisis, the most draconian budget of all the 2010 provincial budgets was delivered by the Liberal government of Quebec on 30 March 2010. The more regressive measures include a health care user-fee that applies to all citizens 18 years of age and older. This user fee will reach \$200/year in 2012; a \$25 fee per visit with a medical doctor; a 17 per cent increase in electricity costs by 2018; a 2 per cent increase in the sales tax; the core public service is subject

to a pay freeze until 2014; an ongoing shrinking of the number of public sector workers by allowing only one replacement hire for every two retirements/departures; a review of all government programs; and the closure or amalgamation of 30 public agencies (Quebec Ministry of Finance March 30 2010, Press Release #1). It needs noting that the measures directed at public sector workers is in addition to the Charest government's draconian Law C-43 passed in 2005. The legislation imposed a two-year wage freeze and restricted wage increases thereafter to 2 per cent. Moreover, the bill introduced anti-strike provision ensuring there would be no union resistance and backed this up with punitive provisions including a \$500 fine for any worker defying the legislation in addition to a penalty for striking of two days pay for every day on strike. The combined effect of five years of frozen wages followed by increases falling below the rate of inflation resulted in a decline in real incomes for public sector workers of 4 per cent (Mandel 2010).

Resisting Austerity, Defending Public Services

The turn to austerity in the core capitalist states has generated general strikes, disruption of public service delivery and sustained protests. These will continue over the coming year as the cuts are only starting and the impacts of austerity more severe and inequitable through time. In all cases, the cuts are revitalizing anti-neoliberal movements, and leading to new attempts to forge coalitions between public sector workers and users. The form of these alliances, however, varies greatly: from the general strikes and fusion with an emerging socialist politics in the European periphery; to the contradiction between the community based anti-cuts alliances and the peak-union 'partnership' with the government in Ireland; to the surging then sputtering fightback campaigns at the state and local levels in the US under the shadow of an ascending hard right.

After a number of previous coalitions against neoliberalism—in the struggles against NAFTA, the Ontario Days of Action, the public sector common fronts in B.C. and Quebec, the militant walkouts by nurses in Alberta and other provinces—the union movement in Canada has retreated into a defensive posture and the social movements are in a sustained phase of disorganization and political uncertainty. The exit strategy of 'permanent austerity' emerging out of the Canadian state and capitalist classes provides a direct challenge to the Left in Canada at a moment of historical weakness. The federal 'exit' budget, for example, was met with criticism from the Canadian Labour Congress, the Council of Canadians, among others. They argued that it laid out a program for eroding public services, economic sovereignty, and environmental protections, as well as its targeting public sector wages and work. But there is little evidence of strategy for resisting the cuts, or of a broader

campaign of resistance through grass-roots mobilization of union members, social movements and users of public services. There is little beyond the ad hoc negotiating fronts of public sector unions and the sectoral campaigns around specific policy issues—climate change, healthcare, erosion of public broadcasting, and so forth.

This is in part explained by Canada's decentralized federalism with the provinces delivering public goods, such as health, education and social services, which are a key terrain for struggles over cuts. In Quebec, for instance, there has been a measure of political mobilization in defence of public services and workers' rights. After five years of legislated wage restraint, Quebec's public sector workers formed a Common Front—composed of the Confederation of National Trade Unions, the Quebec Federation of Labour, and the Inter-Union Secretariat of Public Services, and representing 475,000 workers—in anticipation of Law 43's expiration in March 2010 and an austerity budget being delivered to the National Assembly. The Front's main demand was for an 11.25 per cent wage increase over a three year period. But the Common Front refused to join forces with the broad-based Coalition Against User Fees and Privatization that emerged in response to the 2010 budget. Instead, the unions signed a five year 'accord' with the government that falls far short of restoring public sector wages and working conditions. The five year agreement will provide a 7 per cent increase or 10.5 per cent if there is better than expected economic growth. Given inflation, Quebec's public sector workers are facing a further five years of declining income (Mandel 2010). The Quebec case bears parallels to the Irish unions negotiating to preserve the illusions of 'partnership' with the state at the expense of austerity.

In Ontario, the momentum for a similar union accommodation, in this case without any union mobilization at all, may well prove unavoidable. Since 2003, the Ontario Liberals have built something of the old 'Lib-Lab' alliance with several key unions that has filled the electoral vacuum left by much of labour abandoning the NDP after imposing a 'social contract' under the Rae government in the 1990s. The Ontario government has been holding preliminary talks on restraint with a wide number of unions with public employees. To date, most unions have walked away from the talks, and voiced opposition to the wage restraint. But it is not so clear that the unions will mobilize opposition to the wage restraint or the cuts to government services, and build toward the strikes that will be necessary to break the budgetary proposals to have workers and the poor pay for the crisis. It would be foolish to rule out a deal emerging between a number of unions and the McGuinty government and further consolidation of a 'Lib-Lab' alliance under the fear that a Conservative government would be even worse. It is completely delusional that such 'there is no alternative' politics challenges austerity or builds an anti-neoliberal political bloc.

There is, however, a number of campaigns in Ontario—notably, against welfare cuts to the special diet and for disabilities support, Indigenous peoples struggles around mining, demands for improved public transit, ecology fights about commodification of water and the boreal forest—that are illustrative of the anti-austerity politics forming in specific sectors. These need to deepen their struggles over specific state apparatuses and bases of support in local communities and develop the organizational linkages of a province-wide anti-neoliberal front. The Ontario Health Coalition (OHC) includes nurses, unions, progressive doctors, and a vast array of community organizations, and is part of the Canada Health Coalition network; it is a good example of the potential to build an alternate political campaign to defend public services. In response to Ontario's 2010 budget, for example, the OHC rejected the 1.5 per cent increase in hospital funding that budget provided. The OHC concluded that this created a “gap between hospital funding and inflation for the third year in a row” (OHC 25 March 2010). The OHC has also effectively opposed the Ontario government's policy of incremental privatization of health care institutions and delivery. Examples include the OHCs opposition to the marketization of home care where a steady increase in for-profit contracting has been observed and the government's policy of public-private partnerships (P3s) in the hospital sector. P3 hospital projects have been characterized by public healthcare advocates as ‘pay more, get less’ projects that fatten private profits at public expense. An analysis of four Ontario P3 hospital projects in Sarnia, Ottawa, Brampton and North Bay found that they were posting budget overruns of 75 per cent. They were costing not the planned \$1.2 billion but rather \$2.1 billion, and delivered less bed capacity than had been planned as well (Canadian Health Coalition March 2009). These campaigns have built up impressive community alliances between public sector healthcare workers, local health policy activists and the wider union and progressive movements in defence of public healthcare.

The campaigns to defend public hospitals and healthcare offer an example of popular resistance, and the potential to expand this mobilization to other parts of the public sector such as waste management, transit, and energy production. Opposition to workers bearing the cost of the crisis and defence of public expenditure is the beginning case to be made. This will require linking public sector ‘producers’ with ‘users’ of public services. The quality of these services is directly connected to public sector workers. And there is any number of areas where the quality of public goods and spaces—parks, welfare provision, public transit—needs democratization and expansion. However, it is increasingly clear that the ‘exits’ from the emergency Keynesian measures introduced at the height of the crisis are intensifying the market and class disciplines of neoliberalism. This does not mean less state, or even

less regulation, but a particular form of state and regulatory policies that enhance capitalist class power. The political opposition to the austerity exits need to account for the class nature of neoliberalism in building new organizational capacities for resistance. The lines of social division and political conflicts forming at this phase of the crisis suggest that these will be struggles, in the first instance, against and within the neoliberal state and the politics in Canada of permanent austerity.

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