

## Flaherty's Fiscal Statement: Credibility Lost and Opportunity Squandered

Times of crises are also times of great opportunity.

When much is at stake and the challenges are great, people are willing to make big sacrifices, explore new ideas and work together for the common good under inspired and strong leadership.

The greatest Presidents and Prime Ministers in history – Lincoln, Roosevelt, Churchill, and Pearson – are those who rose to the occasion in a time of crisis to make far-reaching progress.

Crises can also be times of opportunism; a time when those in power exploit fear for petty political purposes, create further divisions and set their countries even further back. History is not kind to those who have taken this low road, either treating them with ignominy or forgetting them at best.

In the growing financial and economic crisis we are in, there were signs that Prime Minister Harper may have been ready to bend his narrow ideological views and shift away from the political opportunism that characterized his first term.

After the federal election, he responded to calls to meet with Premiers, listened to economists who called for economic stimulus, and seemed ready to work with the opposition.

His government's [Economic and Fiscal Statement](#), delivered by Finance Minister Jim Flaherty, demolished these hopes.

Instead of presenting an honest picture of the federal government's finances, Flaherty has engaged in fiscal fraud. His statement distorts private sector forecasts to put forward the fiction that Canada is not already on the path to deficits.

No respected economist – on Bay Street or off - places any credibility in Flaherty's numbers. Patricia Croft, chief economist at RBC Asset management calls them a "mirage" and "smoke and mirrors." TD Bank chief economist Don Drummond commented that you had to turn them upside down to get a better picture.

One of the business school economists whose forecasts were used and reportedly distorted in this exercise reacted by [saying](#), "My cynicism has reached new heights. What else can I say?"

The Finance Minister doesn't even believe his own fiscal statement, telling CBC Radio that he thinks it is probable that the federal government will go into deficit, just two hours after he forecasted five more years of surpluses.

If he doesn't believe his own statement and words, why should anyone else?

It may be hard to fathom, but Flaherty's economic and fiscal statement goes downhill from there.

This economic statement is as much a disgrace for what it includes – in small-minded and vindictive measures – as for what it lacks – the recognition of a need for substantial economic stimulus measures, if not a roadmap for recovery or vision for the economy.

Last fall, when the economy was growing strongly, Flaherty caught everyone by surprise by using the 2007 fall economic and fiscal statement to bring in and accelerate tax cuts that will cost the federal government \$60 billion over six years. These [did nothing](#) to strengthen the long-term health of the economy and have instead pushed the federal government into deficit.

Under Harper, Canada's economic [productivity has actually fallen](#), as Jim Stanford has pointed out. As a country we produce less for the same amount of work than when he came into office. Harper is the first elected Prime Minister in Canada to preside over such a loss in the strength of our economy since Statistics Canada started collecting this productivity data in 1961.

Around the world, leaders are reaching across political party divisions to build coalitions in this time of economic crisis. Instead, Harper's government is trying to weaken and destroy the opposition.

Despite only gaining the support of only 22% of registered voters (and less than 38% of those who cast ballots) in the recent election, Harper and Flaherty are using the poor economy and declining revenues as an opportunity to undermine public services and to attack public sector workers and other political parties.

Countries around the world are introducing economic stimulus programs to counter the global economic downturn. The economic stimulus package of President-elect Obama is expected to total \$700 billion. The European Commission is working on an economic stimulus plan of \$200 billion Euros. In Britain, Prime Minister Brown has put forward a plan amounting to almost \$40 billion, while Prime Minister Kevin Rudd of Australia is expected to use much of the \$29 billion they have in surpluses. China announced a \$586 billion stimulus package in early November.

The crisis is expected to get so severe that even the *International Monetary Fund* (IMF), usually a very strong proponent of reduced government spending, has [called for governments](#) to put in place economic stimulus programs equivalent to 2% of their economic output. In Canada, this would amount to \$30 billion.

It is only in Canada that our national government has exploited this serious economic and financial crisis to exercise petty political opportunism.

Even the *Globe and Mail*, normally a stalwart supporter of Harper, called it "cynical", with a [columnist](#) saying that "it takes a special kind of immaturity to look at an economic crisis – one that has people worried about their jobs and their homes and their life savings – and consider only how it might be turned to your advantage."

## ***Economic Outlook***

The federal government's economic and fiscal statement is based on private sector forecasts that are now out of date. It predicts that the economy will grow by 0.6% in 2008, by 0.3% in 2009 and then rebound by 2.6% in 2010.

In contrast, the recent released economic outlook from the Organization for Economic Cooperation and Development (OECD) expects considerably slower growth for Canada: 0.5% in 2008, -0.5% in 2009 and 2.1% in 2010.

Like the OECD, most Canadian economic forecasters are also now expecting worse economic conditions than what the federal government reported. Even then, a number of these [independent forecasters](#) had assumed that the federal government would be reasonable and would include an economic stimulus package of about \$15 billion in this statement. Instead, it is planning to *cut public spending* by \$6 billion next year, which will mean even slower economic growth – and then consequently lower revenues.

## ***Fiscal Situation***

The economic statement claims that the slowing economy would have put the federal government on track for a deficit of \$5.9 billion next year.

However, the federal government's economic forecasts were always too optimistic. The real reason for this looming deficit was Flaherty's [2007 Economic Statement](#) that put in place irresponsible tax cuts that will reduce federal revenues by \$9.3 billion this year and by \$9.4 billion next year.

### ***Paying for tax cuts by attacking the public sector***

To prevent a deficit, the Harper government announced in his statement that it will:

- Privatize and sell-off public assets to gain \$2.3 billion in 2009/10 and a total of \$10 billion over the next five years.
- Cut and slow down planned program and public spending by \$2 billion in 2009/10 and by more than \$5 billion over the next five years.
- Reduce wages for federal public servants by \$4.1 billion over the next five years, by including rolling back increases and outlawing the right to strike for federal public servants.
- Restrict the growth of the Equalization Program. The amounts cut from this program are not presented separately, but they are expected to total \$2.8 billion in 2009/10.

This is the next step in their agenda: using tax cuts to create a deficit and thereby to justify cuts to public services and privatization of federal government assets.

These types of cutbacks are the exact opposite of what governments should be doing in an economic downturn. Instead of cutting back spending, governments should be stimulating the economy with increased public spending and investment to counter a slowing private sector economy.

The IMF and most economists have called for an economic and jobs stimulus package of \$15 to \$30 billion, which would mean deficits of at least this amount. Tax cuts do not help much in these circumstances; infrastructure and public spending is much more effective.

### ***Politically motivated attacks***

The fiscal statement also announced that the government's plan to pass laws to:

- Eliminate the political party public subsidy program that was brought in to compensate for limiting donations to political parties.
- Cut off the ability of workers, mainly women, to achieve pay equity through the human rights commission.

Pay equity legislation has been an important way for women to redress inequalities in the workplace that result in them being paid an average of only 70% of what men are paid on average.

These steps are clearly vindictive and politically motivated attacks against the opposition, unions and the ability of women to achieve fair wages. The money that the federal government would save from these is relatively so small that they are not even included in the economic statement's fiscal tables.

### ***Limited stop-gap support for pension plans***

The economic and fiscal statement does include two stop-gap measures to help cope with the pension crisis: 1) allowing pension plans to deal with solvency shortfalls over a ten year, rather than five year period; and 2) allowing a temporary reduction in minimum RRIF withdrawals for pensioners.

These provide some temporary relief, but they don't deal with any of the fundamental problems with our pension system or the lack of retirement security for a large majority of workers. With highly unstable financial markets, Canadians can only gain real retirement security through improvements to public pension plans and old age security.

### ***Ongoing Support for Financial Industry***

While workers are left out in the cold, the Harper government continues to provide almost unlimited support for the financial industry: the same people that caused this financial crisis. The federal government has already earmarked \$75 billion to take mortgages off the books of the banks, and is providing tens of billions in other forms of support and liquidity to the financial industry with few conditions.

Some support to the financial industry may be necessary, but it should be provided with conditions to reduce speculation, limit excessive CEO compensation, insure that credit and support is ultimately passed on to households and businesses, and with a framework for much stronger regulation and enforcement to reduce fraud.

### ***No positive action on the economy***

The economic statement lacks any sort of reasonable economic stimulus plan.

Instead, the "Forward Agenda" outlined provides nothing new, just a backwards-looking rehashing of the neo-conservative economic policies originally set out in the Harper government's 2006 Advantage Canada Plan. These involve a far-reaching program of privatization, commercialization, cuts to public programs, deregulation, tax cuts and "free trade" – the very same irresponsible and regressive policies that caused the current economic and financial crisis.

There is no ***new funding for infrastructure***, just a promise to accelerate already committed funding for infrastructure projects. There is already a \$3 billion backlog committed to funding for infrastructure investment. This has developed because of the Harper government's new Building Canada Fund that has introduced bureaucratic and lengthy delays with its requirement for applicants to fully consider public-private partnerships (P3s).

There is ***nothing to improve Employment Insurance***. Cutbacks to the program mean that only 42% of the unemployed can now qualify for benefits. This program needs to be improved and expanded so those who become unemployed as a result of the economic crisis aren't forced into complete poverty.

Unfortunately, the Harper government is continuing to force P3s and privatization on to other levels of government, even though they are much more expensive, complicated, unaccountable, lengthy and cumbersome.

The Harper government has put very little new funding into infrastructure; most of the increases were put in place by the previous Liberal government. Funding committed for infrastructure will only grow by an average of 1.1% a year after 2009/10, less than the expected rate of inflation.

The rest of the economic agenda outlined in the economic statement is largely more camouflaged neo-conservative policies:

- ***Strengthening Financial Markets***. This sounds like a good thing, but the Harper government committed itself to "principles-based regulation" of the financial sector in its 2007 Budget and appointed an expert panel led by industry insiders that will report in 2009. Principles-based regulation really means more self-regulation and deregulation, the same approach that caused this financial crisis in the United States.

- *Improving Competitiveness.* This includes further corporate tax measures, pushing for the harmonization of provincial sales taxes with the GST, more far-reaching “free trade” deals, streamlining and reducing regulation for industry, and moving ahead with the recommendations of the Competition Policy Review Panel, which will actually lead to weaker enforcement of competition rules.

The economic and fiscal statement should have included a forward-looking roadmap to recovery, an ambitious economic stimulus program, measures to protect workers and seniors, and a framework for stronger regulation and consumer protection.

Instead what we got was petty political opportunism and rehashing of the failed neo-conservative economic policies that created this economic and financial crisis.

There is clearly not just an opportunity, but also an urgent and pressing need, for the federal government to move forward immediately with a serious economic stimulus plan to deal with this crisis. Canada has very little breathing room before our economy deteriorates much further.

With this economic statement, the Harper government has squandered its opportunity to move forward in a constructive way. Instead they exploited the crisis to engage in petty political opportunism and attack the rights of Canadians. In doing so, it has lost the confidence not just of the opposition but also of economists and people across Canada.

If the opposition parties, which gained over 54.4% of the popular vote in the last election compared to the Conservatives’ 37.6%, can show that they have a serious agreement and plan to deal with the economic crisis, they deserve every right to govern as a coalition.

This economic statement needs to be defeated in Parliament. CUPE joins the [CLC](#), other unions and [civil society organizations](#) in supporting the Liberal and NDP parties to form a coalition government.