Bank Bailouts and the 2009 Federal Budget

The Untold Story of Canada's $275-Billion Financial Bailout

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The Insured Mortgage Purchase Program (IMPP) and the Extraordinary Financing Framework (EFF) is to the Canadians what the Troubled Asset Relief Program (TARP) is to Americans: A cover for hundreds of billions of dollars – trillions in the U.S. – of public funds being dumped into the coffers of parasitic monopoly financial interests.

If you're still scratching your head with bewilderment trying to understand how the 'free-market' Conservatives could make an overnight turn to Keynesianism – from promising budget surpluses during the October 2008 Federal election to deficits in the 2009 Budget and into the future – then you've bought too much into the terms of the public debate set by the media and Parliamentary forces. The Conservatives have not broken with their old neoliberal ideas, even as they engage in last-ditch attempts to hold onto power in Parliament.

The Conservatives remain shameless representatives of monopoly capitalist interests in Canada. Over the last three months, the Conservatives – taking the lead from Bush and Obama Presidencies in United States and most other imperialist countries – have begun to implement one of the largest transfers of wealth in Canadian history to private interests. The Budget and other policies are channeling untold amounts of public funds into the coffers of the banks and other monopoly interests. Several accounts suggest this amounts to at least $275-billion in 'bailout' money.

The loyal 'opposition' Liberal Party and New Democratic Party have gone along with the ruling party's proposals, actively supporting the Budget in the case of the Liberals and largely calling for even more of the same by the NDP. Neither are shifting the terms of the debate into questions of distributional policies, and certainly not anti-capitalist criticisms. While the attention of Canadians was being diverted by the political theatrics of the last months – the October 2008 election, the doomed foray at an NDP-Liberal coalition, the British Crown's representative to Canada Michaëlle Jean shutting down Parliament, and the slow release of Finance Minister Jim Flaherty's 'leaky budget' through January – a conspiracy of silence has prevailed over the Canadian government's swapping hundreds of billions of dollars for questionable assets held by Canada's banks.

This financial subsidy to the still profitable Canadian banks was being made while millions of working-class Canadians were being walloped by wage cuts, hundreds of thousands of lost jobs, pension funds suffering historic losses[1] and the Employment Insurance failing to pay out to workers what they had paid into it.[2] As the economic crisis is unfolding, government policies are reinforcing the worst features of the inequalities produced by neoliberal policies.

'CASH FOR TRASH' UNDER THE COVER OF 'CREDIT FOR CONSUMERS'

In October 2008, with the current crisis of monopoly finance capitalism in full swing and the U.S. government preparing to implement its controversial $700-billion 'Troubled Asset Relief Program' to buy junk assets from financial corporations – only one of a series of bailouts that estimates now suggest is reaching some $8.5-trillion[3] – the Government of Canada was in the process of implementing its own bailout.

Just four days before the 2008 Federal Election in Canada, Prime Minister Stephen Harper announced that the Government of Canada, through the Canadian Mortgage and Housing Corporation (CMHC), would purchase "$25-billion in insured mortgage pools as part of the Government of Canada's plan, announced today, to maintain the availability of longer-term credit in Canada."[4]

Either the Liberals or the NDP could have generated a groundswell of popular dissent going into the vote by exposing and opposing this bailout. The two parties did not oppose the bailout then, and their continued silence over subsequent measures to bolster the banks and companies shows the degree to which these parties accommodate monopoly capitalist interests.

Emboldened by the success of the first phase of the bailout scheme with almost no dissent, Bay Street continued to push the Canadian government to expand the plan to beyond $200-billion.[5]

On November 12, the Department of Finance announced that it would buy up another $50-billion in securities by the end of the fiscal year through the CMHC as part of its Insured Mortgage Purchase Program (IMPP), bringing the total of the programme up to $75-billion. This was justified as part of the government's efforts to maintain the availability of longer-term credit in Canada.[6] Simultaneously, the government announced that they would indeed "guarantee…more than $200-billion to pay back new loans made to Canadian financial institutions."[7]

With no mass public opposition to this massive transfer of public wealth to the banks, and not even nominal opposition from any of the main federal political parties, there were no forces standing in the way of the Canadian government buying up another $200-billion of bad assets from Canada's chartered banks and other financial institutions. In relative terms, this would make the potential Canadian bailout of the financial industry parallel to the U.S. proposals.

THE 2009 FEDERAL BUDGET

Unbeknownst to most Canadians, this $200-billion program has already been moved ahead by the Canadian government in the form of the 2009 Federal Budget.

The devil is in the details – Table 4.7 of the Canadian Federal Budget (2009), reproduced here:

	Actual	Projection					
	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014
	(billions of dollars)						
Budgetary balance	9.6	-1.1	-33.7	-29.8	-13.0	-7.3	0.7
Non-budgetary transactions							
Pensions and other accounts	6.1	3.6	3.4	3.5	3.2	3.1	3.1
Non-fnancial assets	-2.0	-1.4	-1.7	-1.7	-0.6	-0.4	-0.4
Loans, investments and advances							
Enterprise Crown Corporations	-4.6	-25.5	-24.3	-7.3	-7.0	2.7	-8.7
Insured Mortgage Purchase Program (net)		-74.6	-45.2	4.6	4.1	3.6	50.9
Other	-1.1	-0.5	-0.5	-0.3	-0.2	-0.1	-0.1
Total	-5.7	-100.6	-70.0	-3.0	-3.1	6.2	42.1
Other transactions	6.5	-4.2	0.8	0.3	2.1	2.3	1.8
Total	4.9	-102.6	-67.5	-0.9	1.6	11.2	46.6
Financial source/ requirement	14.5	-103.7	-101.2	-30.7	-11.4	3.9	47.3

In the first line, one can find the budgetary numbers that sum up to the much discussed $85-billion cumulative deficit over five years. The line entitled "Insured Mortgage Purchase Program" lists the $75-billion CMHC buyout, and indicates that another $45-billion is being provided to further backstop mortgage lending. At the very bottom of the table, in the line entitled "Financial source / requirement," one finds the $200-billion in additional funds. How does the Budget explain this massive financial expenditure?

The Budget states: "significant financial requirements are projected from 2008–09 to 2011–12, respectively of $103.7-billion in 2008–09, $101.2-billion in 2009–10, $30.7-billion in 2010–11, $11.4-billion in 2011–12, as well as financial sources of $3.9-billion in 2012–13 and of $47.3-billion in 2013–14. The requirements result largely from government initiatives to support access to financing under the Extraordinary Financing Framework (EFF)."[8]

And there it is: The "Extraordinary Financing Framework" (EFF) – a mere footnote buried in the 2009 Budget to account for one of the greatest financial raids of public funds to subsidize financial institutions in Canadian history. The consequence of this financing will be to massively expand the public debt through non-budgetary financial supports. The servicing of this debt will build pressure for further mass privatization and further gutting of Canadian social programs. It is shocking how little attention this measure has received. Simply google Canada's "Extraordinary Financing Framework" and you get under 300 hits. By comparison, google the U.S. $700-billion "Troubled Asset Relief Program," and you get more than a million hits.

The Budget attempts to reassure us, claiming that "the large increase in market debt associated with the Insured Mortage Purchase Program (IMPP) does not affect federal debt or the federal government's net debt levels as the borrowings and associated interest costs are matched by an increase in **revenue-earning assets**" (emphasis added). With some differences, this is also seen to be the case for the EFF.

But these are astonishing claims. If the financial assets purchased under the IMPP or the EFF are indeed revenue-earning assets, why are financial institutions attempting either to liquidate them or receive financial support to maintain them? We are told by the government that this is only for providing short-term liquidity, so the banks and other financial institutions can get on with their lending. But if these assets are capable of generating profitable revenue streams, then banks and other financial institutions would have little need to dispose of them. This is effectively denying the existence of the very asset and credit bubbles that have triggered the wider economic crisis unfolding. It is to contend that the asset inflation from the financial bubbles has not really occurred and these assets will soon realize their nominal book value again. This is utter nonsense, and it is a willful misleading of the public on the financial crisis for the purposes of bolstering financial capitalists.

In the current climate of economic crisis, hundreds of thousands of jobs are being wiped out in Canada; the default rate on consumer and household debt is set to soar; and household and financial assets will be hit hard. This is just what has taken place in the U.S. as the sub-prime mortgage debacle has unfolded and spread into other financial sectors and across the economy. As the price of assets falls in the portfolios of the IMPP and the EFF programmes, Canadians will be left to foot the bill.

What are in fact Canadian banks and other financial institutions planning to do with all of the 'liquidity' that the Conservative government, backed by the Liberals, is offering them? In response to the January 27th budget, Ottawa-based economist and editor of globalresearch.ca, Michel Chossudovksy, wrote "We are not facing a budget deficit of Keynesian style, which encourages investment and demand for consumer goods and leads to increased production and employment." Rather, he points out: "Canadian chartered banks will use the money to salvage the time to consolidate their position and fund the acquisition of several U.S. financial institutions' problem… For example, in 2008, TD Canada Trust has acquired Commerce Bancorp of New Jersey, making it the second largest transaction of a Canadian mergers and acquisitions valued at $8.6-billion U.S."[9]

The massive deficit as accounted for in the overall financial requirements in the 2009 Federal Budget is *not* directed at 'stimulus spending' to create jobs for unemployed workers in the 'real' productive economy, invest in public infrastructure to renew decaying and underfunded public services, or increase accessibility to Employment Insurance and welfare benefits. Instead, it is restoring the balance sheets of the financial sector during the credit crisis and helping fund future international expansion of Canadian banks and financial companies. This is one of the boldest moves ever by the Canadian state to support monopoly capital interests in the financial sector, while undermining social programmes directed toward the vast majority of Canadians.

The players may have changed, but the game remains the same. V.I. Lenin for one made the point nearly a hundred years ago, in *Imperialism, The Highest Stage of Capitalism* and other works, that capitalist crises are an opportunity for increasing the concentrations of wealth and monopolization of industry. The present experiences with the IMPP and EFF in Canada are evidence of these same trends as the Canadian state facilitates, in response to the economic crisis in its budgetary policies, the further concentration of financial power and wealth in Canada.

ECONOMIC CRISIS AS PRELUDE TO SOCIAL AND POLITICAL CRISIS

The economic crisis is demonstrating that there is no shortage of resources in the Canadian economy, or that might be mobilized and put at the disposal of the Canadian state, to meet the needs of capitalist interests in Canada. But there is a lack of resources being put toward the social and economic challenges that the majority of Canadians are facing in the current economic crisis. There is, moreover, a shortage of political organization among the Canadian working classes so that we might have a meaningful say over how these resources are allocated and, for that matter, over the operation of the entire economy.

It may seem striking that in an 'open and democratic' liberal society like Canada that there is not a single dissenting political current in the electoral realm to the massive subsidization and transfer of wealth to the monopolies in the financial sector. Not a single voice of opposition amongst the 'free press' has emerged (Canada, of course, has one of the most concentrated private medias in the industrialized world). With only a handful of Canadians critically writing about Canada's bailouts, and the private and state mass media defending them, only a small fraction of Canadians understand fully the devastating social and economic consequences of the measures. What does this tell us about the nature of political power in Canada?

Left to the devices of Canada's monopolistic ruling-class, and its control of the Canadian state, the solution to the current economic crisis will continue to be a mass transfer of funds to the private monopolies in the financial and industrial sector, the further gutting of social spending, a new round of attacks on organized labour and the real wage, an increased dependence on imperialism for profits for Canadian companies, and a continuation of the militaristic campaigns that the internationalization of Canadian banks and capital necessitates. (In the midst of the economic crisis, we shouldn't be holding our breath to see cutbacks in the $500-billion military budget pledged by the Conservatives in the summer of 2008.)

The depth and form of the current economic crisis is proving the moral and political bankruptcy of capitalism. We need to come to terms with this, and the economic and social priorities that have been revealed in the Federal Budget of 2009 and the associated funds being transferred into the financial sector via the IMMP and EFF programmes. Canadian monopoly capitalism is a parasitic system. It can't persist without the constant expansion of war, the intensification of exploitation, further environmental destruction, new territorial conquests, and new wars to redivide the world's people and resources among the major imperialist powers. As international crisis of capital unfolds and as the oppressed countries and peoples of the world intensify their struggles for self-determination and in many cases for socialism – such as in places like Venezuela, Philippines, India, and Nepal[10] – it should be increasingly evident to Canadians that our interests lie in the success of these anti-imperialist and socialist struggles. The most recent Federal Budget and the continuing economic crisis indicate clearly that the time has come for working-class Canadians to join the fold of their brothers and sisters internationally in the struggle against imperialism and for socialism. **R**

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Notes

1. See Steve da Silva, "*Canada's Bailouts: A Whole New Round of Attacks on the Working-Class,*" BASICS Free Community Newsletter (Issue #12, Jan/Feb 2009).
2. See J.D. Benjamin, "*The Great Employment Insurance Rip-Off*", BASICS Free Community Newsletter (12 January 2008).
3. See Kathleen Pender, "*Government bailout hits $8.5 trillion,*" *San Francisco Chronicle* (26 November 2008).
4. CMHC News Release, "*Canada Mortgage and Housing Corporation Supports Canadian Credit Markets,*" CMHC (10 October 2008).
5. Paul Vieira, "*Ottawa's steps have worked so far: Flaherty,*" FinancialPost.com (22 October 2009).
6. "*Government of Canada Announces Additional Support for Canadian Credit Markets,*" Department of Finance Canada (12 Nov 2008).
7. Ann Miller, "*Banks get all their wishes fulfilled*" *National Post* (13 November 2008).
8. "*Chapter 4: Fiscal Outlook*" of Canada's Economic Action Plan: Budget 2009, Government of Canada (27 January 2009).
9. Michel Chossudovksy, "*Canada: Opération «Relance économique», $200 milliards pour les banques,*" globalresearch.ca (28 January 2009).
10. For day-to-day updates about the revolutionary movements in Asia, visit southasiarev.wordpress.com.

Statement on the Federal Budget

OCAP

The Federal budget will do little to help low income Canadians. Harper's government has made some attempt to placate the opposition, but his efforts will only help a shrinking fraction of the population. The spending strategy is described as Timely, Temporary, and Targeted. Indeed it is. It's too little, too late, for too few. While 75 billion dollars are given to the financial sector, there are only scraps left for the poorest in our society.

In line with the ongoing Harper agenda, the budget emphasizes tax cuts, instead of making real investments in housing, infrastructure and people. He crows about investing in social housing and unemployment insurance. The budget says that it will invest $2-billion into social housing. Sounds great. But the cost of repairs to Ontario's housing are estimated at about $1.2-billion. And 60,000 people are on the waiting list for social housing in Toronto alone. Given that much of the infrastructural funding is dependent on cost-sharing with the cash-poor provinces and municipalities, the figures are misleading. Harper claims that he's making things easier for laid off workers by adding 5 weeks to Employment Insurance. Given that 60% of Canadians aren't eligible, this will do little for the majority of those suffering in the economic downturn.

As factories close and businesses go bankrupt, more and more Canadians will need help. Unfortunately the tax cuts, benefits and incentives will do little for them when they're evicted, unable to obtain Employment Insurance, or scraping by on welfare and food banks. A budget that would really address the needs of the increasing ranks of poor Canadians would raise the welfare rates, expand Employment Insurance in a serious way, build new and quality social housing, invest in transit, education and health care. This budget doesn't even try.

An economic recession that leads to layoffs, evictions and poverty is not the time for bailing out the corporations and playing political games. Now is the time to organize in our communities to support one another, a-nd to fight to ensure that the poorest, the most vulnerable, are not abandoned yet again. **R**