Canada's Conservative Class War: Using Austerity to Squeeze Labour at the Expense of Economic Growth

—*Toby Sanger*[1]

INTRODUCTION

This time *was* different. In contrast with previous post-war recessions, the 2008/9 economic crisis was unquestionably caused by an internal crisis of capitalism. Canada's two previous recessions in the past half-century were directly caused by the federal government hiking interest rates to slow economic growth and reduce the pace of wage increases, ostensibly to reduce inflation. While the recent economic crisis was not caused by similar higher interest rate policies, *reactions* to it with an austerity agenda and other measures to suppress wages were designed to accomplish the same thing: a weakening of the power of workers in relation to capital and a further shrinking of labour's share of national income. This is despite the fact that the negative impacts of these economic policies on the distribution of national income and economic growth are now quite broadly accepted among economists. Even the International Monetary Fund (IMF) and the Organization for Economic Cooperation and Development (OECD) have publicly stated that a more equitable distribution of income would lead to stronger economic growth (IMF, 2011; OECD, 2011; 2012). However, Canadian and other governments have largely rejected these policies. The question is why?

This paper argues that the Conservative federal government's macroeconomic cyclical policies, characterized by austerity and additional neoliberal measures, are designed not to respond to short-term economic problems but to further entrench a shift in the national income away from labour to capital at the expense of stronger economic growth. This is evident in an analysis of the 2012 Conservative budget, which not only cut public spending, but also put in place measures that will

---

1 Toby Sanger is Senior Economist for the Canadian Union of Public Employees.

lead to a corrosion of wages, thereby reducing economic demand and making the state of household finances more treacherous. The absence of a political counter-weight to capital has meant that the half-hearted attempts at structural reform to reduce the likelihood of further financial crises have been overtaken by business-as-usual economic policies that will increase inequality, weaken economic growth and ultimately result in another cycle of economic crises. History suggests there will be little prospect of even moderate progressive change without increased social and political mobilization and the emergence of more radical threats to challenge the power of capital.

THIS RECESSION WAS DIFFERENT

In the three years prior to the start of the 1981/2 and 1990/1 recessions, the Bank of Canada almost doubled its short-term interest rate, which also pushed up medium- and longer-term rates (See Figure 1). This hiking of short-term interest rates to over 10 percent reduced investment, increased personal and business bankruptcies and pushed the unemployment rate to over 10 percent for four years after these recessions (Statistics Canada, 2012). The economic decline, lower government revenues, higher social spending and these higher interest rates also caused large increases in government deficits and deficit ratios (Finance Canada, 2012).

Coming out of these recessions, Canadian governments embarked on deficit-cutting crusades, largely through cuts to program spending along with public sector wage freezes and constraints to "share the pain" with public sector workers. Despite contractionary fiscal policies, Canada's economy was ultimately able to grow at reasonable rates coming out of these previous recessions because of expansionary monetary policies. As Figure 1 illustrates, the Bank of Canada cut its key interest rate by more than half following both the 1981/2 and 1990/1 recessions, providing a very large monetary stimulus for the economy. Lower interest rates relative to the United States also helped reduce the value of the Canadian dollar in the years following these recessions, providing a big boost to Canada's net exports.[2]

Canada faced a completely different situation in the 2008/9 recession. Instead of hiking interest rates, the Bank of Canada steeply cut its key lending rate going into the downturn. As the economic crisis

2 In the years following the early 1980s recession, the value of Canada's dollar declined from over US $0.86 in 1980 to US $0.71 in early 1986. Following the early 1990s recession, the value of Canada's dollar declined from a high of over US $0.88 in October 1991 down to below US $0.70 by 1998 (Statistics Canada, 2012).

progressed, the Bank of Canada further reduced its lending rate to record lows and has remained at close to historical lows since, with further monetary stimulus provided through "quantitative easing" and other extraordinary financial market measures.[3] Consequently, the Canadian economy has had little capacity to grow through further monetary stimulus as it did in the recoveries following previous post-war recessions. Instead, interest rates are widely expected to be increased, which will not only slow economic growth with lower investment, but are also likely to precipitate a long overdue 'correction' for Canada's housing market.

While Canada's federal Conservative government engaged in stimulus measures in its 2009 and 2010 budgets to bring the economy out of the financial and economic crisis, most of these measures were time-limited to two years only. Since then, the Harper government has strongly promoted contractionary fiscal policies both domestically and internationally, with successive spending cuts at the federal level and advocacy of fiscal austerity through the G20. These measures are causing unnecessary economic harm, particularly without the potential for offsetting monetary stimulus to mitigate the damage. As a result of austerity budgets, countries around the world including Canada are suffering from slow economic growth, with the U.K. and a number of other European countries forced into secondary recessions in 2012. With their economies weakening, these spending cuts have perversely increased the debt burdens of many countries instead of reducing them (Thomas and Jolly, 2012). As a result, even the IMF called for countries to focus on policies to strengthen growth over "fiscal consolidation" in its October 2012 World Economic Outlook (IMF, 2012).

While the 2008/9 financial and economic crisis was the *result* of internal crises of capitalism, these secondary recessions and resulting slow growth have been by *design*. As even traditionally neoliberal organizations such as the IMF have advised against these policies because they will slow economic growth, it is becoming ever more apparent that they are being implemented for political economy reasons: to strengthen the power of capital and weaken the power of labour as part of the longer term project of capital.

---

3 "Quantitative easing" involves central banks creating money to directly purchase assets such as bonds on financial markets. This is usually focused on longer-term assets in order to reduce longer-term interest rates.

LABOUR'S DECLINING SHARE

Successive contractionary fiscal policies together with other forms of direct and indirect wage suppression led to a steep decline in the rate of wage increases in both the private and public sectors following the post-war recessions. Figure 2 shows the rate of private and public wage increases in large collective agreements, illustrating sharp declines following both the 1981/2 and 1990/1 recessions. While inflation was also reduced, wage increases were lower, leading to real wage declines. These real wage declines took up to a decade of economic growth to recover from, especially for public sector workers. These periods of wage suppression ushered in a long-term shift in the share of national income from labour to capital.

Neoclassical economic growth models generally assume that labour and capital's shares of national income stay roughly constant over time: this was one of Kaldor's "stylized facts" about long-term economic growth (Kaldor, 1957). Fluctuations over the economic cycle are expected to occur – with more volatile corporate profits reducing capital's share and labour's share increasing during recessions – but over the long term these shares were expected to be fairly constant. Instead the past three decades have brought a longer-term decline in labour's share together with a long-term increase in capital's share of national income in both Canada and many other industrialized countries (OECD, 2012). The cyclical decline for profits in the recent recession was a short-lived blip in the long-term trend toward increasing shares of national income going to capital and diminishing shares going to labour (OECD, 2012). In the United States, labour's share recently reached its lowest recorded level since numbers were first kept in 1947, and more than 10 percent below its pre-2000 level (Federal Reserve Bank of St Louis, 2012).[4]

Within the household share of national income, inequality has also reached levels not seen since the 1930s, with a high share of the income gains going to the top one percent of the income distribution. The share of national income going to the top one percent reached 14 percent in 2007, almost double their share of the 1970s and 1980s (Veall, 2012). The shrinking share of labour in national income has become so significant

4 These figures underestimate the decline because much executive compensation, bonuses and stock options are actually included in labour income. The share of this top 1 percent recently escalated to the highest share of labour income since the 1930s (Hein, 2011, p.11-16). If the top 1 percent of income earners are excluded, the drop in labour's share of national income in Canada is close to double the rate when the wealthiest are included, from 1990 to the mid-2000s (OECD, 2012, p.115).

that even neoliberal organizations such as the OECD and the IMF have recently raised concern. The OECD included a chapter on "Labour Losing to Capital: What Explains the Declining Labour Share" in its 2012 Employment Outlook (OECD, 2012), following the IMF's chapter on "The Globalization of Labor" in their 2007 World Economic Outlook (IMF, 2007).

A recent OECD paper states clearly that declining labour shares and growing inequality are likely to slow down the economic recovery as well as endanger social cohesion. Together with the IMF's previous analysis on this issue, the OECD argues that the main factor reducing labour's share of national income has been technological change and capital deepening. In particular, the spread of information and communication technologies has led to the elimination of jobs involving routine tasks with machines leading to much greater polarization of employment and pay within the labour market.

This report (OECD, 2012) now acknowledges that neoliberal economic policies – those they have advocated for for decades – have had a significant impact in reducing labour's share of income. These include increasing trade and globalization, outsourcing, privatization, reduction in workers bargaining power and changes in collective bargaining. In terms of collective bargaining structures, it notes that governments and employers have used both centralized and decentralized bargaining structures – whatever works, often imposing settlements – to constrain wages, thereby reducing labour's share of pay and income.

Increasing financialization of the economy – switching from the principle of "retain and invest" to "downsize and distribute" – has also significantly weakened workers' bargaining power (Lazonick and Sullivan, 2000), as well as eroded economic growth. Other studies have found that levels of government spending and employment protection also have a strong impact on the distribution of national income between capital and labour (Harrison, 2002) Numerous studies have found that increasing globalization led to lower shares for labour in higher wage countries (Guscina, 2007). Labour's share in most other regions of the world also declined following increased globalization (Rodriguez and Jayadev, 2010; Tytell and Jaumotte, 2008). Increased openness to trade has been associated with higher income inequality in industrialized countries by many (Guscina, 2007), while employment protection policies are associated with lower rates of inequality. Inequality has also increased in most emerging countries, with the exception of some countries with antipoverty programs and strong social and employment protections, such as Brazil and Indonesia (OECD, 2011, p.51-64).

The shifts between these sectors are far greater when one considers accumulated capital rather than income. Following Keynesian national income accounting frameworks, analysis of our macro-economy focuses more on income than on capital measures. This is problematic (especially for a system called "capitalism") and is no doubt why so many economists remained blind to the growing imbalances of accumulated capital and the precariousness of a consumer debt-fuelled asset boom.

The balance sheets of corporate and household sectors reflect these shifts. Public attention is usually focused on the annual balance – deficits or surpluses – of the government sector. A more remarkable trend is the unprecedented shift in savings and surpluses from the household sector to the corporate sector in the 2000s. From at least 1960 until the late 1990s, the household sector recorded surpluses year after year which were invested in corporations to finance their capital investments. This relationship completely changed at the turn of this century. As Figure 4 shows, from 2000 onwards Canadian non-financial corporations have run massive surpluses (profits in excess of their capital investments), accumulating an additional $500 billion in cumulative surpluses. The total is even higher if the surpluses of banks and other financial corporations are included. These funds have been put into financial investments, used to reduce debt or buy back stock, or are sitting as excess cash or "dead money" as they were notably described by Bank of Canada Governor Mark Carney (Carmichael, 2012). By 2011, Canadian corporate debt-to-equity ratios reached record lows. Meanwhile, slow wage and income growth together with rising house prices resulted in unprecedented deficits for individuals and households and record rates of household indebtedness.[5]

THE ECONOMIC CRISIS AND THE CRISIS IN NEOLIBERAL ECONOMICS

While most Western governments continued to implement supply-side economic policies, these growing imbalances and inequalities created an ever more unstable economy. An overgrown and under-regulated financial sector, large pools of speculative financial investments and growth financed by household debt masked a stagnant underlying economy.

---

5 In the fourth quarter of 2011, the credit market debt of Canadian non-financial corporations had dropped to below 54 percent of the value of their equity, down from over 90 percent in 1994. On the other hand, the credit market debt of Canadian households reached a record high of over 163 percent in the second quarter of 2012, almost double the 85 percent rate it was in 1990 (Statistics Canada, 2012). The ratio of household debt to disposable income is now at record highs in Canada while these ratios have declined in other countries. For instance, in the United States household credit market debt has declined by about 7 percent in gross terms from 2007 to 2012 (Federal Reserve Bank of St Louis Economic Research Data, 2012).

When the financial house of cards finally started to collapse in 2007/8, it sparked a financial crisis, credit crunch, evaporation of business credit and an economic crisis, marking the first downturn in global GDP since the 1930s. Fortunately, governments around the world had learnt from the Great Depression and responded relatively swiftly and in a coordinated fashion, providing extraordinary sources of credit to business, bailing out the financial industry, reducing interest rates to all-time lows (in some cases negative) and introducing fiscal stimulus spending measures to counteract the economic downturn and prevent an even deeper economic decline. The almost complete reversal of neoliberal supply-side policies that had ruled for decades belied previous claims that that they were impossible or would be damaging for the economy. The fact that neoliberal organizations like the IMF and the OECD now acknowledge that growing income inequality is damaging for the economy is a significant reversal for these organizations after decades of advocating supply-side trickle-down economic policies (IMF, 2011; OECD, 2011, 2012).[6] It also reflects a growing crisis within neoliberal economics.

In Canada, Don Drummond, former chief economist of TD Bank and former federal Associate Minister of Finance, recently confessed that, despite governments implementing most of the public policy changes he had advocated – including tax cuts, free trade, competition, labour market flexibility deregulation, etc – productivity in Canada had actually deteriorated (Drummond, 2011). This confession followed just five years after he claimed all economists agreed on these policy measures – and after advocating that Ontario cut its public spending at twice the rate as during the 1990s! (Drummond, 2011; Sanger, 2011).

Also notable, the former chief and deputy chief economist of Canada's Department of Foreign Affairs and International Trade, Dan Ciuriak, recently co-authored a paper publicly questioning the alleged benefits of trade policy and other conventional wisdoms of economics, including supply-side economic measures, privatization, labour market flexibility, and other market-based incentive measures in their provocatively entitled paper, "What if Everything We Know About Economic Policy Is Wrong?" (Ciuriak and Curtis 2011).

Despite this very fundamental questioning and repudiation of neoliberal economic policies by former advocates (even if they did not offer

6 While these organizations have reflected similar concerns in some of their other policy prescriptions for Canada and other countries, they may not be reflected in more extensive reconsiderations of their approach. Often their concern is focused on how inequalities in the distribution of *personal* income might threaten "social cohesion" rather than on how changes in the distribution of *national* income are affecting economic and political relations.

alternatives), there has been no such questioning of these policies by Canada's federal Conservative government. Instead, they accelerated the implementation of these policies despite ample evidence that some of these measures will likely weaken economic growth.

Canada's Conservative government initially denied that the country was in recession in late 2008. Only when a coalition of opposition parties threatened to replace them as government did they acknowledge there was a real problem, proroguing Parliament and implementing stimulus spending measures. The discretionary fiscal policy that resulted was far more expansionary than in previous recessions in Canada, and in particular government capital investment increased at a far faster pace.[7] Still, stimulus measures were unbalanced: spending measures and those benefiting workers or households were time-limited and temporary while tax cuts for business were made permanent.

NEOLIBERAL AUSTERITY AND MANUFACTURED RECESSIONS

Following this close brush with worldwide depression and questioning of the validity of neoliberal economics, many hoped it would lead to some positive structural measures to stabilize the economic system and at least marginally reduce inequalities, as had eventually happened after both the 19th Century "Long Depression" and the 1930s Great Depression. By 2012, such hopes had pretty much evaporated. Instead, crude Keynesian policies drove up deficits, which were subsequently used to justify austerity budgets, cuts to employment protection, retirement security, social spending, other government programs and the weakening of environmental regulations. At the same time, businesses had not used their accumulated and growing surpluses to make productive investments, exacerbating the problem of stagnation.

The Conservative government's focus on spending cuts belies the fact that the federal government is in a much better fiscal situation than after previous recessions. While government deficits increased as a result of the economic crisis and stimulus measures, as a ratio of GDP they are still far below the rates they reached during the 1990s. With low borrowing rates, debt servicing costs for Canadian governments are about half of what they were during the mid-1990s (Figure 5).

---

7 Statistics Canada figures show that general government gross fixed capital formation (investment) increased to a share of 4.75 percent of Canada's economy (GDP) in the fourth quarter of 2010 from a low of below 3 percent a decade earlier, an increase of over 50 percent. In contrast, during the recessions of the early 1980s and 1990s, government capital investment increased to no more than 4 percent of the economy, hikes of only about 10 percent (Statistics Canada, 2012).

The on-going shift in national income and accumulated surpluses towards capital mean that Canada's non-financial corporations were, by 2012, sitting on over $526 billion in excess cash, up 42 percent since the recession ended in mid-2009. This amount is equivalent to 30 percent of GDP: just a small proportion could provide a significant boost to the economy and to household incomes. As Bank of Canada Governor Mark Carney stated, Canadian companies are in "historically rude health, have the means to act -- and the incentives," calling their surpluses "dead money" (Carney, 2011; Carmichael, 2012). Despite exhortations from Carney and Finance Ministers in the provinces and federally, corporations have done little to invest their surpluses back into the economy (Isfeld, 2012). In response, the obvious route would be for governments to tax this excess cash and use it to undertake productive investments, redistribute income and reduce household debt and inequality through the expansion of public services or direct transfers. While public spending quite appropriately increased during the recession, it remains a relatively small share of the economy. In fact, total public spending of all governments in Canada as a share of GDP dropped to at least a 30 year low just prior to the economic crisis (Figure 6). The increase during the past few years is as much a result of the shrinking of the underlying economy as it is of increased public spending: with a growing economy, this ratio will gradually decline.

With existing fiscal policies, the federal government would be in a structural surplus of over $25 billion, as the Parliamentary Budget Officer demonstrated in his September 2012 Fiscal Sustainability Report (Parliamentary Budget Officer, 2012b). In other words, as the economy grows to its full capacity, the federal deficit would soon be eliminated. In addition, federal and provincial deficits could be eliminated much faster with a few fair tax measures, there is no need for deep spending cuts and austerity measures to balance these budgets.

Instead, we should see public spending cuts as politically-driven, constituting "Janus" or two-faced austerity (Fanelli and Hurl, 2010). Fanelli and Hurl examined how Conservative budgets between 2006 and 2010 had constitutionalized neoliberalism and used austerity arguments to weaken labour and social protections while at the same time fuelling capital accumulation through tax cuts, privatization and increased neoliberalism. After winning a majority in the 2011 federal election, the Conservatives' political and economic agenda became even more transparent in what some described as their "transfor-

mative" 2012 budget (Ibbitson, 2012). Extending Fanelli and Hurl's analysis, I now examine the 2011 and 2012 budgets and their impact on the distribution of national income between capital and labour.[8]

CONSERVATIVE BUDGETS, THE ATTACK ON WORKERS' WAGES AND LABOUR'S SHARE

The 2011 and 2012 federal Conservative budgets have focused on constraining public and private sector wages, reducing employment protections and weakening workers' bargaining power; expanding free trade and corporate property rights; increasing resource extraction and weakening environmental protections; reducing taxation of capital; and implementing selective austerity and increased privatization. As we have seen above, each of these is associated with shrinking labour's share of national income, increasing capital accumulation and increasing inequalities.

CONSTRAINING PUBLIC AND PRIVATE SECTOR WAGES

Public sector wage constraints and freezes have been politically justified for fiscal reasons, garnering public support as a fair way for public sector workers to "share the pain" along with private sector workers suffering from the economic crisis. This is despite evidence that wages and salaries in the public sector are, on average, very similar to wages for similar jobs in the private sector but are much more equitable, with less of a wage gap for women and lower paid workers, and less excessive compensation at the top (Sanger 2011b). Much less overtly disclosed was one of the federal government's reasons for constraining public sector wages, which was to suppress wage increases in the private sector as well. In a court affidavit, in response to a court challenge of the federal government's wage constraint measures by the Association of Justice Counsel, Canada's Associate Deputy Minister of Finance, Paul Rochon (2011, p.20), stated: "The ERA's [Expenditure Review Act] policy objectives were complementary elements of the government's larger economic and fiscal policy. These objectives were threefold:

1. to help reduce upward pressure on private sector wages and salaries;
2. to provide leadership by showing restraint and respect for public money; and
3. to manage public sector wage costs in an appropriate and predictable manner that would help ensure the ongoing soundness of the government's fiscal position."

8 The focus here is very much on the federal government, although some provincial governments have also implemented similar measures.

This was a rare admission of the government's broader economic objectives: to squeeze private sector wages and ultimately reduce labour's share of national income; but Canada is of course not alone on this. The European Central Bank previously published a number of studies urging governments to squeeze public sector wages so that private sector wages would also be reduced "in order to enhance economic stability and competitiveness in the Economic and Monetary Union" (Holm-Hadulla et al, 2010, p.4; Afonso and Gomes, 2010; Fernàndez-de-Córdoba et al., 2009; Lamo et al., 2008). The subsequent policies of many governments in Europe to cut public sector wages were developed and implemented with this in mind.

After winning a majority government in the 2011 federal election, the Conservatives made their objective of squeezing workers' wages much more transparent in their 2012 budget. While some measures were rationalized for fiscal reasons, others were focused at more directly limiting wage growth in the private sector. First, the government announced new rules to allow employers to pay temporary foreign workers wages 15 percent below the prevailing rate, and fast-tracked approvals for skilled workers to no more than ten days (less time than it takes Canadian banks to clear cheques on foreign banks). Second, the Conservatives eliminated Employment Insurance (EI) benefits for claimants who fail to take jobs at up to less than 30 percent below their previous wage. As well, they abolished the Employment Insurance Tribunal and delegated EI appeals to a much smaller centralized Social Services Tribunal also responsible for dealing with Canadian Pension Plan and Old Age Security (OAS) appeals, with members directly appointed by the federal government, thereby eliminating balance and local input into the appeals process and directly enforcing the government's directives. Third, the government eliminated the federal Fair Wage and Hours of Labour Act, meaning that contractors on federal construction jobs can pay their workers as little as the minimum wage, accelerating the proverbial race to the bottom (CUPE, 2012).

These measures follow the Harper government's repeated curtailment of the right to strike by legislating workers under federal jurisdiction back to work with little hesitation, including rail workers at Canadian Pacific, airline workers at Air Canada and postal workers at Canada Post. In the case of postal workers, they also directly intervened to reduce wage increases below the rates previously offered by their employer. These actions sent a strong message that this federal government would not allow workers to exercise their right to collectively withdraw their labour through strikes, thereby undermining Canada's system of free collective bargaining (Fanelli and Lefebvre, 2011).

One of the most controversial measures in the 2012 Budget – the increase in the retirement age to 67 to qualify for OAS benefits – was rationalized and promoted by the Harper government as a necessary change required to ensure that public pensions would be fiscally sustainable. As the Finance Minister Jim Flaherty (2012, p.6) stated in his budget speech, "Today it is clear we must take action to ensure the sustainability of the Old Age Security program, which is the largest spending program of the federal government." However the increase in the age of retirement was made much more for political and labour market reasons – to increase the supply of labour by requiring workers to work longer before collecting retirement benefits – than for fiscal reasons. Canada's Parliamentary Budget Officer, Kevin Page, released a report in 2012 demonstrating that the federal government's OAS and Guaranteed Income Supplement (GIS) programs are already on a fiscally sustainable path. While the costs of these benefits are forecasted to rise to a peak of 3.2 percent of GDP by 2031 from the current level of 2.2 percent of GDP, they are then set to ultimately decline to 1.8 percent of GDP – below current rates (Parliamentary Budget Officer, 2012a, p.ii).

The federal Conservative government's move to increase the age of retirement was introduced together with other measures to directly increase incentives for later retirement followed lobbying by the Canadian Chamber of Commerce (CCC) for changes to get seniors to work more, but went further than the CCC was prepared to publicly advocate (Canadian Chamber of Commerce, 2011).

Layoffs of public sector workers and cuts in the 2012 federal budget will reduce employment by approximately 40,000. Job losses increase to well over 100,000 when taking account of cuts in the previous two budgets and spending cuts by provincial governments wages (Parliamentary Budget Officer, 2012a; 2012b). Together with cuts to public services, these job losses will also weaken workers' bargaining power and lead to a broader erosion of wages.

EXPANSION OF FREE TRADE AGREEMENTS AND CORPORATE PROPERTY RIGHTS

The Conservative government's relentless pursuit of free trade deals with countries and trading blocs around the world are also a major factor in strengthening the power of corporate capital, weakening labour and limiting the democratic powers of governments. The federal government now has eighteen different sets of free trade agreements in negotiation or discussion and has concluded six others in the past three years (Canada Department of Foreign Affairs and International Trade, 2012). Gaining

better access for trade of goods is actually a minor element of most of these deals: the real interest is in eliminating "non-tariff barriers" – such as local content provisions and marketing boards – and expanding corporate property rights, including patent protection.

In fact, Canada's trade balance with countries that it has signed major trade deals has become worse than with countries that it doesn't have trade deals with. As Jim Stanford has noted, "If the policy goal (sensibly) is to boost exports and strengthen the trade balance, then signing free trade deals is exactly the wrong thing to do" (Stanford 2012, n.p.).

INCREASING RESOURCE EXTRACTION AND WEAKENING OF ENVIRONMENTAL PROTECTIONS

The Conservatives' 2012 federal budget bill also significantly expanded the power of corporate capital over Canada's natural or environmental resources through numerous measures that roll-back environmental protections and accelerate resource extraction (Sierra Club of Canada, 2012). These included the elimination of and deep cuts to environmental protection programs and protective legislation to the extent that it was even criticized by a former Conservative minister of fisheries (Halifax Chronicle Herald, 2012). It has also gone on the attack against environmental organizations, denouncing them as "extremists" funded by foreign money, threatening their charitable status and, in a move redolent of the McCarthy and Bennett era, adding some of them to the list of potential terrorists along with anti-capitalist groups. This follows the Harper government's leadership in scuttling the Kyoto Accord and resistance to any significant measures to address climate change. Weakened environmental protections and increased resource extraction significantly increases capital accumulation by speeding the appropriation of natural resource rents.

REDUCING TAXATION OF CAPITAL

Capital accumulation has also been significantly increased through cuts to corporate and capital taxes at the federal level and strong pressure and billions in support from the federal government to provinces to reduce corporate tax rates and remove sales taxes from business inputs. Corporate tax rates have been cut even further despite evidence that these tax cuts have not stimulated investment but, on the contrary, have been associated with declining rates of business investment (Figure 7). Instead, these corporate tax cuts have been far more successful at increasing capital accumulation at the expense of labour, in addition to increasing deficits to provide a rationale for selective austerity measures.

SELECTIVE AUSTERITY AND PRIVATIZATION

Selective austerity measures have included elimination of funding for civil society organizations, including any involved in "advocacy". Many of these measures have been discussed elsewhere (see, for example, Fanelli and Hurl 2010). However, recent measures expanded the involvement and control of capital over public services and public policy in some notable ways beyond the traditional scope of commercialization, contracting-out, public-private partnership and asset-sale privatizations beyond that already being implemented. These include providing business employers with much greater say over the selection of permanent immigrants (in addition to the often exploitative power they have over temporary foreign workers), use of development assistance funds to help promote Canadian mining firms abroad, exploring the use of social impact bonds and introducing legislation to allow private ownership of First Nations land (Mendleson, 2012; Leblanc, 2012; Wingrove, 2012).

CONCLUDING REMARKS

With current economic policies in place, prospects for a healthy recovery will remain meager in Canada. Lower interest rates cannot provide the stimulus for economic recovery they did following previous recessions. Household debt is at record levels and a housing price bust is imminent. Business is failing to reinvest its growing surpluses into productive capital investments and export expansion is largely limited to resources. With Canadian governments slashing public spending, contractionary fiscal policy is creating the conditions for another lost decade.

The federal Conservative government has not only used the economic crisis as an opportunity to impose selective austerity measures which are slowing the economy, but are also using it to accelerate neoliberal economic policies that will further shrink labour's share of income and increase that of capital. This is being done at a time when the economic crisis has provoked a number of high profile neoliberal economists to question their fundamental economic policies and prescriptions.

With the bankruptcy of neoliberal economic policies, it is difficult to reach any other conclusion except that the Conservative government is continuing to aggressively implement neoliberal policies for political reasons: to expand the power of capital and to weaken the power of labour in a continued class war. As Warren Buffett, one of the wealthiest men in the world, once stated: "There's class warfare, all right, but it's my class, the rich class, that's making war, and we're winning." (Stein 2006).

One of the great achievements of neoliberal economic theory was the perpetuation of the illusion that economics is a science and that its analysis can be divorced from consideration of economic and political power, as well as human and social behavioral considerations. While some in the economics profession may continue to cling to these illusions, many are moving beyond it. For example, Joseph Stiglitz, the prominent New Keynesian economist and Nobel-prize winner, is only one of many who are now declaiming how appropriation of political and economic power by a small elite is endangering our future but also entreating them to support new policies (Stiglitz, 2012). But entreaties to the one percent to embrace different economic policies will likely have little effect unless the alternatives are starker and they feel more threatened.

It may be largely forgotten now but at the time of the last major global crisis of capitalism, John Maynard Keynes felt compelled to address the power of vested interests in his conclusion to *The General Theory* (Keynes, 1936, n.p.)

> "the ideas of economists and political philosophers, both when they are right and when they are wrong, are more powerful than is commonly understood. Indeed the world is ruled by little else. Practical men, who believe themselves to be quite exempt from any intellectual influences, are usually the slaves of some defunct economist. Madmen in authority, who hear voices in the air, are distilling their frenzy from some academic scribbler of a few years back. I am sure that the power of vested interests is vastly exaggerated compared with the gradual encroachment of ideas. Not, indeed, immediately, but after a certain interval; for in the field of economic and political philosophy there are not many who are influenced by new theories after they are twenty-five or thirty years of age, so that the ideas which civil servants and politicians and even agitators apply to current events are not likely to be the newest. But, soon or late, it is ideas, not vested interests, which are dangerous for good or evil."

These concluding comments of Keynes were clearly made in a different world. The threats to capital and the elite were far more present with the strength of the Soviet Union and growing appeal of socialism in the West. His ideas and approach provided a much more palatable alternative for the vested interests than the other threats they were facing in the world of ideas and politics at that time.

While conventional, Keynesian, new Keynesian and even post-Keynesian economic solutions may appear convincing to some on their own, even their marginal changes have little chance of being adopted unless the growing power of the "vested interests" also considers them in their interests – or at least, a lesser threat than the alternatives.

For some in this class, the Occupy Movement is starting to have that effect. American billionaire Jeff Greene recently warned (Pressier, 2012, n.p.):

> "There are all these people in this country who are just not participating in the American Dream at all. Right now, for some bizarre reason, a lot of these people are supporting Republicans who want to cut taxes on the wealthy. At some point, if we keep doing this, their numbers are going to keep swelling, it won't be an Obama or a Romney. It will be a Hollande. A Chávez."

While neoliberal economic policies are being increasingly questioned and abandoned by economists, politicians – including Canada's Conservative federal government – continue to implement them for purely political and ideological reasons: to further concentrate economic and political power among the owners of capital and to weaken the power of labour. With these conditions, it should be increasingly apparent that there will be little prospect of even moderate change without increased social and political mobilization and the emergence of more radical threats to challenge the power of capital.

FIGURES

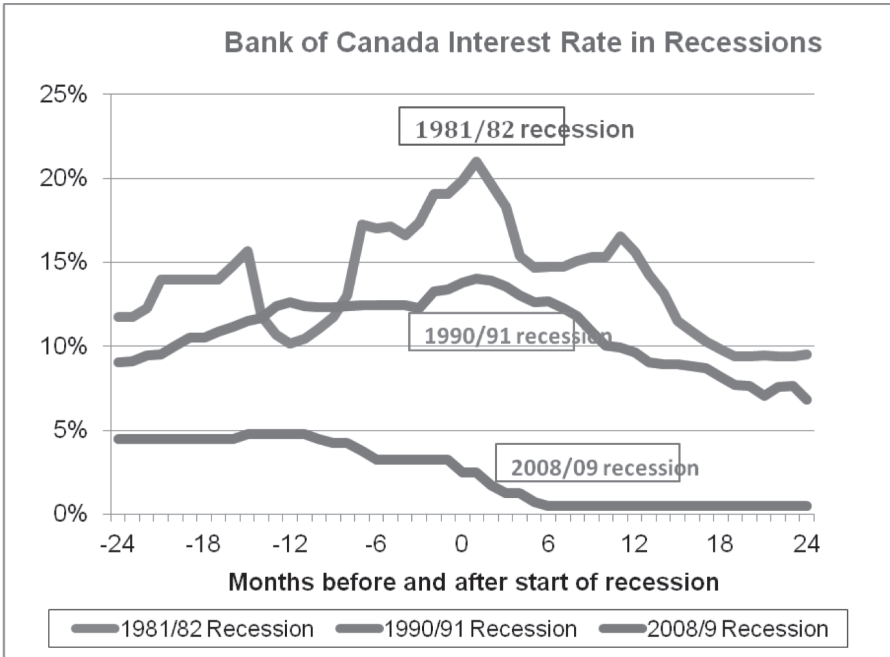

Figure 1

Source: Bank of Canada interest rates: Bank of Canada Rate.

http://www.bankofcanada.ca/rates/interest-rates/

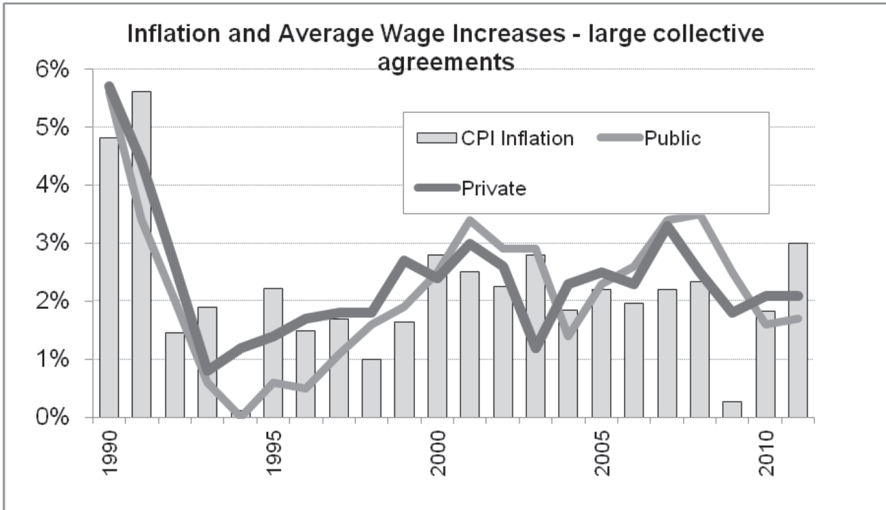

Figure 2
Sources: Statistics Canada *Consumer Price Index* (Cansim Table 326-0021);
Human Resources and Skills Development Canada *Annual Wage Settlements.* http://www.hrsdc.gc.ca/eng/labour/labour_relations/info_analysis/datas/wages/in dex.shtml

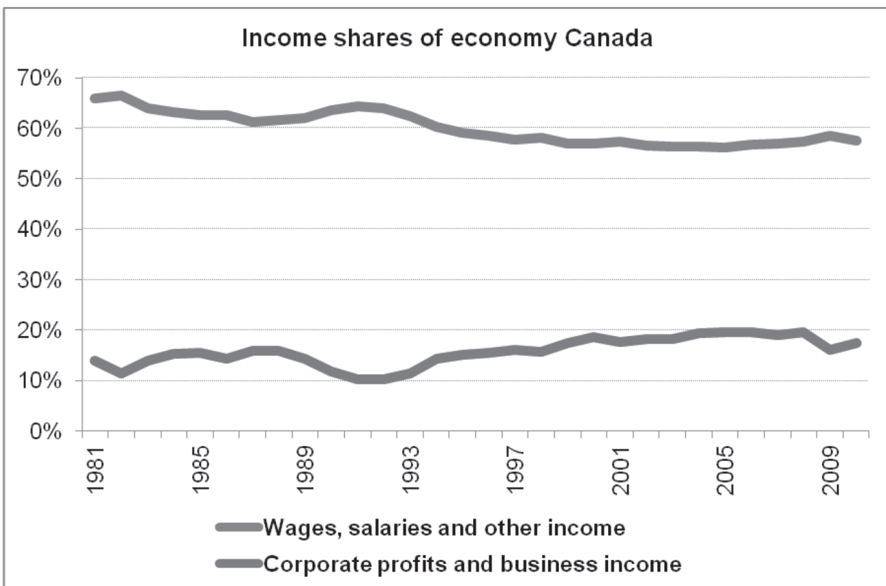

Figure 3
Source: Statistics Canada *GDP Income-based* (Cansim table 380-0001).

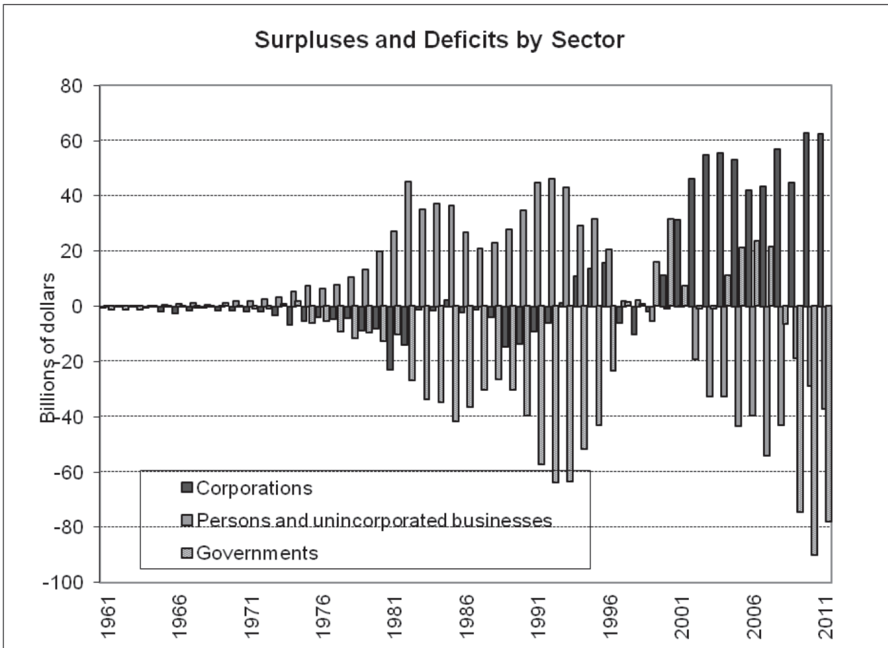

Figure 4
Sources: Statistics Canada, *Financial Flows* (Cansim Tables 378-0018, 378-0019 and 378-0040).

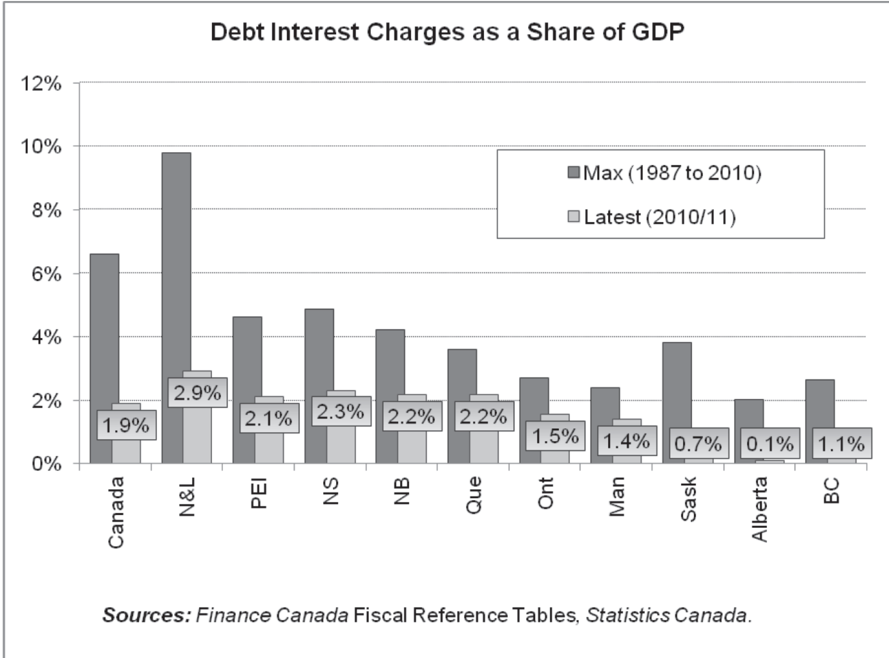

Figure 5
Source: Statistics Canada, Fiscal Reference Tables, http://www.fin.gc.ca/pub/frt-trf/index-eng.asp

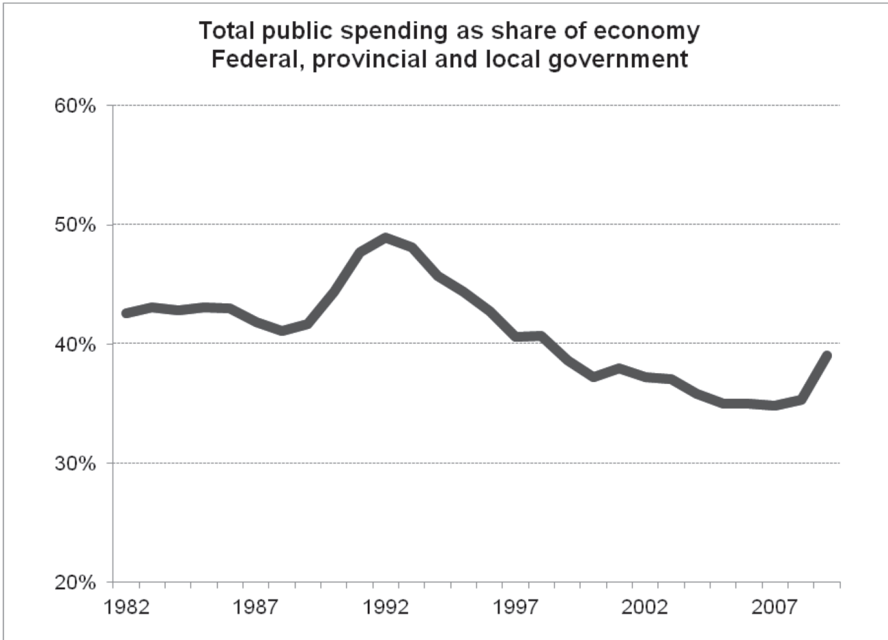

Figure 6
Source: Statistics Canada *Provincial and Territorial Economic Accounts Data* Tables 1 and 6. (Publication #13-018X). http://www.statcan.gc.ca/pub/13-018-x/2011001/tab-eng.htm

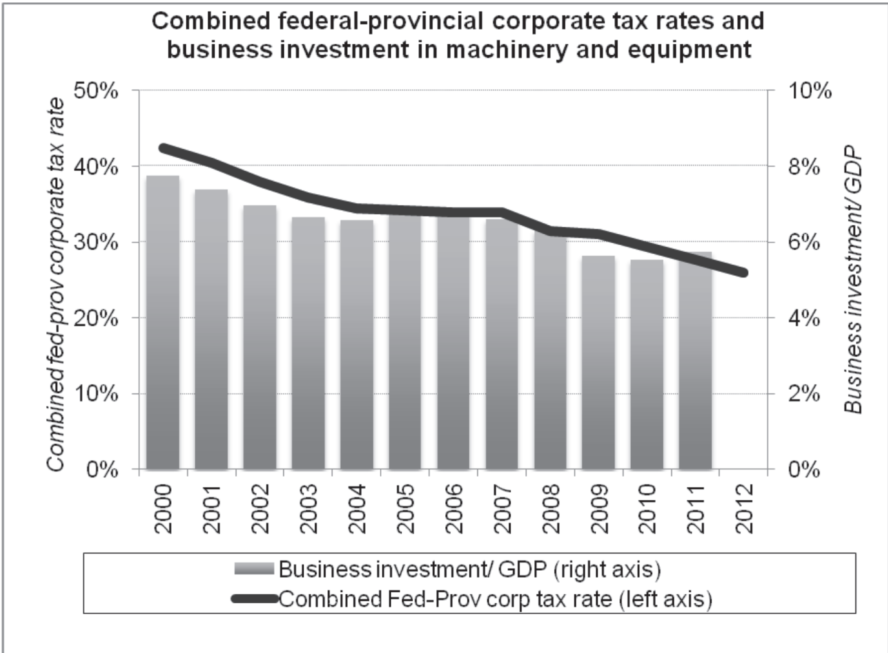

Figure 7
Sources: Statistics Canada, *GDP Expenditure-based* (Cansim Table 380-0002); OECD Tax Database (Part II, Table II.1). http://www.oecd.org/tax/taxpolicyanalysis/oecdtaxdatabase.htm

REFERENCES

Afonso, A. and Gomes, P.M. (2010). Interactions between Private and Public

Sector Wages. *IZA Discussion Papers 5322, Institute for the Study of Labor* (IZA).http://ftp.iza.org/dp5322.pdf

Canadian Chamber of Commerce. (2011, December). *Incenting Seniors to Continue Working*. http://www.chamber.ca/images/uploads/Reports/2011/1112IncentingSeniors_to_ ContinueWorking.pdf

Carmichael, K. (2012, August 22). Free up 'dead money,' Carney exhorts corporate Canada. *The Globe and Mail*. http://www.theglobeandmail.com/report-on-business/economy/free-up-dead- money-carney-exhorts-corporate-canada/article4493091/

Carney, M. (2011, December 12). *Growth in the Age of Deleveraging*. Speech to the Empire Club of Canada/Canadian Club of Toronto. http://www.bankofcanada.ca/2011/12/speeches/growth-in-the-age-of- deleveraging/

Ciuriak, D. and Curtis, J.M. (2011, April 1). *What If Everything We Know About Economic Policy is Wrong?* http://dx.doi.org/10.2139/ssrn.1839647

Canada Department of Foreign Affairs and International Trade. (2012). *Negotiations and Agreements*. http://www.international.gc.ca/trade-agreements-accords-commerciaux/agr- acc/index.aspx?view=d

Canadian Union of Public Employees. (2012, March 29). Conservative's small-minded budget kills jobs and fails Canadians: CUPE's analysis of the 2012 federal budget. http://cupe.ca/budget/federal-budget-analysis

DeCloet, D. (2009, October 24). Civil servants: It's time to share the pain.

Globe and Mail. http://advisor1.dynamic.ca/servlet/ArticleNews/story/gam/20091024/RDECLOET 24ART1922

Drummond, D. (2006). The Economists' Manifesto for Curing Ailing Canadian Productivity. *International Productivity Monitor, Centre for the Study of Living Standards*, 13, 21-26. http://www.csls.ca/ipm/13/IPM-13-drummond-e.pdf

Drummond, D. (2011). Confessions of a Serial Productivity Researcher. *International Productivity Monitor, Centre for the Study of Living Standards*, 22, 3-10. http://www.csls.ca/ipm/22/IPM-22-Drummond.pdf

Fanelli, C. and C. Hurl. (2010). Janus-Faced Austerity: Strengthening the 'Competitive' Canadian State. In Fanelli, C., C. Hurl, P. Lefebvre and G. Ozcan (Eds.), *Saving Global Capitalism: Interrogating Austerity & Working Class Responses to Crises, Alternate Routes 2011* (pp. 29-50). Ottawa: Red Quill Books.

Fanelli, C. and P. Lefebvre. (2011). The Ottawa and Gatineau Museum Workers' Strike. Precarious Employment and the Public Sector Squeeze. In Fanelli, C. and P. Lefebvre (Eds.), *Uniting Struggles: Critical Social Research in Critical Times, Alternate Routes 2012* (pp. 121-146). Ottawa: Red Quill Books.

Flaherty, J. (2012, March 29). The Budget Speech. *Government of Canada*. http://www.budget.gc.ca/2012/rd-dc/speech-eng.pdf

Guscina, A. (2007).Effects of Globalization on Labor's Share in National Income. *International Monetary Fund Working Papers 06/294*. http://www.imf.org/external/pubs/ft/wp/2006/wp06294.pdf

Hein, E. (2011). Distribution, 'Financialisation' and the Financial and Economic Crisis – Implications for Post-crisis Economic Policies. *MPRA Paper 31180, University Library of Munich, Germany*. http://www.ipeberlin.org/fileadmin/downloads/working_paper/ipe_working_paper_ 09.pdf

Federal Reserve Bank of St Louis Economic Research Data. (2012). *Nonfarm Business Sector: Labor Share (PRS85006173).* http://research.stlouisfed.org/fred2/series/PRS85006173?rid=47&soid=22

Fernàndez-de-Córdoba, G. (2009). Public and private sector wages interactions in a general equilibrium model. *Working Paper Series 1099, European Central Bank*. http://www.ecb.int/pub/pdf/scpwps/ecbwp1099.pdf

Finance Canada. (2012). Fiscal References Tables. http://www.fin.gc.ca/frt-trf/2012/frt-trf-12-eng.asp

Halifax Chronicle Herald. (2012, June 10). Ex-ministers assail changes to fisheries protection. *Halifax Chronicle Herald*. http://thechronicleherald.ca/thenovascotian/105518-ex-ministers-assail-changes- to-fisheries-protection

Harrison, A.E. (2002). Has Globalization Eroded Labor's Share? Some Cross-Country Evidence. *University of California at Berkley and NBER, mimeo.* http://mpra.ub.uni-muenchen.de/39649/1/MPRA_paper_39649.pdf

Holm-," H. (2010). Public wages in the euro area - towards securing stability and competitiveness. *Occasional Paper Series 112, European Central Bank*. http://www.ecb.europa.eu/pub/pdf/scpops/ecbocp112.pdf

Ibbitson, J. (2012, March 29). Flaherty's plan forces you to expect less from Ottawa. *Globe and Mail*. http://www.theglobeandmail.com/news/politics/flahertys-plan-forces-you-to- expect-less-from-ottawa/article627560/

IMF. (2007). *World Economic Outlook*. http://www.imf.org/external/pubs/ft/weo/2007/01/data/index.aspx

------ (2011, September). *Why Inequality Throws Us Off Balance, Finance and Development*. 48(3). http://www.imf.org/external/pubs/ft/fandd/2011/09/index.htm

------ (2012, October). World Economic Outlook,. http://www.imf.org/external/pubs/ft/weo/2012/02/index.htm

Isfeld, G. (2012, September 25). Flaherty urges businesses to open wallets, forge partnerships with emerging economies. *Financial Post*. http://www.ottawacitizen.com/mobile/business/fp- business/Flaherty+urges+businesses+open+wallets+forge+partnerships+with/72 97401/story.html

Kaldor, N. (1957). A model of economic growth. *The Economic Journal,* 67(268), 591-624.

Keynes, J.M. (1936).*The General Theory of Employment, Interest and Money*. Cambridge: Cambridge University Press. http://www.marxists.org/reference/subject/economics/keynes/general- theory/ch24.htm

Lamo, A. (2008). Public and private sector wages - co-movement and causality. *Working Paper Series 963, European Central Bank*. http://www.ecb.europa.eu/pub/pdf/scpwps/ecbwp963.pdf

Leblanc, D. (2012, September 6). CIDA funds seen to be subsidizing mining firms. *Globe and Mail*. http://m.theglobeandmail.com/news/politics/cida-funds-seen-to-be-subsidizing- mining-firms/article1360059/?service=mobile

Mendleson, R. (2012, April 20). Canada Immigration: Jason Kenney's Reforms Will See Employers Selecting Newcomers. *Huffington Post*. http://www.huffingtonpost.ca/2012/04/20/canada-immigration-employers-pick- newcomers_n_1439992.html

OECD. (2011, December). *Divided We Stand: Why Inequality Keeps Rising*. http://www.oecd.org/els/socialpoliciesanddata/49170475.pdf

OECD. (2012, July). *Employment Outlook 2012*. http://www.oecd-ilibrary.org/employment/oecd-employment-outlook- 2012_empl_outlook-2012-en

Parliamentary Budget Officer. (2011, February 8). Federal Fiscal Sustainability and Elderly Benefits. *Office of the Parliamentary Budget Officer*. http://www.parl.gc.ca/PBO-DPB/documents/Sustainability_OAS.pdf

Parliamentary Budget Officer. (2012a, April 24). *PBO Economic and Fiscal Outlook*. http://www.parl.gc.ca/pbo-dpb/documents/EFO_April_2012.pdf

Parliamentary Budget Officer. (2012b, September 27). *Fiscal Sustainability Report*. http://www.pbo-dpb.gc.ca/files/files/FSR_2012.pdf

Pressier, J. (2012, July 29). The Other Barbarians at the Gate. *New York Magazine*. http://nymag.com/news/business/themoney/jeff-greene-2012-8/

Radice, H. (2011). Cutting Government Deficits: Economic Science or Class War? In Fanelli, C., C. Hurl, P. Lefebvre and G. Ozcan (Eds.), *Saving Global Capitalism: Interrogating Austerity & Working Class Responses to Crises, Alternate Routes 2011* (pp. 87-102). Ottawa: Red Quill Books.

Rochon, P. (2011, April 11). Rochon Affidavit at para. Cited in Respondents Factum. Ontario Superior Court of Justice, CV-10-404604, p. 20. http://ajc-ajj.net/files/library/02_-_AGC_Factum_Part_1_of_3.pdf

Rodriguez, F. and A. Jayadev. (2010).The Declining Labor Share of Income. *Human Development Research Papers (2009 to present) HDRP-2010-36, Human Development Report Office, United Nations Development Programme*. http://hdr.undp.org/en/reports/global/hdr2010/papers/HDRP_2010_36.pdf

Sanger, T. (2011a). *Fair Shares: How Banks, Brokers and the Financial Industry Can Pay Fairer Taxes*. Ottawa: Canadian Centre for Policy Alternatives.

------ (2011b). Battle of the Wages: Who gets paid more, public or private sector workers? Ottawa: Canadian Union of Public Employees.

------ (2012). Austerity Doesn't Work: Ontario can balance its budget while improving public services and tax fairness. Ottawa: Canadian Union of Public Employees.

Sierra Club of Canada. (2012). The Harper Budget: Assault on the Environment for Big Oil profits: Roundup of Canadian Environmental NGO Responses. http://www.sierraclub.ca/en/main-page/harper-budget-assault-environment-big- oil-profits-roundup-canadian-environmental-ngo-respo

Stanford, J. (2012, May 21). The troubling truth about free trade. *Globe and Mail*. http://www.theglobeandmail.com/commentary/the-troubling-truth-about-free- trade/article4186695/

Statistics Canada. (2012). *Cansim Database*. (Labour Force Cansim Table 282-0002; Exchange rates Cansim Tables 176-0049; Debt ratios Cansim tables 378-0123 and 378-0124; Investment shares of the economy Cansim table 380-0064) http://www5.statcan.gc.ca/cansim/

Stein, B. (2006, November 26). In Class Warfare, Guess Which Class is Winning. *New York Times*. http://www.nytimes.com/2006/11/26/business/yourmoney/26every.html

Stiglitz, J. (2012). *The Price of Inequality*. New York: W. W. Norton & Co.

Thomas, L. Jr. and D.Jolly. (2012, October 22). Despite Push for Austerity, European Debt Has Soared. *New York Times*. http://www.nytimes.com/2012/10/23/business/global/despite-push-for-austerity- eu-debt-has-soared.html?_r=0

Tytell, I. & F. Jaumotte. (2008). How has the Globalization of Labor Affected the Labor Income Share in Advanced Countries? *IMF Working Papers 07/298, International Monetary Fund.* http://www.imf.org/external/pubs/ft/wp/2007/wp07298.pdf

Veall, M. (2012). Top Income Shares in Canada: Recent Trends and Policy Implications. *Canadian Journal of Economics*, 45(4), 1247-1272.

Wingrove, J. (2012, August 6). Ottawa's plan to allow private property on reserves reignites debate. *Globe and Mail*. http://www.theglobeandmail.com/news/politics/ottawas-plan-to-allow-private- property-on-reserves-re-ignites-debate/article4466019/