

# Canada to go under the IMF budget axe

by Matt Guice

During the last week of March, Canadian newspapers carried news of an International Monetary Fund staff report that demanded \$9 billion be cut from Canada's deficit. The demand marked Canada as the latest industrialized nation to come under the IMF axe, although some government and business people consoled themselves that the figure was just a "recommendation," not a demand. The deficit is running at \$29 billion per annum, with the national debt at \$322 billion for a population of 27 million. Debt service paid by Canada during 1988 was \$32 billion. (All money amounts are in Canadian dollars.)

One month later, Finance Minister Michael Wilson delivered a budget that fit the IMF advice exactly: it cuts \$4.4 billion from planned expenditures, and increases taxes for a gain of \$4.6 billion in revenues. With the help of loyal opposition parties, the debate has been focused on the mode of delivery and on some of the cuts, while the IMF has been allowed to hide its hand in the proceedings.

Slashed in the new budget are: daycare assistance and other social programs, including the withdrawal of *all* government support of unemployment insurance; 12% of foreign aid to Third World countries (\$1.8 billion over five years); \$16.3 million from the research and development budget of Atomic Energy of Canada, Ltd. Layoffs will eliminate 1,072 civil servants, of whom 482 are civilian employees of the Department of National Defense.

## Defense hardest hit

Defense, in fact, is the hardest hit across the board. It is to sustain cuts of \$2.74 billion over the next five years. Seven military bases will be closed, and seven others scaled down. Every major equipment purchase planned by the Defense White Paper of 1987 is either canceled or cut, except for new coastal mine sweepers and 35 new helicopters to replace 30-year-old hulks.

The Armed Forces are expected to shrink by 2,500 men over the next few years, instead of the growth planned under former Defense Minister Perrin Beatty, who was shunted off to environmental affairs duties when the cabinet was reorganized after last year's national elections. The number of

new tanks to replace outmoded equipment has been cut to less than one-third of Beatty's program. There is no budget even to replace CF-18 fighter aircraft lost in crashes.

The much-touted plan to spend \$8 billion over 25 years to build 12 nuclear-powered submarines to patrol Arctic waters, is scrapped entirely in Wilson's budget. Canada will be left with a 16-vessel Navy for the 1990s, and shortly thereafter a 12-ship Navy. Adm. John O'Brien (ret.) has referred to this as "a rather expensive canoe club." Robert Penner of the Canadian Peace Alliance called the cancellation of the submarine plans "an incredible victory for the peace movement and one we'll be proud of for years to come."

For the Soviet high command, which has been devoting much attention to the Arctic "theater of military actions" and has been plugging a scheme for a nuclear-free "Nordic peace zone," the demise of the submarine program comes as good news (see *EIR*, April 28, 1989). The week before the budget was made



Brian Mulroney

known, it was announced that Canadian Prime Minister Brian Mulroney will visit Moscow this fall, where his talks are expected to focus on Arctic security and Canadian grain sales to the U.S.S.R.

## Tax hike spares financiers

The budget provides for a new 9% sales tax, increases in personal and corporate income taxes, and additional taxes on gasoline and cigarettes. Not counting the luxury and sales taxes, Canadian families are to pay between \$75 and \$450 per year more in income tax, depending on their income.

The only tax previously discussed that was *not* put through, was the "financial margin tax," which would have raised \$1.4 billion from the core revenues (interest on loans, dividends, and insurance premiums) of banks, trusts, and insurance companies. This potential tax on financial institutions was dropped "for technical reasons."

From Finance Minister Michael Wilson, who drew up the budget, such a decision was no surprise. Described in a recent profile in the journal *Canadian Business* as the man Bay Street—Canada's Wall Street—"sent to Ottawa to whip the economy into shape," Wilson from the outset of his career catered to the interests of the international banks. Before he became established as a Toronto stockbroker, Wilson worked for Baring Bros. and Co. in London, from 1959 to 1961. He helped Baring develop the Eurobond market, which went on to become one of international banking's great money recycling facilities for the huge sums that accrue from real estate speculation, and narcotics trafficking, among other sources.

How does the IMF view Wilson's budget package?

Spokesman Graham Newman was quoted in Canadian newspapers: "As a general principle, budget deficits have been a source of concern in the industrial countries as well as the developing world. Obviously any actions that are taken to reduce budget deficits are a move in the right direction." Asked about the earlier stated demands of the International Monetary Fund, Newman said, "What we do in these reports is make recommendations, and if the governments follow them, all well and good. . . . Obviously one has to be aware of the domestic political constraints under which governments operate."

### Debate or charade?

The "domestic political constraints" in Canada, however, all seem to be on the population. The Liberal Party leader, John Turner, whose resignation was announced May 3 but will not take effect until a party conference later this year, has chosen to "lead an aggressive and constructive opposition to the budget."

Turner himself, however, as a finance minister under Prime Minister Pierre Elliot Trudeau, also earned the name, "the boy from Bay Street." It has been asked if, as with his anti-American rhetoric in the last election, Turner's anti-Wilson rhetoric on the budget issue is meant to divert any genuine opposition to the IMF's goals. Indeed, Turner's Liberals and the New Democratic Party—the Socialist International-linked other major opposition party—are making their greatest noise not about the content of Wilson's budget, but about the fact that it was leaked to the press on April 26 and then released to the public by means of a press conference, instead of in a speech to Parliament, which is the usual practice.

In the past, finance ministers responsible for leaking budget figures or documents have resigned in Canada, as in Britain, where Hugh Dalton was forced to resign in 1947. But External Affairs Minister Joe Clark, a former prime minister, said that Wilson, "for whom respect is too high in the international banking community" to demand his resignation, would not.

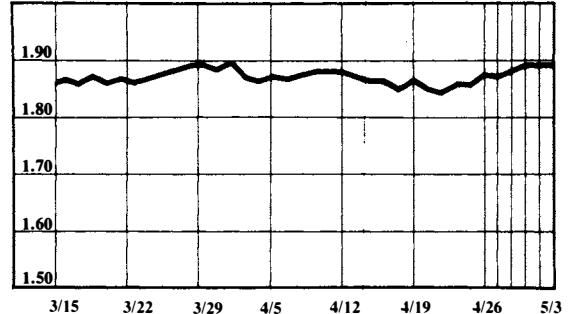
Prime Minister Mulroney stated, "If he had offered it, I would have turned it down." The government insists the leak came from a criminal act (theft), which Wilson was the victim of, so he should not have to resign.

While debate rages over the leak, the government is using its majority to push through the budget, as it did the free trade bill. That piece of legislation, the Canada-U.S. Free Trade Agreement, happens to have enshrined, for the first time in Canadian treaty law, "obligations under the IMF" for Canada (and for the U.S.), stating that certain national decisions must be made "in a manner consistent" with these multilateral "obligations." The principle of obligation to the IMF, codified there for the case of trade, is being applied by the Canadian government to the entire national budget, defense included.

## Currency Rates

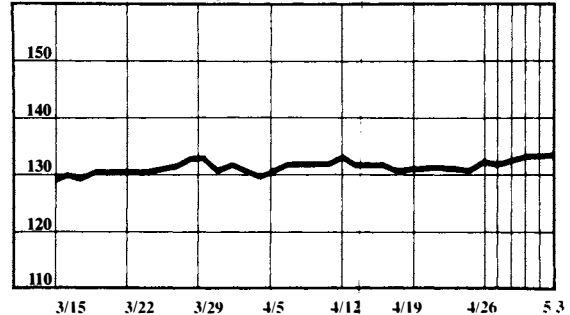
### The dollar in deutschemarks

New York late afternoon fixing



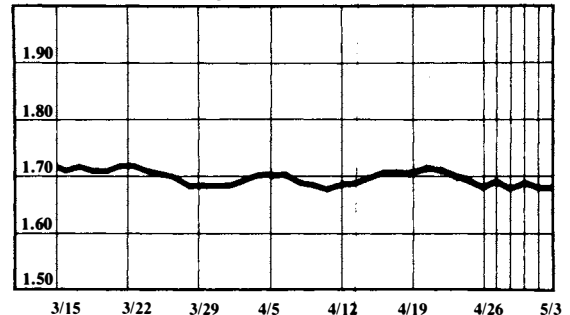
### The dollar in yen

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### The British pound in dollars

New York late afternoon fixing



### The dollar in Swiss francs

New York late afternoon fixing

