An End to Neoliberalism? Ontario Responds to the Crisis

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The financial panic that consumed U.S. mortgage markets two years ago quickly became a global economic crisis of alarming breadth and depth. No country or sector has been able to insulate itself from the turmoil. For the first time since the Great Depression, the world market as a whole is expected to contract. As the economic decline stabilizes in fall 2009, a great deal of talk of 'green shoots' of economic recovery is pre-occupying the media, with the chatter particularly coming from firms in the financial sector. These assessments need to be looked at very cautiously.

Capitalist economies periodically enter into crises of overaccumulation (most visible in the last two years in the housing, auto and finance sectors): firm investments in capital assets can no longer be valorized at existing profit rates. The economic imbalances and financial excesses that characterize the unevenness of capitalist growth become more acute and difficult to sustain. A chaotic period of forcible adjustment typically ensues.

It needs noting that although the crisis has brought a major shock to economic growth, the pattern of uneven development of the neoliberal period has been remarkably resilient. The central imbalances are: between zones of structural trade surpluses and deficits; between growing productive capacity and the distribution of purchasing power; between fiscal demands on states and taxation levels; between the levels of indebtedness of working class people and income flows to meet interest payments (from employment but also from collapsing house prices and pension values); and between the volume of credit claims in financial markets and the amount of value being created in the productive economy.

Several possibilities are posed. If, for example, credit stops being provided to bridge the imbalances, their rapid re-alignment reinforces the economic crisis. This raises panic amongst capitalists, much as was witnessed across 2008, about a potential catastrophic turn in the crisis as a radical destruction of capital values to rebalance these relations looms.

Alternatively, the imbalances might prove quite intractable: economic actors remain quite committed to their current strategies and invested capital (such as East Asian and German export strategies or capitalist opposition to taxation). As long as credit is still being provided, the imbalances persist, the capital is turned over and the economy stabilizes. But the blockages to sustained accumulation also remain in place. A period of prolonged stagnation then unfolds as past investments and debt obligations cannot be shed and the basis for new accumulation established.

Another course is also possible. The power of the capitalist state might be mobilized in a way that the debt generated by the imbalances is off-loaded into the state sector. The debt is effectively 'socialized.' Financial authorities forge new institutional mechanisms to oversee financial markets and to re-establish demand conditions. Workplace organization and class relations are restructured to improve the conditions for extracting value from workers. Accumulation, in turn, picks up, with the imbalances being reproduced in new forms. If the underlying sources of the imbalances remain, credit has to start flowing again at a rapid clip, and a new bout of financial speculation is all but unavoidable. Such an outcome is not merely hypothetical. In fact, previous financial crises – the 1980s savings and loans crisis, the collapse of the Japanese asset bubbles, and the 1990s dot.com meltdown – that have been endemic to neoliberalism have met just such a reaction.

These alternate responses to the crisis should be kept in mind in assessing the emergency financial policies being implemented, the way subnational states like Ontario are shifting their budgetary policies and the way class struggles are evolving. Is a return to a much touted 'Keynesian deficit spending' suggestive of a fundamental break from neoliberalism?

ONTARIO'S BUDGETARY POLICY

As Canada's largest province and the centre of Canada's financial and industrial sectors, Ontario's budgetary policy is particularly revealing. In Canada's decentralized federation, moreover, the bulk of welfare state expenditures, and the weight of industrial policy, lies in the provinces jurisdictions. Ontario is also, after the NDP government turn and the Harris Common Sense Revolution of the 1990s, Canada's pre-eminent neoliberal province. The Ontario state radically cut income supports, shifted away from taxes on capital, marketized public expenditures and shifted toward market-driven industrial policies. The McGuinty Liberal government has eased expenditure restraint, but left the core of the neoliberal policies intact.

Tracking the sharp downturn in the world economy, Ontario real GDP growth has fallen from 2.3% in 2007 to –0.4% for 2008 to a projected decline of between 2-3% for 2009. According to recent estimates, growth for 2010 is projected to push back up to about 2%, an optimistic projection, based on a strong surge in U.S. growth and imports. As a result, official unemployment is now pushing toward 9% (of course, understating the huge numbers of involuntary part-time workers and other reserves). Recent immigrants and workers of colour have been faring far worse in terms of both wages and employment. With productivity and the working age population each growing at about 1 percent a year, economic growth in Ontario must be greater than 2 percent just to stay even.

These developments blew a huge hole in provincial finances. The March Budget moved from a surplus to a projected deficit of $4-billion for 2008-09 to one of over $14-billion for 2009-10. Deficits are projected to continue for the next 7 years. The lapse into deficit in Ontario has been heralded, by an odd mixture of right-wing pundits and social democratic economists, as another sign of a 'return to Keynes.' This claim needs – like that of a break in monetary policy – closer scrutiny.

Besides the move into deficit, the claims of a departure from neoliberalism depend upon a few incredibly modestly redistributive measures in the 2009 Budget. One is the decision to *speed up* by two years the phase-in of the Ontario Child Benefit (OCB) with a near doubling to $1,100 per child beginning in July 2009. This measure was and remains a quite poor substitute for the lack of universal childcare or the poverty levels of single mothers.

Similarly, the additional $245-million added to the provincial budget to build more affordable housing, repair existing social housing stock, as well as additional support to provincial rent banks, could be tallied on the positive side of the ledger. But the money allocated to affordable housing remains paltry, and the lack of national and provincial housing remains scandalous after more than two decades of reports pointing this out.

But this modest boost to marginalized workers' incomes is more than offset by Ontario's tax cuts, estimated at $1.2-billion in personal income tax cuts and $2.3-billion in corporate tax cuts. Such cuts are thoroughly neoliberal: untargeted, favouring high income earners, weaken the long-term capacity to deliver public services and rebalancing fiscal capacity. Similarly, the move to harmonize Ontario's retail sales tax with the GST, forming a more uniform value-added tax, increases the tax burden on low-income workers, but provides only locks in modest income tax credits to offset the impact on poorer workers. This continues the neoliberal logic of the competitive lowering of taxation between jurisdictions.

INDUSTRIAL STRATEGY

The continuity with neoliberal distributional norms in Ontario's budgetary plans frames the budget. On the one side, there is a complete failure to do anything substantive with respect to social assistance rates. Given the mounting job losses, the 2 per cent increase in the rates leaves little to celebrate. The Ontario Federation of Labour quite rightly argued that rates were already "dangerously low." The McGuinty government has done next to nothing to reverse the Harris government benefit cuts of more than 21 per cent in 1995.

For employed workers in danger of entering the ranks of the unemployed, there is little social protection afforded by Ontario's budgetary plans. With less than one-third of laid-off workers in Ontario eligible for Employment Insurance (and about one-fifth in Toronto), and workers moving onto social assistance expected to deplete all savings, any number of policy adjustments could have improved this situation. Similarly, budgetary plans do almost nothing for re-training of laid-off workers; a 'wage protection fund' to offset bankrupt companies failing to pay workers owed wages and severance still has not been re-established.

Ontario's Budget's have often introduced the framework for the province's industrial policies. Given the immediate crisis in Ontario's resource, manufacturing and social sectors, and the longer term relative economic decline of Ontario, some re-thinking of market-led policies might have been expected. Ontario's budgetary strategy reveals, however, just how thoroughly neoliberalism has gutted state planning capacities.

Ontario infrastructure spending, for example, is to increase substantially, in line with Federal plans, growing from $7.6-billion in 2008-09 to $14.8-billion by 2010-11. But this money often has to be further leveraged at the municipal level where offloading and the crisis has produced a fiscal crisis (and for which McGuinty has refused to rollback the Harris reforms). In effect, other parts of the municipal budget related to welfare or service provision have to be squeezed to come up with the funds for infrastructure spending (thus contributing to the strikes in Toronto and Windsor). Moreover, with virtually no planning capacities at either the provincial or municipal levels, the main possible usage of the moneys is simply to address the huge backlog of upgrading existing road and infrastructural systems without rethinking transit strategies, water use planning, energy usage and local sourcing. Indeed, any linkage of the infrastructure spending to building ecologically-responsible production capacities is purely incidental.

Similarly, the huge subsidies and loan bailouts provided to the auto sector by the Ontario government have not come with any particular production guarantees, community controls over investments, increased planning capacities in the Ontario state over transport, and so forth. Plant shutdowns and restructuring are occurring across all sectors, but closure legislation, job and community planning boards, and any hint of a coherent industrial policy are not to be found from the McGuinty government. (All this is compounded by the even greater policy and administrative incoherence of the Build Canada infrastructure spending, with its emphasis on political expediency, P3s, and short-term projects.)

The failings of Ontario infrastructure and industrial policy planning stem from the lack of any strategy to address the province's economic development. Since NAFTA and the collapse of the NDP effort to develop a high value-added strategy in the mid-90s, a complete reliance on market-driven growth has formed Ontario's policy approach. This has a few main components: auto sector exports to the U.S.; the financial sector of Toronto; strong commodity prices for Northern Ontario resources; and demographic growth from net migration flows. Ontario's economic plan in the Budget makes small gestures toward support for green conversion and the new media sector, but these are largely ad hoc subsidy and incentive programmes with no longer planning behind them. The massive underfunding of universities and alternative energy development are to continue. From Ontario's budgetary plans, it is clear that the main approach will be utterly neoliberal: broad based tax cuts to make Ontario a relative low-tax zone for capital; and a series of specific tax, cultural and subsidy incentives to favour the so-called 'creative classes.'

EXIT STRATEGY

A great deal of conjuring is required to conclude that Ontario's Budgetary policy is a planned – or even inadvertent – break from neoliberalism. The Budget's emergency measures to boost demand are a policy response to an economic crisis internal to neoliberalism. Already, the clamour for an 'exit strategy' to return to neoliberal budgetary norms is building. Indeed, the government's long-term budgetary policy already lays such a strategy out.

Looking ahead to the next seven years, Ontario budgetary policies signal a period of protracted public sector austerity. The plan is to restore a balanced budget by 2015-16. This is to be achieved by underfunding public services. Four 'elements' to the plan are as follows: (1) the annual growth rate in public expenditures will be constrained to less than the average annual growth rate in total revenue; (2) a $1-billion 'efficiency target' in 2011-2012; (3) maintaining a 'prudent' [meaning falling] debt-to-GDP ratio; (4) a fiscal plan going forward that will be guided by cautious assumptions; and (5) a reduction in the size of the Ontario public service by 5% over the next three years.

Based on various assumptions respecting growth in GDP and government revenues, growth in public expenditures is to be constrained to 2.3 per cent. Given expectations of inflation, nominal GDP growth, demographic growth, Ontario's public services will again be moving toward a significant period of retrenchment. After a brief pause of 'Keynesian deficits,' the neoliberal austerity cycle begun in the early 1990s right turn by the NDP government of Bob Rae is restored.

HARD LESSONS

A number of points can now be drawn together about this stage in the economic crisis in Ontario and Canada more generally.

First, it is far too early to proclaim that neoliberalism has come to an end. As an ideology of 'free markets,' the financial crisis has thoroughly discredited it; and many of its' administrative principles have broken down. But finance capital has continued to assert its power through the crisis, and the power structures and distributional norms that emerged with neoliberalism have been remarkably resilient. The power of the capitalist state is being used to contain the crisis, kick-start accumulation, and underwrite a credit expansion and the economic imbalances in a new form. The political and policy effort – by conservative, liberal and social democratic governments – has concentrated on reconstructing the neoliberal political project and its institutional foundations.

Second, the strategy of the Bank of Canada at the national level (and the wider Harper government policy), and the Ontario state as representative of evolving provincial policies, are indicative of this strategy. Indeed, Canada's version of neoliberalism – radical attacks on income assistance and unemployment insurance, fiscal offloading to balance budgets, marketization of public services (while often maintaining state ownership), state guarantees of financial sector risk-taking and guided liberalization of a monopolistic financial sector – is being touted as the model to adopt more widely.

Third, the 'progressive' attempt to define an alternative to neoliberalism in terms of using new governance models to leverage a high-value-added industry alternative – with 'education-rich,' 'green-intensive,' or 'local advantage' addendums – have proven, time and again, complete policy mirages. The most intellectually ludicrous of these strategies is the 'creative economy' and 'creative cities' strategies gaining support in the Ontario and Toronto governments. As even the most minimal alternative, they are being marginalized by the effort to re-establish finance sector led development. Public sector workers, artists and university students face cutbacks while the banks, real estate speculators and gaming companies running sweatshop software shops are defined as Ontario's 'creative class' hub. These strategies have become, in both ideology and practice, incorporated into neoliberal governance.

Finally, it is clear that the anti-Harris political coalition – a loose amalgam of unions, NGOs, and many social movements that has become central to Toronto and Ontario politics (and even the jockeying around opposition to the Harrisite-dominated Conservative government in Ottawa) – has reached its political limits. The Liberal McGuinty government has enjoyed a warm relationship with this coalition since the election of 2003. In a certain way, the 'One Ontario,' 'creative economy' rhetoric of the Liberals stood in sharp – and welcome – contrast to the overt market-worshiping and 'class war from above' politics of the Harris Common Sense Revolutionaries.

But some of these social forces – notably the CAW, the teachers' unions, a range of equity-seeking groups and much of the ecology movement – have adopted a semi-formal social concertation with the government as their political practice. Indeed, the Ontario labour movement as a whole has returned to 'plain and simple' trade unionism. For the ruling classes and the government, this has meant 'brokering' some social concerns – such as around raising minimum wages and increasing school funding.

But this compromise has come with the gain of these forces collapsing into the ruling class consensus in how the government should respond, for example, to industrial competitiveness and the financial crisis. This is evidenced in the concessions wrung out of workers during the auto negotiations without any sustained political mobilization and with the union sounding little different from the corporations; in the CUPE strikes in Toronto, Windsor and York University to develop wider sectoral and community strategies; or in the endorsation by the main ecology groups in Ontario of the hopelessly flawed and thoroughly financial capitalist led 'cap and trade' system for addressing carbon emissions.

Neoliberalism's end will only come from renewed forms of political struggle. The political forces and effort that pushed together the anti-Harris coalition at the beginning of this decade are now spent. Many of these forces are now politically bankrupt. It is no great insight to observe that new political alliances in Ontario will have to be constructed. There is no other way forward. **R**

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