Governments Adopt Austerity Budgets

The government of Brian Mulroney made deficit reduction one of its highest priorities, introducing significant spending cuts and tax reform. By the end of its nine-year tenure the federal government was no longer running a deficit in its day-to-day operations, although interest on the national debt and transfer payments to the provinces and individuals resulted in a federal deficit for 1992-93 of $34.4 billion.

Prime Minister Campbell has also made the economy her top priority and has said she plans to balance the budget by 1998. "This cabinet will respond to the public demand that the dead weight of the deficit be lifted," the Prime Minister declared.

Despite concern over government debt, Canada is seen as a good place to invest. Moody's Investors Service Inc., a leading New York bond rating agency, released a statement in June that said: "We see no significantly negative trends in Canada's debt burden that could justify a change in the [triple-A] ratings of the nation's Canadian dollar and foreign currency debt."

Provincial governments of all political stripes—Conservative, Liberal and New Democratic Party (NDP)—have already released tough budgets that put the emphasis on cost-cutting. The federal and provincial governments together will cut their annual deficits this year by at least $9 billion, slowing the growth in government debt to less than the growth of the economy.

Two provinces, Alberta and New Brunswick, have passed legislation requiring balanced budgets, and voters in British Columbia and Saskatchewan have approved the idea by referendum.

There is evidence that Canadian voters are accepting the restraints. In Newfoundland and Alberta, the governing parties have recently been returned to power with large majorities after running on themes of austerity and sacrifice.

In Newfoundland, which has been hit hard by a moratorium on cod fishing that has thrown 25,000 fishermen and processing employees out of work, Liberal Premier Clyde Wells called an election after public sector workers threatened to strike over proposed cuts in pension fund contributions. His party won a resounding victory.

In Alberta, the Conservatives led by Premier Ralph Klein won reelection on June 15, giving the party its seventh consecutive term. They ran on a budget which included an 11 percent rise in health care premiums.

The Liberal challengers in Nova Scotia, which has a 15 per cent unemployment rate, won on a platform emphasizing job creation and improving government efficiency. New Premier John Savage, a family physician, said after the victory: "So long as Nova Scotians are jobless, we cannot cut and slash our way to economic recovery." His government has said it will hire auditors to find ways to cut spending.

> *"It has been the habit of politicians to attempt to buy the support by spending the electorate's own money, frequently against their interests. I think this election may have made a substantial contribution towards limiting, if not ending, that approach in the future. Maybe that's just wishful thinking on my part."*
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> Newfoundland Premier Clyde Wells.

The Toronto *Globe and Mail* described the budget brought down in May by Bob Rae's NDP government as "the most far-reaching and painful austerity program ever undertaken in Ontario." It holds the projected deficit below $10 billion through spending cuts of $2.4 billion, tax increases of $1.6 billion, and negotiation of a "social contract" with 950,000 public sector employees to cut wage and benefit costs by $2 billion.

The governments of Prince Edward Island, New Brunswick, Quebec, Manitoba and Saskatchewan also targeted public payrolls, and most provincial budgets singled out health care spending as well, eliminating hospital beds, services and jobs. The Liberal government in Quebec led by Robert Bourassa has said it will lobby the federal government to permit user fees or a tax on some medical services, which are currently discouraged under the Canada Health Act.

Productivity Rebounds

The productivity of Canada's manufacturing sector grew by 4.2 per cent in 1992, and output by all sectors increased by 2.2 per cent, after several years of disappointing performance. Unit labour costs increased last year by only 1.7 per cent, the smallest increase in almost 10 years.

Softwood Lumber Report Due in July

A binational dispute settlement panel established under the Free Trade Agreement (FTA) is scheduled to report July 27 on whether alleged subsidized imports of softwood lumber from Canada are injuring the U.S. industry.

In May another FTA panel found that the Department of Commerce (DOC) had not made its case that Canada subsidizes softwood lumber exports, and it gave the department 90 days to review its findings on a host of issues involved in the subsidy determination. A duty of 6.51 per cent imposed on certain softwood lumber imports from Canada, which amounts to more than $250 million a year, remains in effect during the review process.

Softwood lumber has been a contentious trade issue between the two countries for more than a decade. The U.S. government initiated its third countervailing duty investigation of softwood lumber in October 1991, after Canada exercised its right to terminate the 1986 Softwood Lumber Memorandum of Understanding (MOU). Under the MOU, Canada agreed to collect an export charge of 15 per cent on the value of softwood exported to the U.S. By 1991, by mutual agreement, the export charge had been eliminated on lumber from British Columbia and the Atlantic provinces and reduced to 6 per cent on Quebec lumber. Using a U.S. Forest Service accounting system to analyze timber sales, the Canadian government concluded that there was no subsidization of lumber exports and the MOU no longer served any purpose.

In May 1992 the Commerce Department determined that provincial stumpage programs and British Columbia's log export restrictions constitute a subsidy to Canadian exports. When the U.S. International Trade Commission determined in June that imports of Canadian lumber injured U.S. lumber producers, DOC imposed the countervailing duty. Canada appealed both decisions to binding binational panel review under the FTA.

Canadian exports of softwood lumber to the U.S. totalled $4.2 billion in 1992 and accounted for about 29 per cent of the U.S. market, down from a high of 33 per cent in 1985. U.S. demand for Canadian lumber increased significantly in 1992 because of a jump in housing starts and restrictions on logging in the Pacific Northwest aimed at protecting the spotted owl.