

Canada's 75 Billion Dollar Bank Bailout  
The \$64 Billion Federal Budget Deficit is intended to Finance Canada's Chartered Banks

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The Conservative government has leaked the details of Tuesday's budget. They have announced a \$64 billion deficit.

The Harper government, which has consistently committed itself to a "balanced budget", now claims that deficit spending is required to boost the economy at the height of a major economic recession.

Does this constitute a turnaround in federal government economic policy?

Is the government really committed to running a budget deficit with a view to stimulating demand and reversing the tide of economic decline.

Or is there a hidden agenda?

A modest \$500 million farm modernization program, a \$1 billion fund "to send workers from hard-hit industries back to school", the reduction in the Goods and Services Tax (GST)... The figures do not seem to add up to a staggering \$64 billion.

Where is the bulk of the money going? These budget allocations do not explain the dramatic increase in the budget deficit.

Bear in mind that barely a month ago, Finance Minister Jim Flaherty had projected "a \$2.3-billion surplus for the current fiscal year" (Edmonton Sun, December 24, 2008)

### **Canada's Bank Bailout**

The 64 billion dollar budget deficit should come as no surprise.

It is directly related to a 75 billion dollar bank bailout program for Canada's chartered banks, announced, virtually unnoticed, four days before the October Federal election.

The bank bailout received close to no media coverage; its budgetary implications were not analyzed.

In a statement by Prime Minister Harper on October 10, the bank bailout was casually presented as a commitment by the Federal government to purchase an initial \$25 billion in "secure" bank mortgages from the Canadian chartered banks. The transaction would be implemented through Canada Mortgage and Housing Corp:

"Canada Mortgage and Housing Corporation (CMHC) will purchase up to \$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." (Canada Mortgage and Housing Corporation Supports Canadian Credit Markets, [CHMC Press Release, 10 October 2009](#))

The decision implies a money transfer into the coffers of Canada's financial institutions. The money is "fungible" and can be used by the banks as they see fit:

"The federal government's [initial] \$25-billion takeover of bank-held mortgages to ease a growing credit crunch faced by the country's financial institutions is not a bailout similar to recent moves made in the United States and other Western countries, Conservative Leader Stephen Harper said Friday.

**"This is not a bailout; this is a market transaction that will cost the government nothing,"** he told reporters at a campaign rally in Brantford, Ont., ahead of Tuesday's federal election.

**"We are not going in and buying bad assets. What we're doing is simply exchanging assets that we already hold the insurance on and the reason we're doing this is to get out in front. The issue here is not protecting the banks."** (CBC News October 10, 2008, emphasis added)

The 25 billion dollar allocation was announced four days prior to the elections. Two days following the federal elections, the first mortgage purchase took place leading to an initial cash injection of 5 billion into the coffers of the chartered banks.

Barely a month following the federal election, on November 12 2008, another \$50 billion allocation was announced.

It received no news coverage. Moreover, opposition party leaders did not analyze the official statement of the Ministry of Finance.

The likely consequences of the Canada bank bailout on the federal fiscal structure were not the object of discussion or political debate.

The text of the official statement reads as follows:

"The Honourable Jim Flaherty, Minister of Finance, today announced the Government **will purchase up to an additional \$50 billion of insured mortgage pools by the end of the fiscal year** as part of its ongoing efforts to maintain the availability of longer-term credit in Canada.

**This action will increase to \$75 billion the maximum value of securities purchased through [Canada Mortgage and Housing Corporation](#) (CMHC) under this program.**

"At a time of considerable uncertainty in global financial markets, this action will provide Canada's financial institutions with significant and stable access to longer-term funding," said Minister Flaherty. (The Main Wire, November 12, 2008, emphasis added).

At the height of the election campaign, Prime Minister Harper stated emphatically that: **"this is not a bailout... it will cost the government nothing."** (CBC News, October 10, 2008).

According to Finance Minister Jim Flaherty: **"This program is an efficient, cost-effective and safe way to support lending in Canada that comes at no fiscal cost to taxpayers."** (Ibid)

Yet Finance Minister Flaherty contradicts his own statement when he acknowledges that the project will drive up the public debt:

**Under the proposal, Ottawa plans to sell a combination of government bonds and other public debt instruments to raise the \$25 billion.** Then CMHC will ask the banks and other financial institutions to ascertain how much debt they would like to sell to the agency, using a process known as a reverse auction. ...

Flaherty said the action would **"make loans and mortgages more available and more affordable for ordinary Canadians and businesses."** (Ibid, emphasis added)

The official Ministry of Finance statement confirms that the bailout will be financed by the Treasury. The necessary funds requiring the issuing of government debt in the form of T-Bills and government bonds will be transferred to CHMC, which will then channel in the form of mortgage purchases to the chartered banks:

"The first tranche of the program, for purchases up to \$25 billion, was announced on October 10. These purchases will be completed by November 21. Under the initiative announced today, **Canadian financial institutions will have access to up to an additional \$50 billion of longer-term funding**, bringing the total for the IMPP to \$75 billion. The extension of the IMPP will be financed through increased issuance of Treasury bills and bonds. The Government will be consulting with market participants about the operational plan in the coming weeks." Ministry of Finance, [Government of Canada Announces Additional Support for Canadian Credit Markets](#) 2008-090 (November 12, 2008)

**First Tranche: October 10: 25 billion. Already disbursed.**

**Second Tranche: November 12: 50 billion.**

The total is a staggering \$75 billion handout to the chartered banks, financed through the emission of public debt. What we are dealing with is an amount equivalent to approximately 4.6 percent of Canada's Gross Domestic Product (GDP). (1,639. 54 billion in 2008 at current prices)

The initial \$25 billion tranche has already been disbursed and nobody in Canada seems to be concerned.

### **Government Financing Its Own Indebtedness**

The recipients of the bank bailout are also the creditors of the federal government. The chartered banks are the brokers of the federal public debt. They sell treasury bills and government bonds on behalf of the government. They also hold a portion of the public debt..

In a bitter irony, the banks lend money to the federal government to finance the bailout, and with the money raised through the sale of government bonds and T-Bills, the government finances, via the CHMC, the bank bailout. It is a circular process. The banks are the recipients of the bailout as well as the creditors of the State. The federal government is in a sense financing its own indebtedness.

While the Canadian bailout procedures differ from those of the US Treasury under the Troubled Assets Relief Program (TARP), they essentially serve the same purpose. Both programs contribute to bank centralization and the concentration of financial wealth.

Under TARP, some 700 billion dollars bailout money was allocated to major Wall Street banks. Canada's population is slightly less than 11 percent of that of the US. The numbers are consistent. The 75 billion dollar Canadian bailout is slightly less (numerically US dollar for Can dollar) than 11 percent of the US 700 billion bailout under TARP

## **No Parliamentary Debate**

The \$700 billion US bank bailout under the Troubled Assets Relief Program, was the object of debate and legislation in the US Congress.

In contrast, in Canada, the granting of 75 billion dollars to Canada's chartered banks was implemented at the height of an election campaign, without duly informing the Canadian public.

Canada's media and financial press bears a responsibility in this regard. The matter was barely mentioned. It passed virtually unnoticed a few days before a federal election.

Media coverage was minimal. There was no parliamentary debate. No discussion, no debate as one would have expected from the opposition parties at the height of an election campaign as well as in its aftermath.

Nobody seemed to have noticed. Most Canadians do not know that there was a 75 billion dollar bailout of Canada's financial institutions.

The decision was casually presented as an effort "to ease the credit crunch" and encourage Canadian banks "to loosen their purse strings and extend more lending to businesses and consumers."

The impact, however, is likely to result in exactly the opposite: the centralization and concentration of financial wealth to the detriment of the real economy..

## **Mergers and Acquisitions**

We are not dealing with a Keynesian style deficit, which stimulates investment and consumer demand, leading to an expansion of production and employment.

While, the bank bailout is a component of government expenditure, it does not constitute a positive spending injection into the real economy.

Quite the opposite. The bailout is a handout to the banks. It contributes to financing the restructuring of the banking system leading to a massive concentration of wealth and centralization of banking power.

The bailout money will be used by Canada's chartered banks to consolidate their position as well as finance the acquisition of several "troubled" financial institutions in the US. (See text box below)

## **The Destabilization of the Federal Fiscal Structure**

This is the most serious public debt crisis in Canadian history.

The bank bailout potentially destabilizes the federal fiscal structure. It leads to a spiraling budget deficit, which must be financed at tax payers expense. The entire structure of public spending is affected including federal-provincial transfers. The (federal) public debt is slated to increase by 14 % over a two year period. The provincial debts are also likely to increase dramatically.

The 75 billion dollar bailout is to be partially financed by increasing the public debt.

The Minister of Finance has intimated that further measures are envisaged "to bolster the availability of credit" with the government "injecting capital into banks if necessary." (Bloomberg, January 23, 2009) It is worth noting that in addition to the \$75 billion, the government has pledged "to backstop more than \$200 billion in interbank lending so banks can boost their lending capacity." (Toronto Star, December 13, 2009). The implications of this decision remain to be carefully analysed.

What we can expect is a combination of budgetary compressions coupled with an increase of the public debt. Most categories of federal expenditure (excluding defense) are likely to be affected.

The federal fiscal structure is in jeopardy. The budget deficit finances the bank bailout.

What is likely to occur are more government "handouts" to banks and corporations coupled with a massive austerity program and a spiraling public debt.

The size of the public debt is also affected by the economic crisis. Company layoffs and bankruptcies seriously affect the revenues of the State. Unemployed people and bankrupt companies do not pay taxes. The increase in unemployment and the contraction in salaried earnings will backlash on tax revenues, which in turn contributes to exacerbating the fiscal crisis both at the federal and provincial levels.

Canadian Banks': Selected Acquisitions (2008)

In 2008, TD Canada Trust acquired Commerce Bancorp of New Jersey in the second largest Canadian M&A deal valued at \$8US.6 billion.(Market Wire, Jan 12, 2009).

Royal Bank's (RBC) New York subsidiary RBC Centura acquired Alabama National Bancorp. for a modest \$1.6 billion. "The Federal Reserve Board approved the acquisition on Feb. 5, 2008. (Florida Today, February 12, 2008)

In October 2008, Royal Bank announced that "it has completed the acquisition of ABN AMRO 's Canadian commercial leasing division, which provides equipment financing to Canadian corporations. (October 2, Canada Newswire).