TML WEEKLY INFORMATION PROJECT

SUPPLEMENT

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Discussion on Federal Government "Fiscal Snapshot"

# How the Problem of Public Revenue Poses Itself

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### *The economic numbers before our eyes*

A modern society requires enormous public revenue to meet the needs of itself and its members. Only one source of public revenue exists and that is the economic base of the society and the new value working people produce. The modern economy of industrial mass production is more than capable of providing enough public revenue to meet the needs of society and its members. However, a dominant social force in control of the economy and state obstructs the new value workers produce from meeting the needs of the people and society. The ruling elite in control do this in the following ways amongst others.

A global imperialist oligarchy has seized control of the basic sectors of the economy and the social product workers produce depriving society and its members of this much needed value. The problem for the people is to gain control of the basic sectors of the economy with public enterprise and bring the social product workers produce under the control of the society and its members within new relations of production. The society and its members would then be able to use the new value workers produce to meet the needs of the people and solve problems in ways the actual producers and others in society decide.

The state under the control of the ruling elite uses much of the public revenue it amasses to pay the rich in various ways and defend the privilege, wealth and power of the oligarchs and serve their narrow private interests. Taxes on individuals and borrowing from the oligarchs are a major source of public revenue in the present. These methods of obtaining public revenue are counterproductive and abusive to the working people who produce all value. The people must demand that governments stop using public revenue to pay the rich, stop taxing individuals, and stop borrowing from the global imperialist oligarchy. Public revenue should come directly from the enterprises where workers produce new value and be used to increase investments in social programs to guarantee the well-being of the people and for extended reproduction of the economy. How to bring this direction into being is a project the people must take up.

## Infrastructure to Pay the Rich

Government in the hands of the oligarchs use the public revenue they have collected to pay the rich to build, maintain and manage all manner of public infrastructure including public roads, bridges, mass transit, housing, hospitals, educational institutions etc.

Once public infrastructure is built and up and running, the private enterprises of the imperialist oligarchy refuse to realize (pay for) the full amount of the infrastructure they consume in the course of operating their businesses. A problem posed for the people to resolve is to ensure that when public or private enterprises consume public infrastructure during the course of their business as means of production, the amount consumed and transferred into the value of their production must be realized and accounted for in a transparent, complete and direct manner. Public infrastructure must be seen in their true form as public means of production essential for all economic sectors and enterprises, and not as articles of consumption for which individuals must pay.

Competing private enterprises, often organized into global cartels, control the socialized economy. Those who own and control the enterprises and cartels have the aim to expropriate maximum profit for their own private interests. This control and aim and competition of the enterprises and cartels to fulfil this aim mean that the people cannot mobilize the modern interconnected economy and all its parts to meet their needs or organize it to function seamlessly and collectively without crises. The problem posed for the people to resolve is how to seize control of the basic sectors of the economy and give them a modern aim to serve the people and society and to organize them so that each part supports each other and complements the whole under the control and direction of the actual producers.

## The Current Economic Crisis Told Through Its Numbers

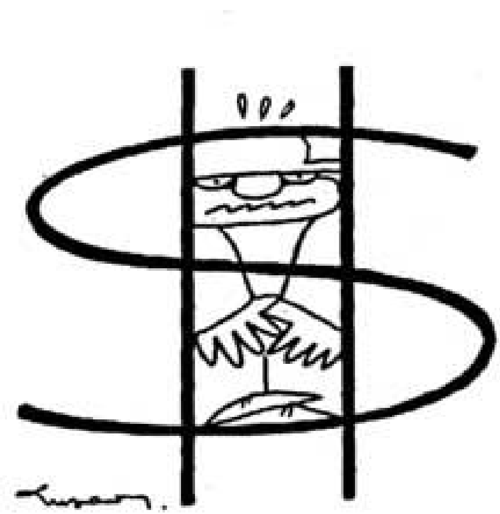
What are Canadians to think when they are told that at year's end they will collectively owe $1.2 trillion to the global oligarchs? What does the future hold in such a situation? How do we extricate ourselves from this mess?

The massive indebtedness to private interests means workers will be working to pay off the debt with precious little left for anything else. Who is responsible for this disastrous situation and how do we resolve the problem?

Those in control at all levels of government do not seem concerned as they just keep piling on the debt and repeating the same things over and over without solving any problems. Borrow from the rich; use the money to pay the rich; tax the working people and in effect pay them less for the sale of their capacity to work; reduce investments in social programs and wait with folded hands until the next crisis hits, which promises to be bigger than the last.

The federal government and mass media very blithely announced the crisis numbers in a "fiscal snapshot" then quickly disappeared to their own preoccupation with the "WE" scandal. The 24-hour news cycle came and went and per usual nothing was examined in detail to find the root of the problems, yet the disturbing numbers remain and they are not pretty.

The announced $343.2 billion estimate for this year's federal budget deficit is already resulting in greatly increased government borrowing from global private moneylenders. One after another Quebec and the provinces are also announcing their deficits and borrowing, and the amounts are staggering, not only the amounts the governments intend to borrow but that private moneylenders have that much money available to lend. All the countries and governments in the imperialist system of states are borrowing vast amounts from the global oligarchs to cover their own pay-the-rich schemes during the crisis.



The federal fiscal snapshot estimates, "The aggregate principal amount to be borrowed in 2020-21 is $713 billion, which is $437 billion higher than the issuance for 2019-20."

Federal borrowing from private lenders for this year to finance the deficit totals $469 billion. In addition to this amount, existing federal debt to the rich reaching maturity will also be repaid in full plus interest due. This triggers additional borrowing to refinance the maturing debt. The ruling elite consider refinancing of maturing debt to the rich through additional borrowing from the rich as "normal." Federal debt coming due and needing refinancing totals $244 billion. Adding this amount to be borrowed to the amount to cover the deficit of $469 billion brings federal borrowing for the year to $713 billion and the accumulated debt to $1.2 trillion. The $713 billion to be borrowed is just $3.8 billion shy of the entire federal debt of $716.8 billion as of the start of the fiscal year.

Next year's accumulated federal debt of $1.2 trillion will require servicing. Even if interest rates for government securities remain stable, which is debateable given the lowering of Canada's credit rating and the competition from other borrowers, debt servicing for the year will rise to around $41 billion from $23.3 billion in 2019. This can be calculated using recent ratios between debt servicing charges and the total debt. For example in 2019, $23.3 billion in interest was related to a federal debt of $685.5 billion, and in 2020, $24.5 billion in interest paid was related to a federal debt of $716.8 billion. This computes to around $41 billion in interest payable in relation to the new total debt of $1.2 trillion, which itself is not static and continues to grow with expected yearly deficits.

Commentators in the mass media such as Andrew Coyne suggest, "Large deficits are likely to persist for some years. In part this is because, unlike the wartime experience, revenues have suffered such a cataclysmic decline -- down $72 billion, or 21 per cent, from last year. Even rapid growth from such a diminished base will leave a substantial shortfall on the most stringent assumptions about the future course of spending.

"Revenues this year are estimated at $269 billion, against $612 billion in total spending. Suppose revenues rebound strongly next year -- say, by 15 per cent. And suppose substantially all of this year's $212-billion in pandemic relief spending is wound up by year's end. Suppose anything you like about interest costs. You're still looking at a deficit in excess of $100 billion next year, or 5 per cent of GDP. And almost as much the following year. And the year after that."

Speculating on a bounce back of federal revenue, Coyne doubts that economic growth will be strong and paints a pessimistic picture even suggesting a province or two may default on their debt. Coyne writes, "Longer term, we're still facing the same dire combination of population aging and sluggish productivity growth as before; where growth in the postwar era averaged 5 per cent annually after inflation, nowadays we're lucky if it's a third of that. All of which may explain why Fitch recently downgraded the federal government's credit rating. And that's leaving aside the much greater problems among the provinces and the likelihood of one or more of them either defaulting or having to be bailed out by the feds."

A new direction for the economy never enters the head of these commentators in the mass media of the ruling elite. They routinely predict more of the same, which includes borrowing from the rich to pay the rich, destroying social programs, reducing employment in the public service, putting downward pressure on workers' wages and benefits, increasing individual taxes, in particular consumption taxes, and even predicting further disastrous crises.

The concrete conditions reveal the necessity for a new direction for the economy and the need for democratic renewal. The working class is the only social force capable of organizing and bringing such a historic change to fruition.

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### For Your Information

## Excerpts from the Federal Government Fiscal Snapshot

*Highlights of the Government of Canada's Debt Management Strategy 2020-21 — Page 158 from fiscal snapshot*

The Government of Canada's debt program will increase in 2020-21 in order to finance the forecasted financial requirement of $469 billion.

[...]

• Given a historic level of issuance overall and particularly in long-term bonds, the government will consult with market participants and experts to assess and review the market's capacity for long-term debt. Adjustments to the debt strategy may be made as warranted to maintain stability in Canada's fixed-income markets in these evolving circumstances, taking into account the requirements of other issuers, such as provinces, municipalities and corporations.

• The aggregate principal amount to be borrowed in 2020-21 is $713 billion, which is $437 billion higher than the issuance for 2019-20.

• The extraordinary borrowing authority under the *Financial Administration Act* enabled necessary financing to implement the COVID-19 Economic Response Plan in a timely manner. These COVID-19 extraordinary borrowings are the largest contributor to the rise in the government's market debt from $765 billion as of March 2020 to an expected $1.2 trillion by March 2021.

• A significant proportion of extraordinary borrowings to date in 2020-21 has consisted of short-term instruments, mainly treasury bills, given the ability to issue these instruments in volume quickly to raise needed funding.

• The government has been conducting treasury bill auctions on a weekly basis, and plans to continue to do so for the remainder of the fiscal year.

• By the end of the fiscal year, the treasury bill stock is expected to be $294 billion, about $142 billion higher than the level at the end of 2019-20.

• The government has also been increasing bond issuances steadily to help manage rollover risk, reduce pressure on the treasury bill sector, and ultimately rebuild contingency capacity in the event that significant funding is needed again in short order.

• Reflecting this, the bond program for 2020-21 has increased across all terms, and up to an unprecedented combined amount of $106 billion in the 10-year and 30-year sectors alone (i.e. roughly five and seven times more than previous years' issuances, respectively).

• Annual gross bond issuance is planned to be about $409 billion in 2020-21, as compared to $124 billion issued in 2019-20. This represents $285 billion more bonds this year and is much larger than the planned increase of $142 billion in treasury bills (see Table A3.4, page 165).

• To support higher bond issuance and help smooth the cash flow profile of upcoming maturities, three new maturity dates will be introduced, two new maturity dates by promoting 3-year bonds to their own maturity dates and one new maturity date in the 10-year sector. These changes will improve bond issuance capacity and help extend the average maturity of the debt at low interest rates.

• Given extraordinary borrowing requirements, the government has made temporary adjustments to standard terms and conditions governing government securities auctions to promote participation at auctions.

• The Bank of Canada has also launched a number of measures and facilities to support well-functioning markets, including increasing the amount of Government of Canada securities it purchases at treasury bill auctions and introducing a secondary market bond purchase program. Reflecting the Bank of Canada's secondary market purchases, the government does not plan to conduct bond buyback operations in 2020-21.

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