

# **Understanding the Canadian Dimension of the Global Economic Crisis**

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**Bruce Campbell**

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### **Introduction:**

There is an air of disbelief in Canada about the seriousness of this Great Global Recession.

Perhaps it is because recession came later to Canada and is just beginning to hit hard.

Perhaps it is because government leaders and media keep assuring Canadians that we are in good shape to weather the storm and the worst will be over “soon. ”

To be sure, for the hundreds of thousands of Canadians who have already lost their job and the many more who feel threatened, the reality of recession is hitting home. Communities like Windsor and other manufacturing centres have been devastated.

But for many, at least at this early stage, the signs are subtle. There is a veneer of normalcy. Perhaps most people are still several degrees of separation from direct experience of friends and acquaintances who are losing their jobs, losing their homes, declaring bankruptcy, seeing their retirement savings shrink. The recession is still largely a business page story.

We in Canada seem far from the public outrage and the popular mobilization that is occurring in Europe and elsewhere. Or perhaps the media is not reporting worker actions such as the CAW plant takeovers.

### **Canadian dimension of the crisis**

Canada went into recession in October 2008, later than the U.S. and many other countries. However, Canada’s recession is now in full swing, with a force similar to other industrialized countries.

Six months into this recession the rate of job destruction is greater than both the 1981-82 recession and 1990-91 recessions; and since October, job loss in

Canada is proportionally greater than the US, although there the recession is almost a year old.

Almost 370,000 full time jobs were destroyed between October 2008 and April 2009. Looked at through another lens, 380,000 employee jobs disappeared. Part-time and self-employment jobs are rising, a sign of stress in the labour market—people are scrambling.

Counting those who have given up looking for work and have dropped out of the workforce, those working part-time but who want full-time employment, unemployment is at 12.4% more than four points higher than the official unemployment rate of 8%.

Exports are plummeting--by almost one-third from September 2008 to March 2009. Manufacturing sales have fallen by one-quarter since August 2008.

Actual and projected contraction of GDP in 2009 suggests a much sharper decline than the previous two recessions.

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And yet, by several measures, Canada is seen to be better positioned entering this recession —both on the monetary/financial and fiscal fronts— than most countries. Basically it is because of our strong banks and low debt/GDP ratio. Though the latter gives us the fiscal room to implement an aggressive stimulus package, this advantage is meaningless unless it is used effectively.

Despite the chest thumping about Canada's sound economic fundamentals going into the recession, a number of inconvenient facts contradict the dominant narrative. Canada's dirty little secret is that, by some very important measures, it enters this recession in a far more vulnerable state than in past recessions. Three domestic weaknesses bode ill for the prospects of a rapid Canadian recovery.

**Rising Income Inequality:** Since the mid-1990s, inequality in Canada has grown faster than in most OECD countries, including the U.S. Canada's richest 5-10% captured the lion's share of the country's productivity gains and income growth, while incomes of the large majority stagnated.

One reason for this has been the declining power of Canadian workers in an era of free trade and capital mobility—in other words, globalization.

For many Canadian households, stagnant wages led to the ballooning of debt to help maintain to their standard of living. Household debt increased six times faster than incomes since 1990.

Although unemployment fell to a low level in 2008, about 20% of the Canadian workforce is now in precarious forms of employment: part-time, temporary, and self-employment. About 40% of women in paid employment are in these kinds of jobs.

The proportion of workers in low-wage jobs is high, second only to the U.S. in the advanced industrial world. And 20% of women with full-time jobs are in low wage occupations—compared to 10% of men.

So, Canada is entering this recession with greatly weakened household incomes, reduced wealth, debt levels higher than at any time since the 1930s, economic insecurity at new highs. Households are not well positioned to be engines of recovery.

**Weakened public sector**—including the shredding of Canada's social safety net, and the overall contraction of the public sector.

Automatic stabilizers, which kick in during recessions to cushion the blow for vulnerable citizens and keep a floor under consumer demand are only half as large as they were during the 1980-81 recession.

The most important of these is employment insurance (EI). In the recession of the early 1980s and 1990s, over 80% of unemployed workers—both men and women—were able to collect EI. Going into this recession, as a result of changes made by the Mulroney and Chretien governments, only four in 10 men and three in 10 women are eligible for EI benefits. Eligible recipients get less income and can collect for a shorter time period than in previous recessions. Not since the early 1940s, when unemployment insurance was introduced, have Canadian workers been so thinly protected against job loss.

More generally, in previous recessions a much larger Canadian public sector — providing stable jobs and public services — was an effective counterbalance to contraction in the private sector. This stabilizing anchor in

the Canadian economy is now hundreds of billions of dollars smaller and a less effective counterweight against recession.

**Hollowing out of manufacturing:** Changes over the past decade in the structure of Canadian production (driven by the energy boom and soaring exchange rate) have resulted in a dramatic rise in resource exports and a corresponding decline in manufacturing production and exports.

Manufacturing sector GDP in recession since 2006 has accelerated; 479,000 jobs have disappeared since mid-2002—more than one-fifth of the manufacturing work force. In the 1990s we saw a hollowing out of the economy as foreign takeovers rose and Canadian head offices were closed. Now the entire manufacturing sector is being hollowed out.

A highly trade dependent country, Canada has regressed to a more resource exporting economy, more vulnerable to volatile commodity price and volume swings.

### **The Conservative government response:**

The Conservative government has been pursuing very aggressive monetary and financial stabilization policies.

It has committed \$200 billion in support for the banks, injecting \$90 billion of liquidity into the financial system between October 2008 and February 2009. The government issued new bonds, then gave the money to the banks – either as short-term low-interest loans, or as asset swaps (taking on the CMHC-insured mortgages that the banks had on their books).

Unlike the far lower amounts and stringent conditions attached to the auto sector bailout (like workers' pay and benefits), the bank bailout has come with virtually no conditions.

It is curious that the country with “the best financial system in the world” has, according to the IMF, incurred the third highest financial stabilization costs in the G7, behind the U.S. and Britain.

These measures are considered “non budgetary.” Like the support for the auto sector, they do not show up as expenditures which increase the deficit, and thereby, the federal debt. (They do appear on the books of CMHC and

the Bank of Canada.) But they have increased the government's borrowing —by \$108 billion since April 2008, or double the \$50+ fiscal deficit now projected for 2009. (Note: it seems the government is book part of the the auto sector support on its books as a loan loss provisions)

The contrast with the government's bogus fiscal stimulus plan is striking. Let me count the ways.

**1. Too Little:** The Conservative stimulus plan delivered far less than the 2% of GDP it claims for 2009.

**2. Fails to target those most in need:** The most glaring omission is its failure to expand the eligibility of those losing their jobs to collect EI. Thus, well over half of those who have, or will, lose their job in the coming months will have to rely on their savings, their families or on provincial welfare.

**3. Ineffective:** The stimulus package also falls short on the so-called “bang for the buck” scale. Economists use multipliers to measure the stimulus impact of a dollar of spending on output (GDP) and employment.

The Plan is tilted toward broad-based tax cuts (very low bang) as opposed to spending (high bang). The physical infrastructure spending (high bang), besides being too small, is contingent on matched funding by provinces and municipalities — limiting both its magnitude and timeliness. And little can be classified as green infrastructure. very Seven months into the recession, and infrastructure spending is still just trickling. As of May 2009, only 5% of funds announced had gone out the door.

There is no soft infrastructure spending (health, education, child care, etc) in the plan—sectors where job creation will benefit women.

**4. Poor Timing:** The federal government is quickly implementing the least effective tax cuts and delaying measures that have the largest stimulative effect.

**5. Wage cut pressure reinforces deflation risks:** As the danger of deflation increases, the federal government is undermining the effectiveness of its own stimulus efforts by freezing wages of its own employees and by forcing massive auto sector wage concessions in union negotiations with the auto

companies.

As the player responsible for the overall management of the economy, only government is capable of overriding the destructive contractionary impulses of businesses and households at a time like this. Instead it is reinforcing them.

**6. Advances the Conservative small government agenda:** All the spending measures are designed to be temporary, while the tax measures are permanent. The government is also using the stimulus as to reduce environmental assessment requirements for infrastructure projects as well as to advance its “free trade” goals, domestically and internationally.

**7. Peddles false optimism:** The government and bank economists have been pushing an upbeat Hoover type-message that recovery is in sight even as the real economy continues to deteriorate.

It’s an excuse for government inaction, which is potentially dangerous. During the Great Depression, premature optimism about the recession being over led to an early tightening of monetary policy and return to balanced budgets, with disastrous consequences.

**8. Free-rides on U.S. stimulus:** The Obama Administration is taking aggressive fiscal stimulus measures. Harper should be concerned that his feeble fiscal stimulus measures constitute a bigger risk of prompting increased protectionism in the United States than the threat from “buy America” provisions he likes to attack.

**9. Fails to lay the foundation for change:** Fails to move us toward a green economy, a more, stable, balanced and equitable economy, strengthened public infrastructure and enhanced social protections. On the contrary, it moves us further in the opposite direction.

### **Conclusion:**

It is tempting to think that the neoliberal paradigm, which now lies in ruins, will usher in a new era of progressive policy change. The current economic crisis does indeed provide progressive forces with an opportunity.

But we should not underestimate the obstacles to change, nor the dangers in times like these. The danger, as Naomi Klein documents in her book *The*

*Shock Doctrine*, is that a crisis also creates state of disorientation within society, providing an opportunity to advance unpopular conservative policies that would not normally be possible.

The obstacles to change involve the ability of the entrenched elites—the ones who are still in charge—to weather this storm in the expectation that—once over—they can get back to business as usual. This is perhaps my greatest fear: that no real reform will come out of this crisis.

We need to ask, if this is an historic opportunity for progressive forces, it is an opportunity to do what? And how do we get there?

If the economy needs fundamental change, what kind of economy and society do we want to see emerge in the wake of the recession? And what should governments be doing right now to lay the foundations for that change?

As to the how do we get there from here, the pendulum will not swing back automatically. It requires an extraordinary amount of pushing. It requires the convergence of solid progressive policy research and development, street savvy communications, citizen education and engagement, and mobilization of broad based civil society coalitions working in collaboration with progressive political allies. This is no small challenge, but one we must all embrace.

