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EXPOSED:
Revealing Truths About
Canada's Recession

By Armine Yalnizyan

Growing Gap  **.ca**

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Executive Summary

CANADA MAY HAVE COME LATE to the global recession, but the economic downturn is hitting the country with a force that is unparalleled in post-war economic history.

This report looks at the signs of the current recession and compares it to Canada's 13 other recessions, going all the way back to 1926. It discovers that, including the Great Depression, Canada's economy has only had six experiences of economic decline lasting two quarters or more.

It reveals how this recession has several things in common with the two biggest downturns in post-war history, but there are also important, and troubling, differences.

Canadians entered this recession more exposed to an economic downturn than they have been since the 1930s. They have the weakest system of protection against unemployment since the 1940s. Their personal savings rates are comparable to those of the 1930s. They also have record-high levels of household debt. Many are unprepared for massive job loss and have nowhere to turn.

In previous recessions, Canadian households offset the impact of job loss by having women take up more paid employment. In this recession, most women are already working—there is much less backup, or reserve army of labour, for families suffering from recession this time around.

This leaves many Canadians with little to help them weather the force of this downturn, poised to possibly be the worst in decades. The study finds that, compared to previous recessions, this recession is packing a bigger punch in its early days than any recession since the Great Depression.

The drop in GDP was more rapid in the opening months of this recession than the opening months of the 1981–82 and 1990–91 recessions. The expected scale of decline keeps escalating. The Bank of Canada revised its forecast from a 1.2% decline over the course of 2009 to a 3% decline in the space of weeks.

Job losses in these opening months of recession have eclipsed the rate of job loss in the early months of the 1980s and 1990s recessions, and are relatively bigger than job losses in the U.S. when scaled up for purposes of comparison.

The study predicts the loss of 387,000 full-time jobs to date is just the tip of the iceberg: more job losses are on the way and the pain won't be brief.

In the recession of the 1980s, the economy regained lost ground in a year-and-a-half, but it took almost four years for the number of full-time jobs to be fully restored. It took seven full years to get back to the pre-recessionary number of full-time jobs in the wake of the 1990–91 recession, though GDP returned to pre-recessionary levels in just four quarters.

If past experience is any guide, it could take years to recoup the loss of full-time employment that is underway in record numbers this time around.

Though Canada entered the recession with unemployment rates at 35-year lows, doubling its unemployment rate to 12% is not out of the question, given early indicators and parallels with previous recessions.

The fact that a majority of households in Canada today rely on two income earners may help soften the blow of job loss. But many households may not be able to get by without two incomes and could soon be in trouble.

The first round of pink slips has hit men's jobs hardest, with big losses in full-time, better-paid and unionized jobs in manufacturing and commodities industries. The next round of job losses will hit the service sector. Families with over-leveraged budgets may hit their personal debt wall in a hurry as women start to lose their jobs in growing numbers.

About 60% of Canadian households were already in a net debt position before this recession began. With so many families already reliant on credit to make ends meet, the competition for remaining jobs will be fierce.

Both the 1980s and 1990s recessions led to a major restructuring of Canada's labour force and began a long-term trend toward lower paying, insecure work. Similar patterns are at play today.

The vulnerability of unemployed Canadians coupled with high household debt levels weighs heavily on Canada's ability to emerge quickly from the downturn. At a third of the economy, exports are important, but recovery depends critically on Canada's own consumer spending, which accounts for 57% of the economy.

Some observers say Canada can do little about this recession, since it didn't cause it. Findings from this study suggest that is a short-sighted view, for several key reasons:

No coat tails to ride: Riding on the coat-tails of a quick American-led or export-led recovery is not likely in the cards. Everyone is in the process of re-balancing their

books. Deleveraging is both healthy and necessary for the long-term economic viability of individual households and businesses, here and elsewhere. But that means exports are not likely to rebound anytime soon, and spending will be cut by both businesses and consumers in Canada too. This leaves governments as the only remaining actors that can stimulate the economy and shore up tepid consumer confidence while we await global recovery. Governments also need to prepare for the next, inevitable phase of economic expansion.

Domestic action is crucial: Domestic policies have determined how we weathered previous recessions and how we set the stage for the next trajectory of growth. Exports may have propelled Canada out of a few recessions, but the recoveries of the 1940s, 1950s, 1980s and 1990s were driven more by domestic developments. Expanding investments in infrastructure from the 1940s to 1960s helped offset recessions and set in place a foundation for future growth. The Canadian economy has not seen such a wave of public investment in half a century. It shows. This recession provides a unique opportunity to rebuild capacity and energy efficiency in physical infrastructure (such as repairing and extending transportation, energy, and water systems) and human infrastructure (such as improving our systems of care and learning). Without such investments, Canadians will face critical shortages in the coming years, crippling future potential.

Jobless need better supports: Improving benefits for the unemployed is a crucial and immediate next step. Unlike the U.S., Canada scraped its way out of the 1970s downturn in part because the majority of Canadians were well protected by the former Unemployment Insurance system. This is an important lesson. Changes in the 1990s gutted Canada's Employment Insurance (EI) system. In the last recession, 85% of unemployed men and 81% of unemployed women could rely on benefits if they lost their job; today only 45% of men and 39% of women can. The last time the unemployed were this exposed to economic risk was in the 1940s. This policy oversight is a disaster in the making, but an utterly avoidable disaster. There is broad-based consensus on how to fix the EI system.

The report's conclusion should be a wake-up call for Canada's federal government: Not since the Great Depression have Canadians been so exposed in the face of recession.

Introduction

THE CANADIAN ECONOMY is losing steam, and fast. Swept along by global forces, production keeps going down and job losses, bankruptcies, government deficits keep going up.

As the statistical bad news keeps rolling in, it will be hard to resist the frame of mind that accepts massive economic dislocation as unstoppable, inevitable, and out of our hands. That would be a mistake. It is tempting to think that the economy won't heal until export markets rebound, but Canadian consumers drive 56% of our economy and exports drive about a third. Domestic public policy is critical to our economic resilience when the economy falters. Domestic policies also shape our ability to harness and build on prosperity, setting the foundation for the next phase of growth. Economic downturns can be moderated by government action. What happens next depends on what we do next.

Without question, the forces at play are huge and global in nature. This crisis is shaking the foundations of economies all around the globe. But it presents the opportunity for a generation of decision makers to strengthen and create mechanisms that can help us weather the storm and become more resilient.

Sustained economic downturns are rare in Canada, but they do not leave us powerless to act. Our history of recessions, unemployment and jobless benefits offers important insights as to what can help sustain and strengthen us in hard times, and emerge better prepared for the demands of the future. .

Canada faces serious challenges in the months to come, as recession takes root. Among those challenges:

This recession is just beginning, as far as the job market is concerned. The scale of decline forecast for the coming months is looking similar to the recessions of the 1980s and 1990s and seems poised to eclipse these recessions if government-driven stimulus does not kick in quickly. Job losses continued for 17 months in the recession of the 1980s and 29 months in the recession of the 1990s. In total, 710,000 full-time jobs were lost in the 1980s and 611,000 full-time jobs were lost in the 1990s. The recessions of the 1980s and 1990s were marked by a long labour market “hang-over” from the shock of economic contraction. It took almost four years for the number of full-time jobs to get back to their pre-recessionary levels of 1981, and seven years in the 1990s. Both the recessions of the 1980s and 1990s saw a shift towards part-time work and a growth in lower-paid work. Both recessions left a lasting legacy on the types of jobs available, and intensified downward pressures on wages. That is likely to re-occur in this recession.

Weakened social safety net: This recession is different than the two previous ones because of the weakened social safety net. Approximately six out of 10 jobless Canadians do not receive EI benefits today. In the last recession only two out of 10 jobless Canadians were left without benefits. The Canadian system of unemployment insurance was designed to provide strong automatic stabilization of the macro-economy. It helped prevent recessions of the 1950s, 1960s and 1970s from turning into severe economic contractions. It was trimmed in the late-1970s, and greatly stripped back in four rounds of reform in the early-1990s. Without restoring the EI system’s ability to provide macro-economic stability — by improving eligibility and benefit rates — there will be considerable pain for Canadian families and a potentially massive wave of economic dislocation which will unnecessarily prolong and deepen the recession.

Personal debt a problem for more Canadians: Household debt was at a record high going into this recession, with an average \$1.40 owed on every dollar of income in 2008. In 1990, average household debt was 91 cents on the dollar. Personal savings rates have not been this low since the late-1930s. In 2007 [latest available figures] the personal savings rates in four provinces (B.C., Saskatchewan, Nova Scotia and PEI) were in negative territory and two others (Manitoba and New Brunswick) were so low they may have entered negative territory by 2008. Not since the 1930s have so many Canadians been exposed to so much economic risk.

The challenges facing Canada today are formidable but they can be managed. The next pages show how we achieved that in the past and how we could achieve it again today.

Lessons Learned From Canadian Recessions

EVERY RECESSION IS DIFFERENT. Sometimes one sector triggers a downturn in the business cycle, such as a drop in business investments or demand for our exported goods. Sometimes big changes sweep over the whole system at once, such as rapidly escalating prices, the end of war, contractionary monetary or fiscal policies, or crashing stock markets.

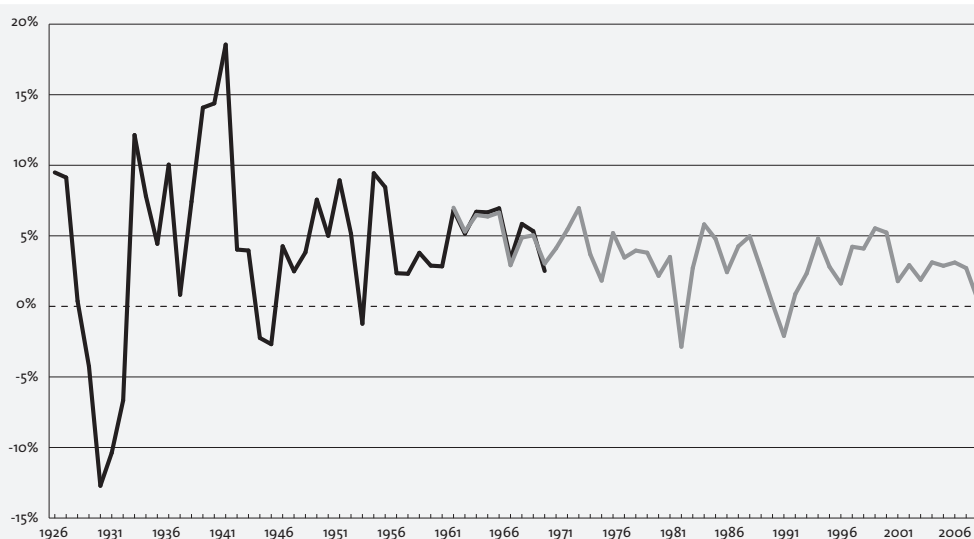
Statistics Canada has identified 13 Canadian recessions since 1926, noting at least one in every decade. The measures it uses to track the business cycle (including real GDP per capita and employment) count downturns as short as three months as recessionary.¹

The following brief history of Canadian recessions shows how rare it is for our economy to take a serious step backwards. Including the Great Depression, we have experienced just six recessions in the past 80 years, measured by the commonly used definition of recession as two or more back-to-back quarters of decline in real (inflation-adjusted) GDP.

During the Great Depression, economic output fell for four consecutive years and was almost cut in half. Other contractions have been of much shorter duration and depth, including:

- In the immediate post-war period, 1945 and 1946, with total output falling by 2% and 3%, respectively, as the economy retooled for peacetime production;
- In 1954 (by 1%) after the end of the Korean War, and a flirt with deflation;

CHART 1 Canada's economy has had few serious periods of decline
Annual change in real GDP, 1926–2008, shows mostly growth



Source: Statistics Canada Catalogue No. 11-516-X Series F33-55 and No.13-109-X Table 4

- For two quarters in 1980 (though on an annualized basis the economy still grew);
- For six quarters from mid-1981 to the end of 1982, resulting in a 4.9% decline in real output from peak to trough (worth \$31.8 billion in constant dollars); and
- For 4 quarters from early-1990 to early-1991, resulting in a 3.4% drop peak to trough (\$28 billion in constant dollars).

In comparison, this recession is starting off with a bang. In the first quarter of what is now widely expected to be sustained contraction for the better part of a year, real output fell by 0.8% — 3.4% on an annualized basis. The nominal dollar value of production fell by \$58 billion — or 13.4% — in the last three months of 2008 alone.

The decline is poised to worsen. Based on its monitoring of private sector forecasts by the end of March 2009, the Parliamentary Budget Officer estimated real GDP will decline by 8.5% and 3.5% in the first two quarters of 2009, on an annualized basis.³ As a point of reference to show how quickly things are unwinding, just two months earlier Budget 2009 envisioned a 0.8% decline in real GDP for the whole of 2009.

It is worth pausing on the fact that real GDP shrank by 0.8% in the last quarter of 2008. Both the recessions of the 1980s and 1990s picked up steam as they proceeded. The first quarter of decline in this recession was larger than that of the previous two recessions. If this recession is like either of the others, it could reasonably be expected that deeper contractions are on the horizon. However, this pattern may be offset by government stimulus policies, if such policies are timely and large enough.

TABLE 1 This recession started with a bang
Rates of Quarterly Decline In 3 Recessionary Periods

	1981–82 Recession	1990–91 Recession	2008–09 Recession
First Quarter	-0.7%	-0.4%	-0.8%
Second Quarter	-0.5%	-0.6%	
Third Quarter	-1.0%	-0.8%	
Fourth Quarter	-1.0%	-1.5%	
Fifth Quarter	-0.9%	0.3%	
Sixth Quarter	-0.9%	0.4%	
Seventh Quarter	1.5%	0.4%	
Eight Quarter	2.3%	-0.1%	
Peak to Trough	-4.9%	-3.4%	

This recession could easily rival the recession of the early 1980s, which transformed labour markets and reframed the primary objective of public policy to be the pursuit of economic growth. In the past two recessions, the economy continued to shrink for a year or more. The labour market took much longer to recover and was marked by lasting changes in job opportunities. It is highly unlikely that this will be a quick “bump in the road” type of slowdown.

It is often stated that Canada won’t exit this recession until the U.S. does, and it is true that our economic trends are closely tied to American ones. Exports were a critical factor in Canada’s exit from the recessions of the 1930s, 1960s and 1970s. In contrast, the recoveries of the 1940s, 1950s, 1980s and 1990s were driven more by domestic developments. Today Canada would benefit from both vigorous domestic policies as well as a rebounding global market.

The history and role of exports in Canada’s economy is discussed more fully below, but it deserves noting that the profound contraction in consumer spending in the U.S. is not just cyclical but structural, as households try to wean themselves from an over-reliance on credit. At 35% of the Canadian economy, exports are more important today than in the recessions of the 1980s or 1990s, but while exports to other parts of the world have been increasing, about three-quarters of our merchandise exports still go to the U.S. Canada is unlikely to see an export-driven recovery anytime soon.

That means domestic policies will have to do much of the heavy lifting to offset job losses and the decline of Canadians’ purchasing power, particularly in the coming months.

THE 1920S AND THE GREAT DEPRESSION

Just before the Great Crash, in the middle of the 1920s, growth of the Canadian economy was a blistering 9% a year. It dropped to 0% in 1928 — a consequence of a disastrous wheat harvest that year — then plummeted in the wake of tumbling stock markets here and globally, Prairie droughts, and rising protectionism around the world. The real economy lost ground each of the next four years. Total production was cut almost in half during this time, from \$6 billion to just over \$3.5 billion, as every sector of the economy — households, businesses and governments — saw its investments and savings evaporate, and consequently stopped spending and investing. Both the depth and duration of this economic contraction have remained unparalleled.

The Canadian economy started to gain momentum in 1933 as a result of foreign demand for our products and modest government interventions. Franklin Roosevelt lowered tariffs with the Reciprocal Trade Act of 1934, turning the tide on Canada-US trade. The pace of economic growth was 12% in 1933, 4% in 1934, 8% in 1935 and 10% in 1936 — long before Canada entered World War II. Exports grew from 20% of the Canadian economy in 1931 to 30% by 1936. But the recovery stalled after 1936 as the demand for exports fluctuated. Governments reversed direction once more and retrenched spending and investment, raised taxes and increased both tariff and non-tariff trade barriers.⁴

WWII AND THE 1940S

The war effort triggered another three years of brisk, double-digit expansion, starting in 1939. This time it was led almost uniquely by the rapid expansion of government spending, which soared from \$566 million in 1939 to \$4.9 billion by 1944. This growth in government spending essentially doubled the economy — from \$5.6 billion to \$11.8 billion.

After the war, the economy scaled down modestly for two years as the whole machinery of the industrial sector re-tooled for peace-time production. Government spending fell sharply, from almost \$12 billion to about \$1.4 billion, focused on the costs of demobilizing almost one million armed forces.⁵ Remarkably, business expansion mostly filled the breach. At the same time, governments started to invest heavily in capital formation. Infrastructure expanded ten-fold between 1944 and 1954. Exports grew briefly, but over the next decade would fall from 30% of the economy to 20%. (Imports followed the same trend between 1944 and 1954, from 30% of GDP to 21%.) This was not because foreigners wanted less of our exports. It was because the pace of growth in domestic production (and consumption) eclipsed demand from elsewhere. The importance of exports to Canada's economy reached its lowest level historically in the 1950s.

THE 1950S

After a seven-year run of growth based on very low rates of interest, the economy flirted with deflation in 1953. That year, too, the Korean War ended and exports dropped off. But the wild volatility marking the 1930s and 1940s seemed a thing of the past, thanks to sustained expansion of both private sector productive capacity, public infrastructure, and widespread gains in incomes, including huge changes in unemployment insurance.

Canada did not face another recession — at least as defined as two back-to-back quarters of decline in real macro-economic output — until the 1980s.⁶

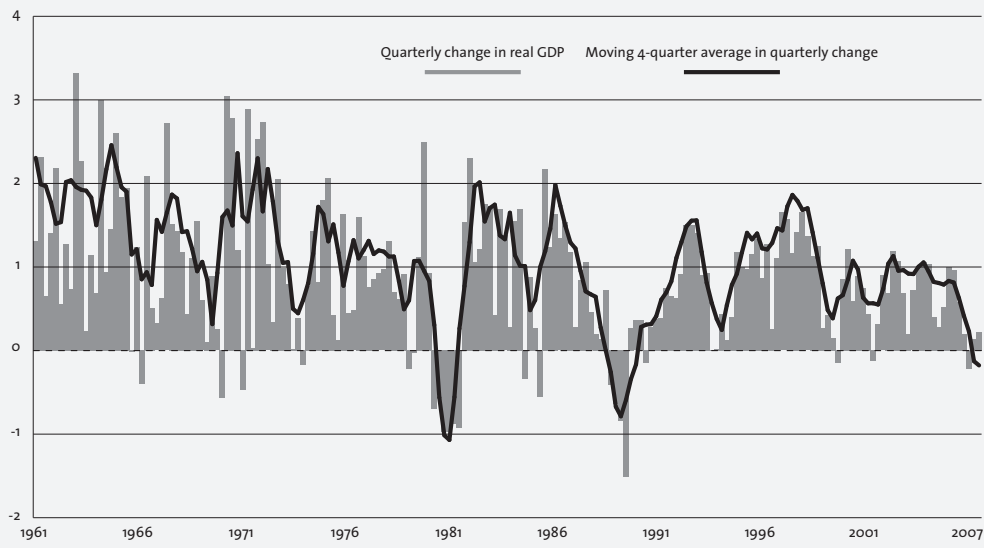
THE 1960S

The 1960s was a period of generalized expansion of productive capacity in the private sector for three reasons: 1) building on the foundation of public infrastructure laid down in the previous 15 years; 2) broad-based increases in wages and earnings; and 3) the expansion of income supports and social benefits (pensions, welfare, health care). Despite a little hiccup in 1966 (driven by a run-down in business investment in inventories and consequent hesitation in fixed capital formation), every indicator pointed in the same direction: growth. This was also the period of the Vietnam War, when Canada's resources and materials were drawn on by the giant US economy, which was expanding with war-time needs.

THE 1970S

The 1970s was another story, with the economy toughing out two global oil price shocks, escalating inflation and unemployment. Household and government spending sometimes contracted for a quarter, sometimes two, and business investments in inventories would adjust periodically. But — unlike in the U.S. — there was no sustained contraction and the retrenchment of the different sectors rarely aligned. As a result, the macro-economy may have faltered for a quarter from time to time, but did not stay down. The Canadian economy kept expanding, in inflation-adjusted terms, despite rising unemployment. Women were joining the labour market in record numbers, and with the income from those jobs they were spending more. Unemployment was rising as a result of more people looking for work, not just because people were losing their jobs. Those facing pink slips in the 1970s were better protected by a massive expansion in the Unemployment Insurance system in 1971. People kept spending and the private sector kept expanding. The demand for products on both sides of the border kept rising, with exports growing from 22% of the economy in 1970 to 28% by 1980, and imports growing from 20% to 26%. Inflation was a growing concern, as consumer prices rose at an average rate of 10% a year over the decade.

CHART 2 There have been numerous quarterly declines in GDP since 1961, but only the 1981–82 and 1990–91 recessions lasted more than two quarters



Source: Statistics Canada CANSIM V1997736

THE 1980S

The 1980s began with an attack on double-digit inflation through escalating interest rates combined with controls on wage increases. The result was a sustained decline in consumer spending. The 1970s had delivered large tax cuts but spending commitments were kept in place, leading to fiscal stress and mounting deficits. Governments didn't cut during the 1981–82 recession, but they didn't expand. Businesses — faced with declining demand and high costs of finance — could not fill in the breach. Starting in the summer of 1981, the economy lost ground for six quarters in a row and lost \$32 billion in the inflation-adjusted value of output, a 4.8% decline over the peak. That constituted the longest, deepest decline in total production since the 1930s.

The stock market meltdown of October 1987 did not translate into a serious decline in the real economy but the next recession came not long after and marked a completely different breed of downturn, one triggered by public policy. It was partly shaped by the continental restructuring of productive capacity in the wake of the Free Trade Agreement signed with the United States in 1988. It was also shaped by the Bank of Canada's decision in the late-1980s to use monetary policy (high interest rates) to bring persistently high inflation down to a target zone of between 1–3% and keep it there. Part of the inflation being fought by monetary policy was the result of the shift in fiscal policy.⁷ The elimination of the Manufacturers Sales Tax and the introduction of the Goods and Services Tax (GST) as its replacement in 1990 created more government-induced inflation for the Bank of Canada to fight. Though the US

also was dealing with recessionary conditions by 1990, Canada's was far more severe, largely because of the Bank of Canada's interest rate policy, which saw Canadian interest rates as much as six percentage points higher than comparable US rates. The result was an overvalued Canadian dollar, which adversely affected exports.

THE 1990S

The downturn was kicked off by businesses cutting investments, starting half way into 1989. Household spending started tumbling a year later, but only for two quarters. Towards the end of 1990 governments started running down their inventories and stalled or cut back on investment in infrastructure. Exports had already been faltering for three quarters by the end of 1990. As all the domestic sectors of the economy piled on, the convergence of factors kept accelerating to produce the sharpest quarterly contraction in post-war history by the first quarter of 1991. \$28 billion in production evaporated in a single year, measured in inflation-adjusted dollars. Between the first quarters of 1990 and 1991 there was a 3.3% decline in real GDP.

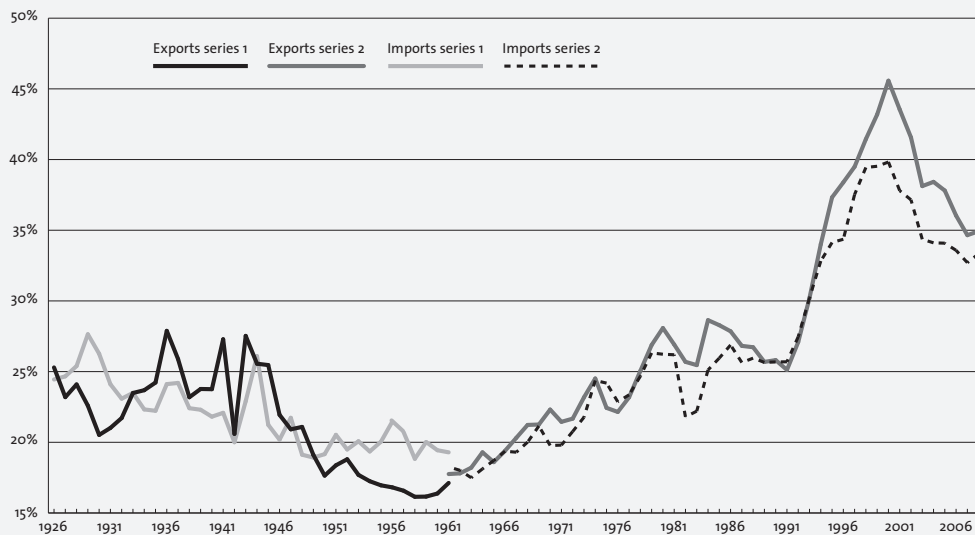
The recession was prolonged as governments attempted to reduce deficits by cutting spending, which only worsened the recession. Reduced operational spending became more widespread by 1992. A modest pick-up of economic activity in 1994 was interrupted by further spending cuts in 1995 and 1996, which slowed that recovery to a snail's pace. By the mid-1990s, putting an end to government deficits had become the number one public policy priority across Canada and the primary way of balancing the books was through spending cuts, particularly income and social supports. The result was even higher unemployment, declining incomes and household consumption, and delayed economic recovery.

But starting in 1997 the Canadian economy picked up steam, fuelled by three reinforcing factors: 1) low rates of inflation and easy credit in Canada and the US; 2) the consequent expansion of household consumption, which was not driven by broad-based increases in household income; and 3) the beginning of a long wave of rapid growth in productive capacity in Asia and South East Asia. Canada's role as provider of commodities for the global supply chain and manufacturer of housing supplies and cars for the American market created a job juggernaut, though not all the jobs created were well paid.

AN EXPORT-DRIVEN DECLINE NEEDS MORE THAN AN EXPORT-DRIVEN RECOVERY

Though everyone understands the domestic economy to be in full-blown contraction now, the only sector of the economy that has been shrinking for a sustained period has been exports. Since the third quarter of 2007, other nations (particularly the US) have bought less from Canada. That follows on the heels of a seven-year decline in trade, in the wake of 9/11. In 2000, Canada exported 45.6% of what it made and

CHART 3 Exports are worth about a third of the economy today
Exports and Imports as Share of Canadian GDP, 1926–2008



Source: Series 1 from Statistics Canada Catalogue No. 11-516-X, Series F33-55; Series 2 from Statistics Canada National Income and Expenditure Data Accounts Tables, Catalogue No. 13-109-X Table 3

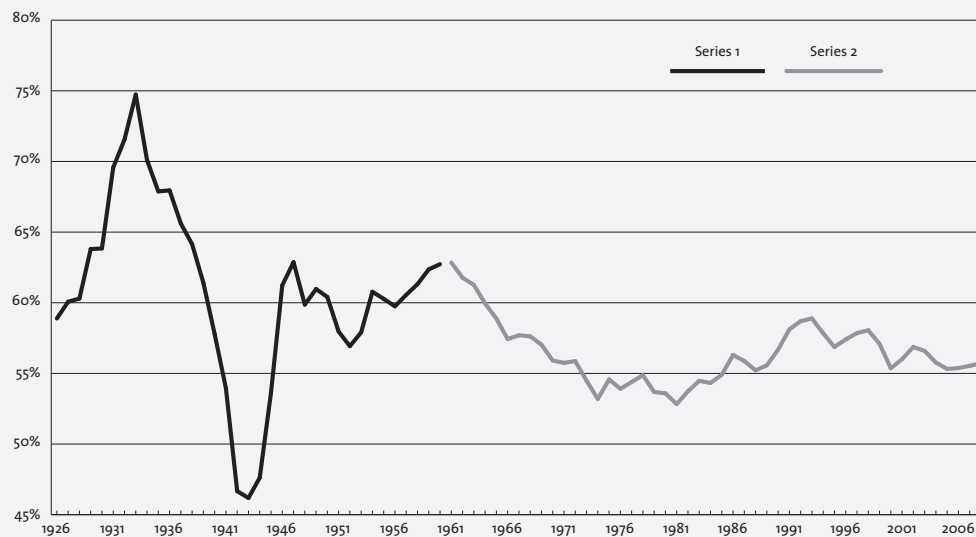
imported 39.8% of what it bought. By 2008 Canada exported 35% of its production and imported about 33% of its consumption. A key part of the decline in real exports was the much higher Canadian dollar and the high price for Canada's oil and other energy and resource exports. Those high prices improved Canada's terms of trade but made exports of manufactured goods more difficult.

Because exports still represent over a third of our economy, even small rates of contraction have a significant impact. Falling exports deepened downturns in Canada in the 1930s and 1950s and were a leading factor in the current recession as well. Exports helped fuel recoveries in the 1930s, 1960s and 1970s. They helped accelerate recovery in the mid-1990s and will be part of a rebound in the coming years. But exports rarely define Canadian economic resilience.

THE IMPORTANCE OF THE DOMESTIC

A bigger factor in what drives the Canadian economy is the proportion of economic activity driven by personal consumption, or household spending. It has accounted for 55–60% of the Canadian economy for most of the last 40 years. With the exception of the recession of 1981–82, the decline in household spending has never been the leading-edge factor in triggering a downturn in Canada; rather it has come as a consequence of weakening macro-economic conditions. But an economy cannot emerge from recession if household spending continues to contract.

CHART 4 Household spending is the single biggest component of GDP
Canada 1926–2008



Source: Series 1 from Statistics Canada Catalogue No. 11-516-X, Series F33-55; Series 2 from Statistics Canada National Income and Expenditure Data Accounts Tables, Catalogue No. 13-109-X Table 3

Since the beginning of 2008 there has been a modest cutback in household consumption of non-durable goods — food, rent, utilities etc. — but overall household expenditures, including durables, have kept rising. Business investments in residential construction have been in decline since early-2008, but overall business investment has not.

The last quarter of 2008 shows a significant acceleration of change in the domestic economy, with a 15% decline in business spending, a 3.3% decline in household spending, and a 23% decline in imports. More contraction is expected in the first quarter of 2009 and beyond, driven by both domestic and international factors.

STRUCTURAL FORCES MEET CYCLICAL FORCES

It needs to be said: this is not just a cyclical downturn or a simple reduction in aggregate demand. After decades of a buy-now-pay-later mentality, households, banks and businesses are all re-examining how they are going to pay, and when. Reduced spending, avoidance of unnecessary new debts, and limitation of risk are all ways of turning back the clock on an over-extended, over-leveraged society.

Deleveraging is both healthy and necessary for the long-term economic viability of individual households and businesses. But the macro-economic implication of each of us making smarter budget choices for the long haul (less spending, more saving) is yet more job loss. Since this is a global phenomenon, it is a global reality that falling demand will mean there will be no export-driven rebound for Canada

in the near future. If we respond to all the bad news by hunkering down and saving where we can, there is little chance the economy will rebound any time soon. The sad truth is what may be good for us at the micro-level is bad for us at the macro-level.

With exports, business investment and household spending all declining, governments are the only agents left in the economy that can offset the contraction. They can help by retaining and creating jobs through public expenditures and by sustaining the purchasing power of households through income supports — strengthening the foundations to be able to raise the roof higher. Those two actions alone will help retain and create jobs in the private sector and offset the worst of the coming months.

Our economic history shows that, as far as unemployment is concerned, the worst is yet to come. And not since the Great Depression have Canadians been so exposed to the impact of unemployment. For almost two decades we have developed public policy based on the premise that the best social policy is a job. Income supports have been stripped in order to create incentives to grab whatever work is out there. What happens when the jobs dry up?

Lessons Learned From Canada's History of Unemployment

SINCE THE SUMMER OF 2002, Canada lost more than half a million manufacturing jobs⁸ — a trend that was eclipsed by the creation of a million net new jobs in the same period. But eyebrows were raised in the first five months of this recession — October 2008 to March 2009 — when Canada lost 357,000 jobs.⁹ The creation of 30,000 part-time jobs in this period scarcely offset the loss of 387,000 full time jobs — 2.8% of the full-time job market in Canada. The job losses of the first three months of 2009 were greater than those in the US, if scaled to the size of the US labour market.¹⁰

The scale of job loss today eclipses what happened in the opening months of the 1981–82 and 1990–91 recessions, both in absolute and relative terms. In those previous recessions, the rate of job loss accelerated as the recession wore on.

HOW LONG DOES IT TAKE TO RECOVER? THE 1981–82 RECESSION

The first four months of the 1981–82 recession marked the loss of 117,000 jobs, or 1% of the labour market. In those opening months of the recession, 184,000 full-time jobs vanished (1.9% of the full-time job market) but 66,000 part-time jobs were created. Job losses would continue for 17 months in total, from August 1981 to January 1983, during which time the job market saw 710,000 full-time jobs vanish (7.3% of all the full-time jobs). Those losses were partially offset by the creation of 145,000 additional part-time jobs.

TABLE 2 **First five months of recession from peak to trough**

Net Change (in thousands)	<i>First Five Months of Recession</i>			<i>From Peak to Trough</i>	
	August 1981– January 1982	April 1990– September 1990	October 2008– March 2009	August 1981– January 1983	April 1990– September 1992
All Jobs	-154.9	-81.4	-356.60	-563.2	-462.1
Full Time	-213.5	-88.4	-386.80	-710.3	-610.9
Part Time	58.6	7	30.20	147.2	148.8
% Change	August 1981– January 1982	April 1990– September 1990		As Share of August 1981 Job Market	As share of April 1990 Job Market
All Jobs	-1.4%	-0.6%	-2.1%	-5.0%	-3.5%
Full Time	-2.2%	-0.8%	-2.8%	-7.3%	-5.6%
Part Time	3.5%	0.3%	0.9%	8.9%	6.7%
First Five Months as % of Total Job Loss Over Course of Recession		1981	1990		
All Jobs		27.5%	17.6%		
Full Time		30.1%	14.5%		
Part Time		39.8%	4.7%		

Production (real GDP) was restored to its pre-recessionary level by the spring of 1983, in less than a year-and-a-half. It took until the summer of 1984 for the total number of jobs to return to the August 1981 level and it was not until the fall of 1985 that the number of full-time jobs returned to their pre-recessionary (August 1981) levels—almost four years after the recession started. The following graph shows the lag in labour market recovery compared to the recovery of real GDP. It tracks indices of change, where 100 equals the beginning of the economic downturn as the starting point of change.

THE 1990–91 RECESSION

The job losses at the beginning of the current recession also eclipse what happened in the 1990s. In the opening four months of the 1990–91 recession, almost 60,000 jobs were lost: 28,500 full-time and 31,200 part-time jobs. In time, 462,000 jobs would be shed from peak to trough of the downturn in the labour market (a painfully extended 29 months, from April 1990 to September 1992).

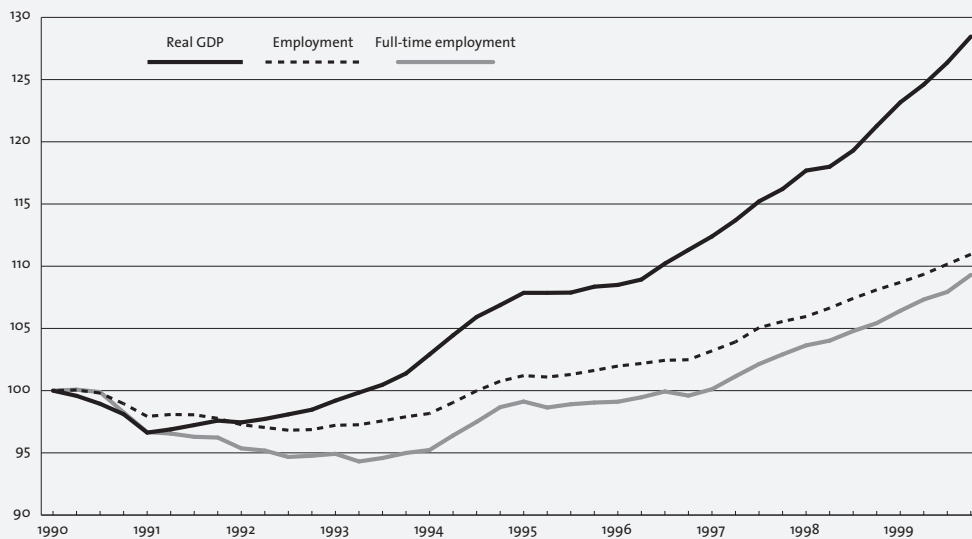
As in the recession of the 1980s, the lion's share of losses was in full-time opportunities: 611,000 full-time jobs were shed in this 29-month period (5.6% of the full-time

CHART 5 How long did recovery take in the 1980s?
Tracking indices of GDP and Employment



Sources: Calculated from Statistics Canada National Income and Expenditure Accounts, Catalogue 13-019-X, Table 3 CANSIM V1992067; and Labour Force Historical Review, 2008 Catalogue 71F0004XCB, Table CD1T475a

CHART 6 How long did recovery take in the 1990s?
Tracking indices of GDP and employment



Sources: Calculated from Statistics Canada National Income and Expenditure Accounts, Catalogue 13-019-X, Table 3 CANSIM V1992067; and Labour Force Historical Review, 2008 Catalogue 71F0004XCB, Table CD1T475a

job market of April 1990). Over the same period, 149,000 net new part-time positions were added to the labour market (a 6.7% expansion in the base of part-time jobs).

The tough policy climate of the early-1990s slowed down recovery, and it took three-and-a-half years for real GDP to rebound to its pre-recessionary level. The labour market took even longer to recover. It took until September 1994 to return to the April 1990 levels of employment. By April 1997 it returned to the April 1990 level of full-time jobs; seven full years for the number of full-time jobs to be restored.

THE GREAT RECESSION?

The scale of job loss that is unfolding around us today is bigger than either of these recessions.

All indicators point to the fact that the current downturn in production will be at least as significant as the recessions of the 1980s and 1990s, perhaps more so.

Before the global crisis hit, our unemployment rates were at 35-year lows nationally, hovering around 6% for most of 2007 and 2008, and dipping as low as 5.4% in the final quarter of 2007.

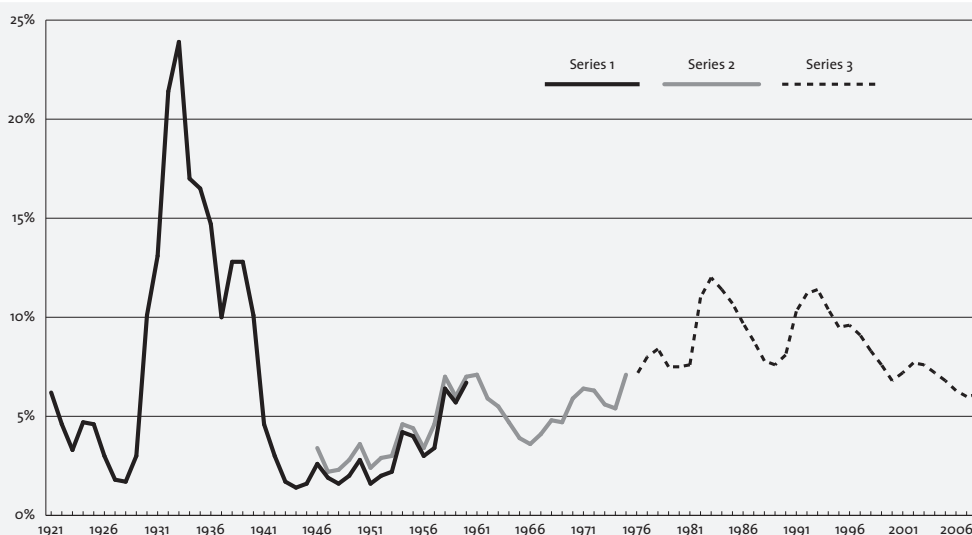
By October 2008, at the start of the current downward cycle, 6.3% of the labour market was unemployed. By November 2008, when the federal government tabled its Economic and Fiscal Update, unemployment had inched up to 6.4%. By the end of January 2009, when the federal government tabled its budget and economic stimulus plan, unemployment stood at 7.2%. A month later the unemployment rate had risen to 7.7%. Just a few weeks later, by mid-March, revised bank forecasts predicted unemployment would rise to 10% in 2009 and job losses would total 600,000.¹¹ This may prove to be too sunny a prediction as well. More than half of those predicted job losses had already occurred by March 2009.

In the fall of 1981, at the beginning of the recession, unemployment stood at 7%. By the time the economy started to turn around, the official unemployment rate had doubled, peaking at 14% for the first three months of 1983. As soon as the economy stopped contracting, the rate of unemployment started coming down; but it took until 1989 for unemployment rates to return to pre-recession levels.

The next recession piled on just months later. Starting in the spring of 1990, the economy contracted sharply for four quarters. Unemployment shot up to 12% by January of 1991. Recovery was tepid and hesitant, and failed to bring down the rate of unemployment, which hovered around 12% until mid-1994. It remained in double-digit territory until mid-1997 and didn't get back down to the pre-recession level of 7% until the last months of 1999.

If government-driven stimulus proves to be too little too late, the economic slide will accelerate as more households lose earnings, scale back consumption, go through savings, sell what they can, look for cheaper places to live. This wave of economic dislocation could compound broader international forces sweeping the Canadian economy. The doubling of the unemployment rate — to 12% — is not beyond the realm of possibility, given the severity of the downturn and similar developments in the 1981–82 recession.

CHART 7 **Official unemployment rate**
Canada 1921–2008



Sources: Series 1 (1926 to 1960) from Statistics Canada Catalogue No. 11-516-X, Series D124-133; Series 2 (1946 to 1976) from Statistics Canada Catalogue No. 11-516-X, Series D146-159; and Series 3, since 1976, from Labour Force Historical Review, 2008 Catalogue 71F0004XCB, Table CD1T475a.

How does this compare to the joblessness of the Great Depression?

It takes three series of historical statistics to tell the story. Almost one in four workers were without a job in the 1930s, a disaster for the working class who had little in the way of savings or income supports to see them through. This does not include unpaid agricultural workers in what was, largely, an agricultural economy — thousands of families lost the farm, their livelihood, and their way of life.

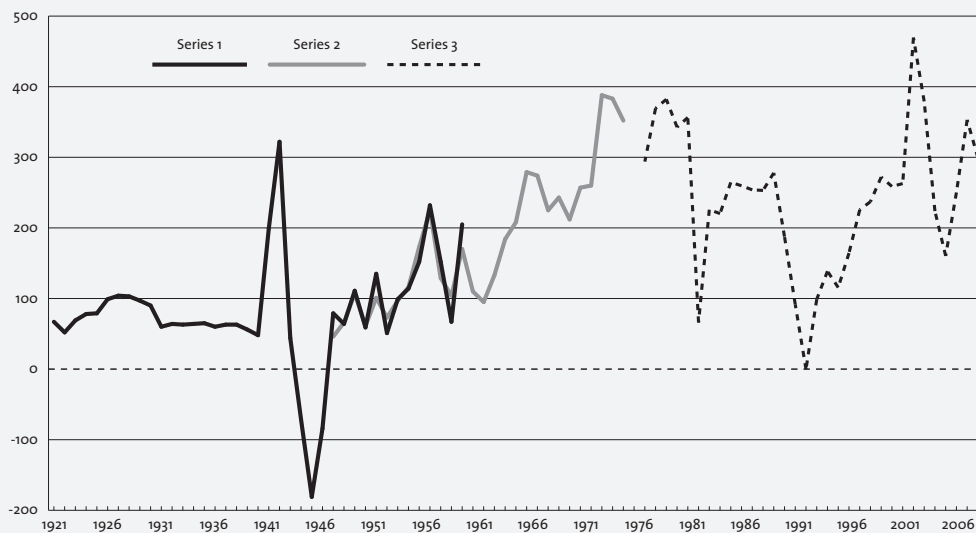
A GROWING RELIANCE ON WOMEN'S WORK

It bears noting that the huge rates of unemployment in the 1930s were based not only on a smaller labour force, but a labour force that represented a smaller share of the population since fewer female breadwinners were part of the mix.

The war effort changed all that. The “reserve army” of women was called upon to take up the work that so desperately needed doing at home while the men fought overseas to put a halt to rapidly expanding domination, oppression and injustice.

The chart below includes the armed services as part of the labour force before, during and after World War II. Employment peaked in 1943 and despite the numbers of women pouring into the labour market to take up the work, the economy was running out of employable workers. The armed services grew from about 7,000 people in 1938 to 780,000 in 1943. When the war ended and almost a million soldiers returned home, the labour market contracted sharply as almost 340,000 people left the labour market between 1945 and 1947. That exodus was mostly populated by women.

CHART 8 The Canadian labour force has only contracted once, after the end of WWII
1921–2008, Year Over Year Change, in thousands of people



Sources: Series 1 (1926 to 1960) from Statistics Canada Catalogue No. 11-516-X, Series D124-133; Series 2 (1946 to 1976) from Statistics Canada Catalogue No. 11-516-X, Series D146-159, and Series 3, since 1976, from Labour Force Historical Review, 2008 Catalogue 71F0004XCB, Table CD1T475a.

This was the only period in Canadian economic history where the number of people working or looking for work fell.

For every woman in the labour market in 1946, a year after the war ended, there were four men; and that remained the case for the next decade. But by the mid-1950s, as widespread wage increases slowed down and unemployment nudged up, more women headed back into the labour market. By 1960, women represented just over a quarter of the workforce (26%). Then the baby boomers started surging onto the labour market, with young women as eager for paid work as young men. By 1975 women accounted for just over a third (35%) of the workforce and the numbers kept rising.

The recessions of 1981–82 and 1990–91 knocked a measurable proportion of men out of the labour market completely. This has been called the “discouraged worker” effect of serious downturns, where the long-term unemployed gave up looking for work in a market with few openings. Labour force participation rates over time show that the discouraged workers seemed to be all male. Women, who likely were willing to settle for lower paid or less secure jobs because of financial necessity, still entered the market in ever-greater numbers, looking for work.

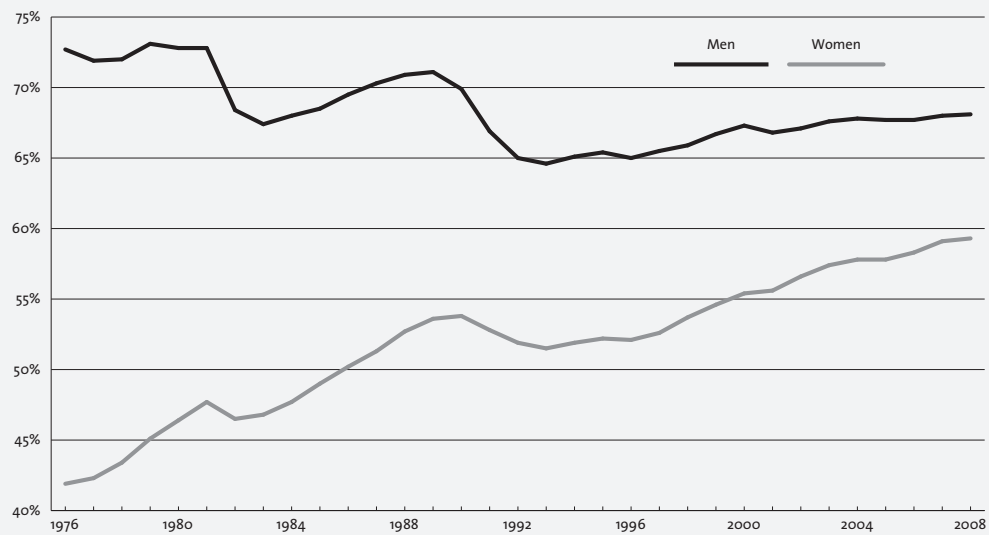
This was no longer a “boomer” phenomenon. Women — with and without education, young and old — found paid work in rapidly increasing numbers. Women’s contributions were needed to stabilize household incomes and sustain purchasing power. The “reserve army of labour” once again rallied to keep things afloat. Women’s employment rates increased, by necessity, closing in on the employment rate of men.

CHART 9 More men “discouraged” by recessions than women
Men and women’s participation rates 1976–2008



Source: Labour Force Historical Review 2008 Catalogue No. 71Fo0041XCB

CHART 10 The work imperative is increasingly the same for men and women
Employment Rates, Canada 1976–2008



Source: Labour Force Historical Review 2008 Catalogue No. 71Fo0041XCB

Today women make up almost half (47%) of Canada’s labour force. Six in 10 women (over the age of 15) have a job, compared to four in 10 in 1976.

Employment rates have been going up for men and women alike, though the population is aging. While still small, the fastest growing category of worker is over 65, rising from around 1.5% of the employed workforce until the year 2000, to about

2.4% in 2008. Workers over 55 made up 15.5% of the employed workforce in 2008, up from about 10% for most of the 1980s and 1990s.¹²

That is because today it takes two to get, and stay, in the middle class — in good times and bad.

HIGH LEVELS OF ECONOMIC INSECURITY, EVEN BEFORE THE RECESSION HIT

The economic security of a quarter of Canadian households was imperiled in the 1930s because of the scale of job loss. Today, though there is a system of income support in place, its role for working-age adults is so weakened that this recession could cripple a similarly large swath of households through the impact of job loss.

Family budgets of the working age population are, by and large, now based on two earned incomes. Many such households need both incomes to cover the basics such as housing, food, transportation and savings for post-secondary education. With stagnant household incomes in the middle of the distribution and falling household incomes at the bottom for most of the past 30 years, there is cause for concern that this recession could turn into something far worse, given the shape of household finance.

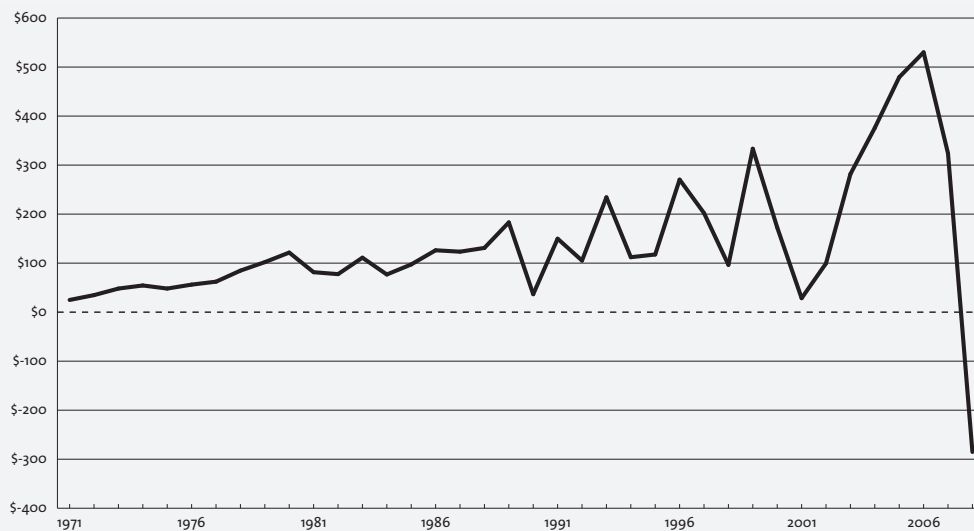
Even in the midst of recessionary conditions, personal savings were worth 20% of income in 1981, and 13% in 1990.¹³ By 2008, before the recession was fully descended, the average personal savings rate was 3.7% and had dropped below 3% several times in the previous few years.¹⁴ Personal savings rates haven't been this low since the

CHART 11 **Personal savings rates haven't been this low since the 1930s**



Sources: Series 1 from Statistics Canada National Income and Expenditure Accounts, 1926 to 1986: Annual Estimates, Catalogue 13-531; Series 2 from Table 6, 1961 to 2008: Catalogue 13-019-X, Table 5

CHART 12 **Personal net worth has only fallen once since 1970**
Year over year change, in billions of dollars



Source: Statistics Canada, unpublished data, National Balance Sheet Accounts, 1970 – 2008.

1930s. These rates, summing up national patterns of spending and saving, include Canadians who have no savings. In four provinces — B.C., Saskatchewan, Nova Scotia and P.E.I. — the aggregate personal savings rate was already in negative territory by 2007, and New Brunswick and Manitoba's rates hovered around 1%.

In 2008, the average Canadian household owed \$1.40 for each dollar of disposable income they had — and that includes people with no debts. That compares to 91 cents of debt on the dollar in 1990.¹⁵

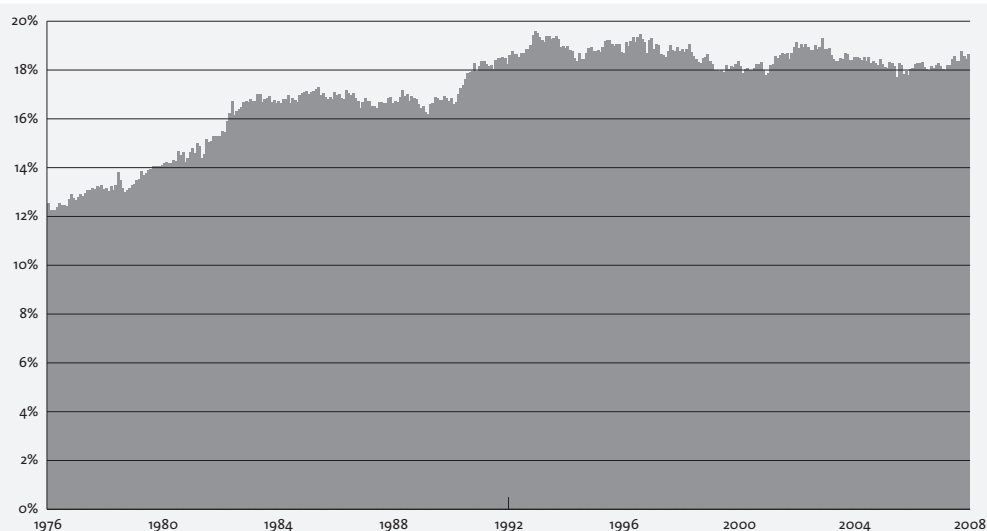
Consumer bankruptcies shot up by 50% in December 2008 compared to a year earlier, even before the labour market shed hundreds of thousands more jobs. In January consumer bankruptcies increased by a further 22%, even as the number of business bankruptcies fell.¹⁶ While low in number now, analysts are looking closely at trends in credit card defaults and mortgage foreclosures, which are expected to rise sharply as the number and duration of joblessness climbs.

Today's families may be starting with much more stuff, but their exposure to economic risk and free-fall is disarmingly high. Unlike the 1930s, there is much more credit available. But like the 1930s, there are not a lot of savings to cushion the blow for the majority of Canadians in the event of hard times.

In aggregate, that cushion has been building for decades. But in 2008, for the first time since annual records of personal net worth were kept in 1970, it plummeted. The rapid devaluation of assets such as pension plans, real estate holdings and equities drove this development, but it also reflects increasing levels of personal debt.

The bottom 60% of Canadian households was already in a net debt position before the crisis began. The existing system of jobless benefits and social assistance

CHART 13 **Part time employment surged as a proportion of the labour market with each recession**



Source: Labour Force Historical Review 2008 Catalogue No. 71F00041XCB

has been so stripped back it is closer to Depression-era protection than anything we have seen since the Second World War.

Widespread job loss threatens to wreak havoc, even in two-earner families that retain some paid work. That's partly a matter of who is working and what kind of jobs are left for families to rely on.

The first wave of unemployment triggered by this recession is affecting more men than women, since the job loss is primarily in the well-paying manufacturing and commodities sectors. Households will be increasingly reliant on women's earnings and whatever kinds of jobs open up in a declining market.

WOMEN'S EARNINGS

In 1995, women working full-time for the full year earned an average of \$30,130, or 70.9% the average earnings of full-time full-year male workers.¹⁷ By 2005, women's average full-time full-year earnings had risen to \$41,330, but were still just 70.6% of the average earnings of comparable men.¹⁸ The New Brunswick Status of Women introduced a poster campaign to raise awareness, putting it this way: Introduce your daughter to the facts of life. Give her 71% of your son's allowance.¹⁹

Most women work full-time and always have. At the end of the 1970s, about 24% of employed women worked part-time. As of 2008, about 26.5% of employed women worked part-time. The gradual growth of part-time work was not just a women's phenomenon, however.

For men, there has been a long-term growth in part-time jobs, from about 6% of employment in the late-1970s to 12% by the end of 2008 — higher than the peaks during the recessions of the 1980s or 1990s.

As mentioned earlier, part-time employment opportunities tend to grow during economic downturns. It is notable that the importance of part-time jobs did not decline in the past 10 years, a period of strong job growth. Part-time jobs are often correlated with low-wage work.

LOW WAGE JOB GROWTH, IN GOOD TIMES AND BAD

Canada created more jobs than any other G7 nation over the past decade, many of them at low wages.

Since the 1980s, Canada has hosted a disproportionately high incidence of poorly paid jobs. A recent study showed that, between the similarly affluent nations of France, the UK, the US, Denmark, the Netherlands and Germany, the highest incidence of low wage among employees in 2005 was in the US and Germany, both at 23% of all employees.²⁰ Two years later, the OECD noted that 22% of all Canadian workers earned low wages (defined as two-thirds or less of median earnings).²¹ Statistics Canada has shown that one out of seven full-time workers held low-wage jobs in 2004, and that proportion reached 20% in 1996, after years of economic deterioration.²²

Between 2000 and 2008, the proportion of jobs at the minimum wage or less²³ grew, from 4.7% of all jobs to 5.2% — representing more than three quarters of a million workers.

The labour markets of five provinces — PEI, Nova Scotia, Quebec, Ontario and Manitoba — have seen a growing proportion of jobs at the minimum wage. Ontario saw the biggest rise, with minimum wage jobs increasing from 4.6% to 6.6% of the job market in the past nine years.²⁴

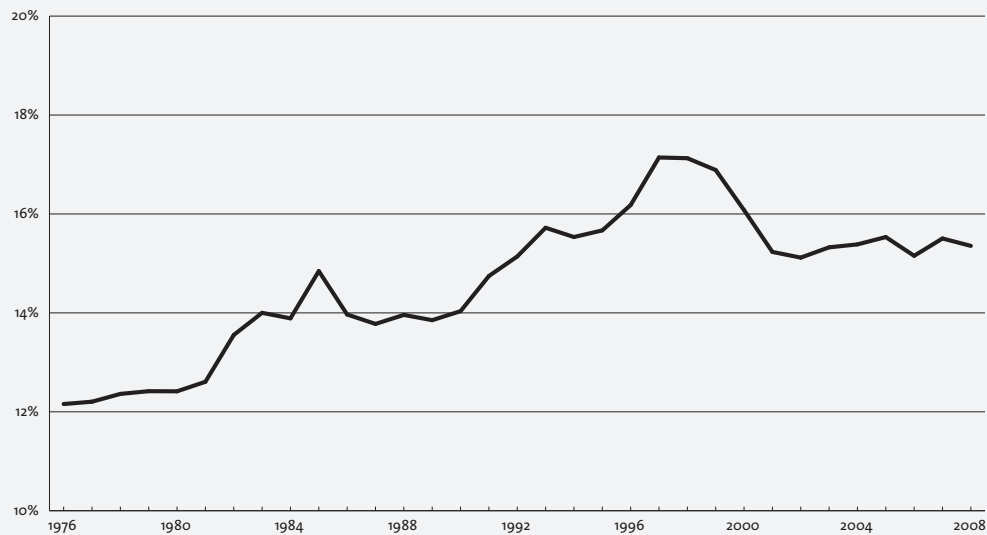
Women make up 60% of the labour force paid at the minimum wage or lower. Though most of those working at minimum wage jobs are young, almost four out of 10 minimum wage jobs were held by Canadians over the age of 25 in 2007, and the share of minimum wage jobs for workers aged 55 and older is rising.

Low-paying jobs at or near the minimum wage are likely to make up a rising proportion of the labour market in the coming months, as businesses respond to falling demand and shed jobs, many at higher paying positions in production and services.

SELF-EMPLOYMENT OR BUST

The biggest labour market transformation in the wake of the 1981–82 recession was the dramatic loss of full-time jobs and a growing share of part-time employment. The biggest labour market transformation in the wake of the 1990–91 recession was the growth of self-employment, a response to the decisions of large private and public enterprises to permanently dismiss whole categories of workers from 1990 to 1996.

CHART 14 **Self-employment at high level, set to rise in recession**
Self-employment as share of all employment, Canada, 1976–2008



Source: Labour Force Historical Review 2008 Catalogue No. 71F00041XCB

Self-employment has been one way for people to adjust to the new realities of fewer employment opportunities in both previous recessions. There is a growing taste for, or tolerance for, self-employment. But rates of self-employment tend to decline in periods of recovery.

We have entered this recession starting from a high “base” level of self-employment, with more than one in six jobs (15.5%) created through self-employment. This is likely to climb significantly, both because of the recession and beyond, as a function of demographics. An unusually healthy and active cohort of 60- and 70-somethings and labour shortages are combining to compel many retired workers to continue work by picking up consulting contracts. Many younger unemployed workers will be competing for these contracts in the coming years.

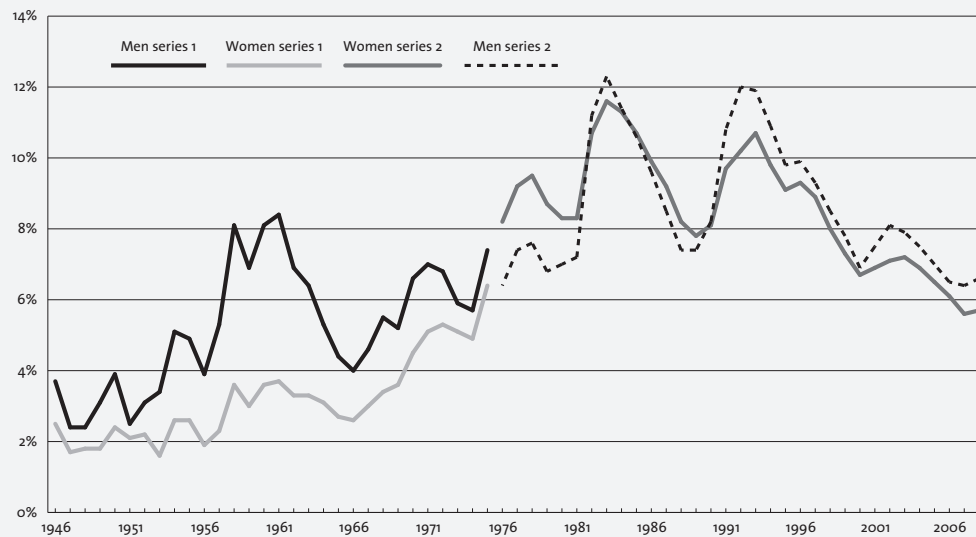
THE BEST SOCIAL POLICY

It has been said that the best social policy is a job. Such aphorisms are tested at times like this.

The full force of this recession has not yet hit. The first round of job loss was in manufacturing and commodity production — mostly male dominated. The next wave of cuts, as households and businesses cut discretionary spending, will likely hit more service-sector jobs — mostly female dominated.

Before the 1970s, women workers had lower unemployment rates than men, partly because more women were either opting to work or opting out of the labour market altogether. In the 1970s the influx of young, educated female boomers onto the job

CHART 15 **Male and female unemployment rates have converged**
Canada 1946–2008



Sources: Statistics Canada Catalogue No. 11-516-X, Series D146-159 and Labour Force Historical Review 2008 Catalogue No. 71F00041XCB

market pushed unemployment rates up ahead of men's. By the 1980s, male and female unemployment rates started to converge. Both needed to work and both were equally affected by the business cycle. The big difference that kept women more tied to the labour market, and consequently with a slightly lower rate of unemployment, was women's lower pay.

Lower incomes mean lower savings and lower rates of benefits while jobless. That keeps many Canadians hopping from one low-paid job to the next. The relentless downward pressure on wages that is currently unfolding will have long-term consequences, not just for the working poor but the majority of workers.

The jobs that are disappearing are relatively better paid. The ones that will remain, or may be added, are lower paid, and will face significant pressures to continue to freeze or cut pay and benefits. Some of the jobless will have savings to tide them through, but many households are already in debt. The jobless need a system of income supports to see them through, but what Canada has in place now won't do the trick. We created what was needed before, so how did we do it?

A Short History of Jobless Benefits

THE HISTORY OF THE unemployment insurance system tells a simple story — governments can build income protections into the system at any time, and they can take it apart at any time. Protections can be enhanced and resources found to support and sustain such improvements, in good times and in bad. Protections can also be removed, with or without the excuse of resource constraints.

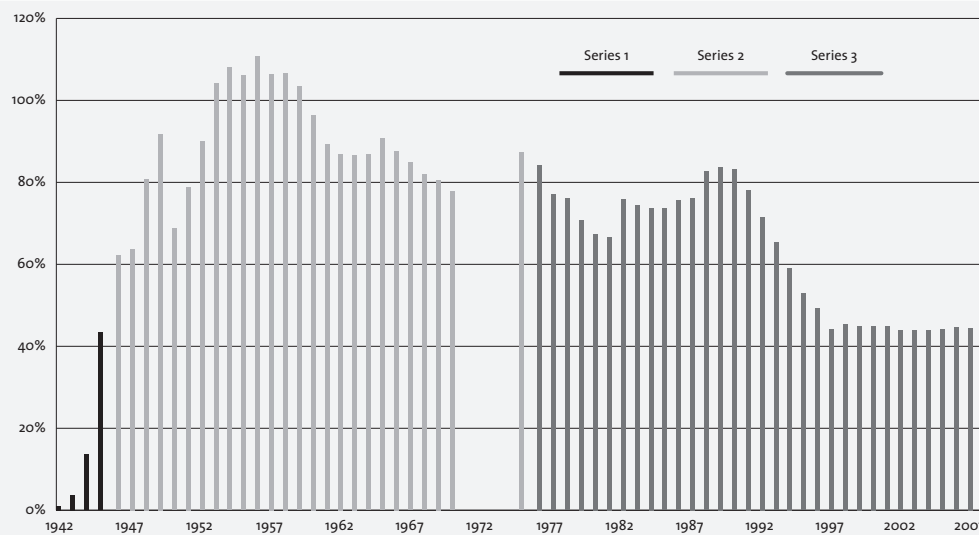
During the Great Depression, 1.5 million people relied on relief, out of a population of about seven million. That means roughly one in five people turned to their local governments for help, with uneven results. Though this was clearly not a local problem requiring a local solution, it took over a decade to design a system of social insurance that pooled risk and provided income replacement during periods of joblessness. A national Unemployment Insurance program came into force in 1942 in Canada, more than a decade after the collapse of the job market, but in time for Canadian soldiers returning home from the Second World War.

Initially the UI system insured less than half the workforce (42%), but it grew dramatically in the 1950s and again in the early-1970s.²⁵ However, benefits and eligibility were scaled back by the end of the 1970s, and dramatically cut in the early-1990s.

BUILDING A SYSTEM

The 1940 Act set out different benefit rates for singles and for the unemployed who were supporting dependants. The benefit schedule was also based on seven different income classes — the lowest paid workers could replace 63% of their previous earnings, while the highest paid workers would receive 37%.²⁶ The first sets of reform came

CHART 16 Proportion of unemployed with no jobless benefits has not been this low since 1945 UI recipients* as % of unemployed, Canada 1942–2008



*In receipt of regular benefits.
Sources: Statistics Canada²⁸

in the 1950s, adding two new income classifications, upgrading benefits (which, on average, provided a benefit rate of 50% across all categories) and extending benefits to other classes of workers. This round of reforms was notable, since the number of Canadians in receipt of benefits exceeded the number of unemployed. That is because reforms included provision of supplementary benefits for those who did not qualify for regular benefits and self-employed fishermen, permitted earnings of up to 50% of benefits without penalty, and extended benefits for those who became ill (and consequently not in the labour force). Maximum benefit levels were adjusted to reflect higher wages, and the duration of benefits was extended to 52 weeks.²⁷

The reforms of 1971 similarly broadened the scope of the insurance scheme, adding maternity, sickness and disability, and retirement benefits to the mix. Only workers over the age of 70 and the self-employed who were not in the fishing industry fell outside the reach of the program, making it a near universal social insurance system for workers. The 1971 reforms also eliminated the income classifications, setting benefit rates at 66.67% of earnings up to a maximum of \$100 a week for singles; a minimum benefit of \$20 a week; and a benefit rate for the unemployed with dependents of 75% of insurable earnings, up to the maximum, a rate which was also extended to low-income earners. As a point of reference, the maximum benefit of \$100 a week today would translate to about \$555 a week — more than \$100 more than the current maximum. In 1971 the minimum eligibility criteria to access benefits was eight weeks of insurable earnings.

By 1975, the 75% dependency rate was eliminated, bringing benefits to a standard two-thirds replacement rate on insurable earnings, up to a maximum. In 1977, a vari-

able entrance requirement (VER) of 10 to 14 weeks was introduced, dependent on the rate of unemployment in the region. By 1979, the qualifying weeks ranged from 10 to 20 weeks, and a person experiencing more than one spell of unemployment in the previous year needed an additional six weeks of insurable work on top of the VER for their area. By 1979, as well, the benefit rate had fallen to 60% for everyone.

The administrative data base for the early-1970s is not available, but given the reforms noted above it can be assumed that the proportion of unemployed who would have been able to collect UI payments in the early-1970s would have been even higher than the 80% or more who did so throughout the 1960s.

A generous unemployment system in the 1950s and 1970s undoubtedly staved off the worst of a recession. Rising numbers of the unemployed did not trigger sharp cutbacks in domestic purchasing power. As shown earlier in this paper, this was critical given the importance of consumption to the macro-economy: consumers accounted for roughly 65% of GDP in the 1950s, and 58% in the 1970s.

The 1980s brought enormous changes to the labour market, and a shift from Monday to Friday, nine-to-five jobs to increasing use of part-time and just-in-time labour. Social policy was focused more on labour “adjustment”, mostly training — as well as constitutional matters and free trade issues — than reforms to so-called “passive” systems of income support. During the 1981–82 recession, three-quarters of the unemployed were in receipt of regular benefits (excluding parental and sickness benefits, etc.), and this number climbed throughout the decade, as the recession dragged on and long-time employees lost their jobs.

TAKING APART A SYSTEM

By 1990, as the next recession unfolded, 83% of the unemployed were in receipt of regular UI benefits. But that was the first year of four rounds of change to the UI system, which tightened eligibility, duration, and rates of benefits.²⁹

In 1990, the federal government pulled out of the funding of unemployment insurance, leaving a multi-billion dollar hole. That led to increased premium rates for employers and employees alike, just as a profound recession gripped the labour market. Changes to the Act eliminated access to extended benefits category and reduced the duration of benefits for all but those living in the highest unemployment areas.

In 1993 those who quit or who refused to accept suitable employment became ineligible for benefits.

The 1994 reforms reduced the benefit rate to 55% of insurable earnings, raised the bar for minimum entrance qualifications in regions with the highest unemployment, and imposed the same qualification rules for self-employed fishers.

The 1996 reforms shifted the basis for calculating eligibility from weeks of work to hours and created new “intensity rules”, dropping benefit rates to 50% for people who had received more than 20 weeks of benefits in the previous five years. The conversion of eligibility criteria from weeks to hours could have been a good thing,

TABLE 3 Hours Needed to Qualify for E.I. in the Last 3 Recessions
In a region with 8 to 9% unemployment

Early 80s Recession	Early 90s Recession	2008–09 Recession
165 hours (11 weeks at 15 hours a week)	255 hours (17 weeks at 15 hours a week)	595 hours

particularly for people working two or more part-time jobs to make ends meet. But the bar was dramatically raised on minimum time requirements for eligibility, while workers were obliged to pay into the fund at a much lower threshold — from the first hour worked.

Under the old formula, which was actually based on number of weeks worked, Canadian workers required an equivalent of 300 hours of paid work to qualify for benefits in the event of unemployment. The new rules required between 420 and 910 hours of paid work to qualify, depending on where you live in Canada and the unemployment rate in that region at the time of filing your claim. On the premium side, the new rules made workers pay premiums from the first hour. Before the EI changes in 1996, those who worked less than 15 hours a week didn't pay premiums.³⁰

This resulted in an infusion of revenues, without a commensurate measure to increase the flow of benefits. Part-time and seasonal workers found themselves increasingly likely to pay more into a fund that they were increasingly unlikely to be able to access for help.

The Canadian Labour Congress has calculated the equivalent eligibility thresholds facing the unemployed in the previous two recessions, compared to today. At a glance it tells the story of how the reforms of the 1990s made qualifying for EI more difficult.

Between 1990 and 1997 the proportion of the unemployed who received jobless benefits was cut in half, to 44%. It has hovered around that level since then. Not since the Great Depression have unemployed Canadians been so unprotected in the face of a recession.

As the legislative changes of the early-1990s took hold, the male/female differential in accessing jobless benefits virtually disappeared. Once again, though, today's unemployed women are less likely to get access to jobless benefits than unemployed men in Canada. That is because the reforms of 1996 hit part-time and casual workers harder than full-time workers, and women are more likely to be employed in such categories of work.

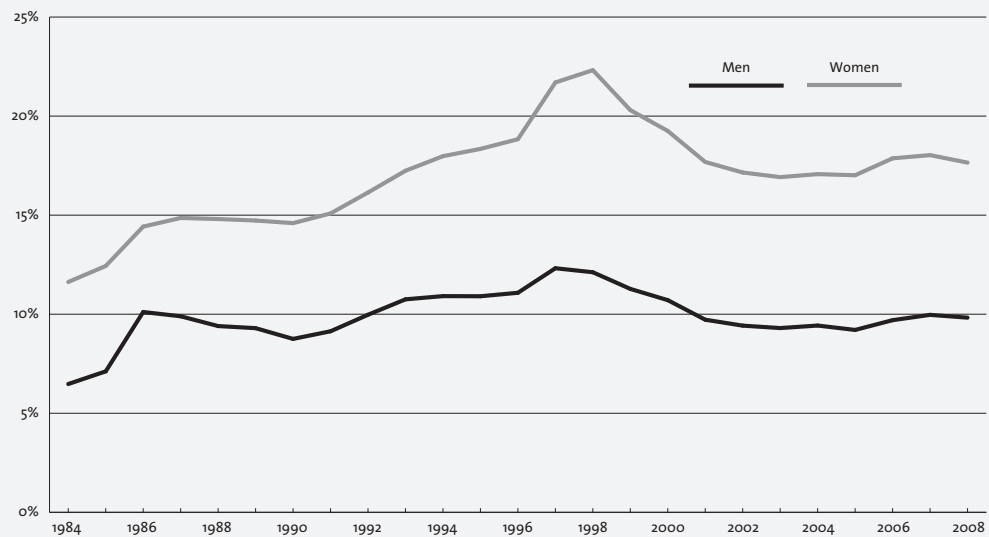
Table 3 tracks beneficiaries of regular benefits as a proportion of the unemployed. It includes people who supplement their benefits with earnings. Since the 1950s, the Act has permitted beneficiaries to supplement low levels of benefits with paid work. Today, the jobless can earn up to \$75, or up to 40% of their weekly benefits, without penalty.

CHART 17 % of unemployed men and women in receipt of regular benefits* has plummeted since 1990



*Includes those with earnings.
Sources: Statistics Canada, CANSIM series 276-0001 and Labour Force Survey Catalogue No. 71F00041XCB

CHART 18 Women supplement jobless benefits with some paid work more often than men



Sources: Statistics Canada, CANSIM series 276-0001 and Labour Force Survey Catalogue No. 71F00041XCB

When benefit levels were cut to 55% of insurable earnings, there was a rise in the proportion of people supplementing their weekly cheques with some earnings. Women are more likely to do so, because their lower pay leads to lower benefit levels.

Only 10% of men report earnings while drawing benefits. That number climbs to almost 20% for women. In other words, income supports are so low that Canadians

have to find something else to survive. That accentuates the downward pressure on wages that already exists in this climate.

NOT ENOUGH SHELTER FROM THE STORM

In 2008, only four out of 10 unemployed men (40.8%) relied solely on jobless benefits to pull them through. Less than a third (32.6%) of unemployed women found jobless benefits available and sufficient to pull them through to their next job. That's just not good enough for us to weather this storm.

Jobless Canadians are exposed to economic risks when

- a) They are self-employed (about 15.5% of the labour market is in this category);
- b) They don't meet entrance requirements, particularly insufficient hours of work; or
- c) They've run out of benefits while still looking for work.

Extension of the duration of benefits by five weeks is a welcome reform introduced by the 2009 Federal Budget, as is an increase in funds to train an additional 10,000 unemployed Canadians. However, these modest and temporary measures — scheduled to expire on September 11, 2010 — are insufficient to meet Canadians' needs in the coming months, particularly in terms of income supports.

Similarly, the government has recently taken welcome steps to increase the speed with which the jobless who are entitled to benefits start receiving their cheques, by investing \$60 million to increasing the number of workers processing the claims. This comes in the wake of budgetary announcements outlining \$311 million in cuts through "Strategic Review Savings" in the public service.³¹ More action is needed to prepare for the difficult times ahead.

Conclusion

CANADA MAY HAVE COME LATE to the global recession, but the economic downturn is hitting the country with a force that is unparalleled in post-war economic history.

This recession has several things in common with the two biggest downturns in post-war history — the recessions of 1981–82 and 1990–91 — but there are also important, and troubling, differences: record high levels of household debt, personal savings rates as low as they were in the late-1930s, and a massively stripped system of income supports for Canada’s jobless.

Not since the Great Depression have unemployed Canadians been so exposed to the full force of recession and economic calamity.

The Canadian economy is intertwined with the American economy, and without doubt a full recovery won’t occur until global markets and commodity prices start rebounding. But Canada won’t emerge from this recession any time soon if the primary strategy is to ride the coat tails of other economies.

Everyone is in the process of re-balancing their books. Deleveraging is both healthy and necessary for the long-term economic viability of individual households and businesses, here and elsewhere. But that means exports are not likely to rebound anytime soon, and spending will be cut by both businesses and consumers in Canada too. This leaves governments as the only remaining actors that can stimulate the economy and shore up tepid consumer confidence while we await global recovery. Governments also need to prepare for the next, inevitable phase of economic expansion.

What Canada does domestically will be critically important on a number of fronts.

The infrastructure base on which communities and businesses thrive was primarily built through public investments half a century ago, in the 1940s, 1950s and 1960s. For much of the last two decades governments have under-invested in the repair and maintenance of this foundation for success, and it shows. This recession provides a unique opportunity to rebuild capacity and energy efficiency in physical infrastructure (such as repairing and extending transportation, energy, and water systems) and human infrastructure (such as improving our systems of care and learning). Without such investments, Canadians will face critical shortages in the coming years, crippling future potential.

Public policy has also emphasized ownership of housing and largely ignored the issue of affordability. This has been a root cause of the current crisis and still poses a serious challenge for many households today in Canada. Addressing the issue of affordable housing is the primary public policy lever governments can use to tackle the structural problem of rising household debt.

Providing more credit may prove to be beneficial temporarily, but cannot provide a fix to an economic landscape that will be marked by continued downward pressure on wages and benefits and the intensification of short-term, insecure job opportunities as we move through this recession. If previous recessions are any guide, these changes will have a lasting legacy on the job market. Household incomes, markedly polarized before the recession began, are about to get more polarized, as they do in every recession, creating many potential problems going forward.

At some point policy-makers will have to discuss what kinds of jobs can sustain livelihoods in the future. But the immediate task at hand is to prevent Canadians suffering the worst from recession. The federal government's first priority today has to be economic stability, not growth. To achieve this, Canadians need a solid income floor on which to stand in the event of joblessness. After being gutted by four rounds of "reform" in the early 1990s, the Employment Insurance system is in immediate need of repair.

There is widespread consensus across the political spectrum that that the Employment Insurance Act should be changed to make the entrance requirements uniform across the country and reduce the eligibility threshold to 360 hours.

There is also serious concern that a 55% benefit rate is too low a rate of income replacement for too many Canadians. This is a critical issue for the most economically vulnerable — low-wage earners, particularly those with dependents. But it is also an issue for the middle class. Maximum insurable earnings were \$42,300 in January 2009, resulting in a maximum weekly benefit of \$447. This is less than the maximum benefits of the 1970s, when inflation is taken into account. The purpose of counter-cyclical income supports is to provide automatic stabilization of the system. To provide this, income supports must maintain a significant level of purchasing power.

Finally, the rising proportion of self-employed presents particular difficulties for policy-makers. Here the challenge may be less income-oriented and more focused on ensuring that Canadians are able to stay in their homes and apartments in times

of economic insecurity, possibly through better access to rent banks, more rent controls or eased terms of refinancing mortgages.

Improvements in access to training and jobless benefits will not negate the profound transformation of the labour market that is likely to occur in the coming months, but both can ease the human and economic costs of this crisis and reduce the depth of the downturn.

It is widely anticipated that there will be hundreds of thousands more Canadians thrown out of work in the coming months, adding to the almost 1.5 million already unemployed.

There is no time to waste in bringing these changes forward.

Notes

¹ Phillip Cross, Tracking the Business Cycle: Monthly Analysis of the Economy at Statistics Canada, 1926–2001, *Canadian Economic Observer*, December 2001, Statistics Canada Catalogue no. 11–010-XPB notes the following recessions in Canada, measured by a broad set of indicators including real GDP per capita and employment:

June 1929 to February 1933; December 1937 to June 1938; September 1947 to March 1948; February 1949 to July 1949; June 1951 to December 1951; April 1953 to April 1954; April 1957 to January 1958; February 1960 to March 1961; March 1970 to June 1970; January 1975 to March 1975; February 1980 to June 1980; July 1981 to October 1982; April 1990 to April 1992

These recessions generally started earlier and ended earlier than recessions in the US of roughly the same period. At least two Canadian recessions (that of 1947/48 and that of 1951) do not coincide with American downturns. The recession of the 1970s was markedly longer in the US than Canada. The recession of the 1990s was markedly longer in Canada than the US.

The US recessions, defined by the National Bureau of Economic Research (NBER) are noted as:

October 1926 to November 1927; August 1929 to March 1933; May 1937 to June 1938; February 1945 to October 1945; November 1948 to October 1949; July 1953 to May 1954; August 1957 to April 1958; April 1960 to February 1961; December 1969 to November 1970; November 1973 to March 1975; January 1980 to July 1980; July 1981 to November 1982; July 1990 to March 1991.

A Bank of Canada working paper references two additional recessionary periods in Canada: all quarters of 1957, and second quarter 1974 to first quarter 1975. The definition of recession is not specified. Joseph Atta-Mensah and Greg Tkacz, *Predicting Canadian Recessions Using Financial Variables*, Ottawa: Bank of Canada, Working Paper 98–5, April 1998

2 For GDP from 1926 to 1976, annualized data: Statistics Canada Historical data series, Catalogue No 11–516-X. Series F33–55, Gross national expenditure in constant (1971) dollars, by components, 1926 to 1976.

For GDP from 1961 to date, annualized and quarterly data: Statistics Canada Catalogue No. 13–109-X; *National Income and Expenditure Accounts Data Tables*, Data tables 3 and 4

3 Remarks by the Parliamentary Budget Officer (PBO) To the House of Commons Standing Committee on Finance, 40th Parliament, 2nd Session, Wednesday, March 25, 2009 http://www2.parl.gc.ca/Sites/PCO-DPB/documents/FINA_testimony_090325.pdf

4 Slater, David W., *War Finance and Reconstruction*, Ottawa, January 1993, p. 11

5 *Ibid.*

6 A Bank of Canada working paper references three additional recessionary periods: all quarters of 1957, second quarter 1960 to first quarter 1961, and second quarter 1974 to first quarter 1975. However Statistics Canada data from either historical series of the system of national accounts does not show continuous decline in real GDP over these quarters. The definition of recession is not specified. Joseph Atta-Mensah and Greg Tkacz, *Predicting Canadian Recessions Using Financial Variables*, Ottawa: Bank of Canada, Working Paper 98–5, April 1998

7 Peters, Douglas D. “Fallacies and Detriments of a Zero Inflation Policy” in *Taking Aim: The Debate on Zero Inflation*, Ed. Robert C. York, C.D. Howe Institute Policy Study 10. p.118

8 According to Statistics Canada’s Labour Force Survey, between August 2002 and February 2009 there were 534,200 fewer jobs in Canada’s manufacturing sector.

9 Seasonally adjusted employment figures, from Statistics Canada’s Labour Force Survey.

10 The U.S. shed 598,000 jobs in January, 610,000 jobs in February, and 663,000 jobs in March. Canada shed, respectively, 129,000; 82,600; and 61,000 jobs. If applying the 10:1 rule of thumb ratio (which roughly reflects the U.S.:Canada difference in size of economy and labour market) Canada shed proportionately more jobs than the U.S. in the opening months of 2009. It appears in these opening months that the job loss is diminishing. The same thing occurred in both the 1981–82 and 1990–91 recessions, with job losses ultimately accelerating over time.

11 Heather Scofield, “TD predicts 10% unemployment rate”, *The Globe and Mail*, March 12, 2009

12 Statistics Canada, *Labour Force Historical Review*, 2008 Catalogue 71F0004XCB, Table CD1To1an

13 Statistics Canada measures personal savings rate as the net change in the value of assets of households and unincorporated businesses divided by the disposable income of these entities. The annual change in savings thus measured is driven by both the amount of disposable income which is put aside each year, and changes in the value of the assets held by households and unincorporated businesses, including changes in the market valuation of holdings of real estate and equities.

14 Savings rates decline as populations age, as retirees draw down on their nest eggs. In addition, interest rates have declined since the 1980s, and consequently so have rates of returns

on investments, the income flow that comes from savings. Nonetheless, the graph shows troubling trends, particularly given that these are average savings rates, and that the distribution of both income and wealth has become more concentrated in the upper ends of the income distribution — leaving middle and lower earning households less able to save.

15 Roger Sauvé, *The Current State of Canadian Family Finances 2008 Report*, Ottawa: Vanier Family Institute, January 2009, pp. 11–13.

16 Office of the Superintendent of Bankruptcy Canada, *Insolvency Statistics in Canada*, Ottawa: Industry Canada, January 2009 and February 2009.

17 <http://www.statcan.gc.ca/c1996-r1996/may12-12mai/4239709-eng.pdf>

18 <http://www12.statcan.ca/english/censuso6/data/topics/RetrieveProductTable.cfm?Temporal=2006&PID=94596&GID=614135&METH=1&APATH=3&PTYPE=88971%2C97154&THEME=81&AID=&FREE=0&FOCUS=&VID=0&GC=99&GK=NA&RL=0&TPL=RETR&SUB=0&d1=1&d2=2&d3=0>

19 In New Brunswick the figure is 79%, based on a comparison of the hourly wage of all male and female paid workers.

20 Weimer Salverda, *Low Wage Labour, A European Perspective*; May 9 2008, Presentation to an Institute for Public Policy Research (UK) Conference, “Working out of Poverty” www.ippr.org.uk/uploadedFiles/events/2008/Wiemer_s%20slides.ppt

21 OECD Employment Outlook 2007, *How Does Canada Compare?* <http://www.oecd.org/dataoecd/26/47/38796257.pdf>

22 Statistics Canada, *Low Wage and Low Income*, Income Research Paper Series, Catalogue no. 75F0002MIE — No. 006, Ottawa: 2006.

23 Canadians working on contract, at piece work rates, or in family businesses can earn less than the minimum wage.

24 Philippe Gougeon, “Minimum Wage”, *Perspectives on Labour and Income*, Catalogue 75-001-X, Vol. 10, No. 1, Ottawa: Statistics Canada, January 2009

25 Data regarding unemployment insurance benefits come from two historical series of data from Statistics Canada — originating in administrative data. These data were not available for certain years in the early 1970s. Information regarding the proportion of the male and female jobless population in receipt of benefits is from unpublished tables from Statistics Canada, also based on administrative data.

26 For information about benefit rate changes until the 1970s, see Leslie Pal, *State, Class and Bureaucracy: Canadian Unemployment Insurance and Public Policy*, Montreal: McGill-Queen’s University Press, 1988.

27 Zhengxi Lin, *Employment Insurance in Canada: Policy Changes*, Statistics Canada, Catalogue 75-001-XPE, *Perspectives*, Summer 1998

28 For those in receipt of unemployment insurance benefits, 1942–1970, Statistics Canada E166–171, from 1976 to date, Statistics Canada CANSIM Series 276–0001. For number of unemployed, 1942–1945, Series 1 (1926 to 1960) from Statistics Canada Catalogue No. 11–516-

X, Series D124–133; Series 2 (1946 to 1976) from Statistics Canada Catalogue No. 11–516-X, Series D146–159; and Series 3, since 1976, from Labour Force Historical Review, 2008 Catalogue 71F0004XCB, Table CD1T47sa.

29 Two sets of legislative reforms by the Conservatives, Bill C-21 in 1990 and Bill C-113 in 1993; and two sets of legislative reforms by the Liberals, Bill C-17 in 1994 and Bill C-12 in 1996. The first set of reforms, Bill C-21, removed federal contributions to funding of the UI system. Only one other industrialized nation — the U.S. — did not rely on tri-partite funding of social insurance for the jobless. The last set of reforms, in Bill C-12, converted weeks worked into hours worked entrance requirements, and required payment of premiums from the first hour worked; measures that disproportionately impacted women and newcomers.

30 See Armine Yalnizyan, *Canada's Commitment to Equality: A Gender Analysis of the Last Ten Federal Budget (1995 to 2004)*, Ottawa: Feminist Alliance for International Action, 2005.

31 *Canada's Economic Action Plan*, Budget 2009, p.274. Ottawa: Department of Finance, January 27, 2009. The Minister of Human Resources and Skills Development, who is responsible for the administration of the EI system, announced \$60 million to hire more claims administrators and improve automated systems on March 23, 2009. Bill Curry, "Finley to spend \$60 million on additional EI staff", *The Globe and Mail*, March 24, 2009.