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WATERSHED MOMENT OR WASTED OPPORTUNITY

# RECESSION, RECOVERY AND TRANSFORMATION: REVISITING THE ROLE OF GOVERNMENT

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It is an honour to be part of this panel, flanked as I am by two players who spent years at the centre of the political game: Tom Flanagan, a political scientist who helped plan and shape the rise of the New Right in Canada; and Alex Himelfarb, who became Canada's top public servant, Clerk of the Privy Council, on the merit of decades of exemplary service irrespective of the politics of the party in power.

My perspective on the role of the state comes not from the study or practice of politics, but from my understanding of the world as an economist. Tonight I hope to show how the events leading to and following what has been dubbed the Great Recession of 2008 illuminated a clear path for the role of government. This path was initially pursued, but now the Government of Prime Minister Stephen Harper has forged ahead on an altogether different trajectory, one heavy with military and security spending — while preaching austerity — and, more subtly, changing the way Canadians collect and share information in society, particularly official information. This path has far-reaching consequences for both prosperity and democracy in the coming years.

In the following moments I will focus on the significance of this recession, the nature of the emerging recovery, the challenges ahead, and how these factors could or should shape the role of government.

This has certainly not been a “routine” business cycle, before, during or after the downturn.

Before the recession hit, the Canadian economy was riding high, cresting on a rare decade of sustained and rapid growth. By 2005 our relatively small nation had become the ninth largest economy in the world. Between 1997 and 2007 Canada's job creation track record outpaced that of any other G8 nation. Unemployment rates had dropped to levels last seen in 1972. Stubbornly high poverty rates had started to come down. Median incomes had finally started to inch above levels established 30 long years ago. Darker themes were also present and growing in the era of easy money and tax cuts, as we would soon see. But, going by these

particular indicators, you could be forgiven for saying this is as good as it gets.

Then along came the financial market meltdown of 2008, a contagion that spread from Wall Street to Main Street, pulling the global economy off a cliff, and Canada with it.

Starting in October 2008, almost half a million permanent and full-time jobs vanished from the Canadian job market in six short months, the fastest and deepest contraction in seven decades.

The recession came on the heels of two decades of policy changes that systematically favoured market-based solutions and reduced government intervention. Notably Canada did not weaken its system of financial regulation—and our cautious nature, at least in comparison to our American confreres, proved to be a real boon later on. But we pursued many of the same objectives as our neighbours to the south. Increasingly free trade, cuts to income supports, deregulation, and privatization were the orders of the day.

The result of this massive shift in the purpose of the state was that ordinary Canadians, suddenly faced with the most brutal recession since the Second World War, were also more exposed to the economic risks associated with joblessness than at any time since the Second World War.

By late 2008, as the economic storm descended on Canada, less than half of our unemployed received jobless benefits; and household savings rates were at levels last seen in 1938. Household indebtedness was breaking historic records, with the average Canadian household owing \$1.40 in debt on every dollar of income, even before the crisis hit. It has risen since.

It really looked like we might be in for a modern-day remake of the Great Depression, until governments stepped in.

Central banks around the world quickly collaborated to thaw the credit freeze. Free-flowing cash once again lubricated the gears of the global supply chain. Canada, along with the US, kept the Big Three auto-makers in operation with multi-billion dollar loans. The federal government, through CMHC, bought over \$69 billion in mortgages from Canadian banks, just to keep them lending. Finally the stimulus package in January 2009's federal Budget provided more tax breaks, conditional spending on infrastructure, and some modest but temporary changes to EI.

The role of the government was critical to stopping the economic free-fall and stabilizing the system. By the summer of 2009, the Canadian labour market had stopped hemorrhaging jobs. Housing prices didn't collapse in Canada, exports slowly picked up pace, and GDP was skipping along by the first quarter of 2010. By then, corporate profits before taxes—which had been cut in half—were almost 3/4s of their former peak, and continue to rise. The stock market is only 14% off its pre-recession level.

Last month the total number of Canadians with some kind of work was within striking distance of pre-recession levels. The Government reported just days ago that it may be back in the black long before its own budget plan.

The Great Recession was scary but, we are told, over. So what did we learn from the experience?

Unfortunately, the triggers that led to the crisis are all still alive and well and living in Canada: over-leveraging, by investors and households alike; insufficient and ineffective regulation in many areas; and the endless shifting of risk.

The most rapid growth in employment opportunities since the recession began has been through temporary

work (by which I mean term or contract positions, seasonal work, or casual employment) and the expansion of self-employment. It is not clear if these jobs are a stable platform for recovery in the labour market. Indeed, just today we learned that 139,000 full-time jobs disappeared from the job market between June and July, a significant chunk of the 400,000 jobs created thus far during recovery.

Nonetheless, the current federal Government believes it is time to get out of the way of the economy and focus on its “real” job, tackling the deficit. Time for business as usual.

But the business environment is a little more ferocious than usual. The wave of corporate consolidations that is sweeping markets all around the world is far from over. Sectors as diverse as mining, banking, media, manufacturing and retail are seeing a shake-out of global proportions, with fewer players than ever calling the shots. Here in Canada, the Davids are being squeezed out of a landscape where only Goliaths can survive, a cut-throat landscape marked by high-stakes and low-prices. Businesses we’ve always thought of as recession-proof, such as grocery chains, are offering their unionized workers a 25% pay-and-benefit cut for the privilege of continuing to have a job.

Given these facts, pre- and post-recession, what should be the role of government now?

I suggest there is ample evidence to say, when it comes to the role of the government, yesterday’s *modus operandi* wasn’t even good enough for yesterday’s good times, let alone tomorrow’s bad times. Why? It didn’t prevent a recession, and will not prepare us for the challenges ahead. Business as usual is not enough.

The difficult task of preparing for tomorrow starts by looking beyond the business cycle and fixing our sightlines on three challenges of enormous consequence—an aging society, climate change, and rising inequality. All three are transforming and will transform society.

Not unique to Canada by any means, the grey tsunami, environmental degradation, and a growing gap between the rich and the rest of us threaten the status quo economically, ecologically and politically and will make us more ill, individually and collectively, if not addressed.

Simply put, these challenges threaten our well-being. They demand response by government in *anticipation* of these threats, not after the fact. The primary role of government is, after all, the duty to protect, and not just from external threat from abroad. Indeed, these are threats of our own making.

Some people will be able to protect themselves from these problems. To rephrase Scripture, the rich will always be with us. But these challenges will affect Canadian society in its entirety over the next decade or so. And, at least in my view, it is the government’s duty to represent all members of its society, not just those who can best take care of themselves.

Over the arc of history, developed nations have transformed this duty into the welfare state. Everywhere the welfare state was established on the foundational principle of full employment, and advanced as more of the population joined the paid workforce.

Unemployment rates are higher today in Canada than they were in the 1940s, 50s and 60s, but more people per household are working today. In fact, Canadians, particularly young families and recent immigrants, are pedaling as fast as they can—but are not getting ahead as did their predecessors. This generation of workers is better educated and working longer hours than their counterparts a generation ago. Yet, 40% percent of Canadian households raising children have lower earnings than such families a generation ago. Furthermore, the bottom 70% of families raising children are taking home a smaller share of total earnings than a gener-

ation ago. Meanwhile, the top 10%, and in particular the top 1% of the income distribution, have never had it so good. The past decade of blockbuster growth delivered a concentration of incomes, wealth and power which bring to mind a return of the Gilded Age, complete with robber barons and the wishful mentality that anyone can strike it rich. Where is Horatio Alger when you need him?

While many people think the best social policy is a job, the sad truth is that, even in our affluent country, working full-time and full-year does not necessarily lift you out of poverty. Now even the middle class, for whom all politicians express such solidarity, is looking over its shoulder.

That's because good wages, pensions, and healthcare benefits are increasingly framed by business as unaffordable luxuries that hurt the bottom line; and few governments disagree. Suddenly the middle class worth nurturing is not the one we already have, but the ones developing in emerging economies. Meanwhile, questioning multi-million dollar bonuses for corporate executives is viewed as bad form, or an ill-considered critique of the free market system.

A recovery is underway alright, but for reasons both in this country and around the world, it does not yet look like a trajectory that leads to economic stability or security.

Given the facts, pre- and post- recession, we should all be asking a rather basic question: For whom is the economy to be managed? And what is the role of the government in this process?

An economy is a marvelously complex social contrivance. It is a means for the betterment of the welfare of the citizens who animate it. It is not an end in itself. Economic growth without widespread prosperity is simply not a business-as-usual track worth getting back onto.

If balanced budgets are seen as the primary priority of this government, as suggested by the Prime Minister and his Finance Minister, the books will be balanced by not replacing public sector retirees and cutting back on programs. It's a gamble whether the private sector will fill the breach, with decent jobs or services.

Thus far my comments about the role of the government have been roughly synonymous with the role of the *federal* government.

Of course, in Canada as elsewhere, our governance structures are complex and interlocking. We elect federal, provincial and municipal governments. And civil society also relies on robust and well-governed community-based organizations, voluntary associations and businesses.

But in this mix, the federal government is the alpha dog. It sets the tone. It influences the distribution of power and voice, through military spending for external threats, and systems of justice and policing for internal threats.

It must be emphasized that no single government of the day determines the "role of government", at least not in a modern democracy.

The role of government is defined by the combined effect of all our opinions, not as experts but as citizens, and our expectations of our various institutions of power, both elected and unelected.

Indeed, that is what we are witnessing in an unexpected show of political ardour over the nature and significance of the Harper Government's decision on the Census...which you will note I cunningly avoided mentioning until now.

The census decision is a metaphor for something much bigger than the role of statistics in society. I am still

struggling to define what that metaphor is.

But, without question, if the Government goes through with its decision to end the mandatory long-form census questionnaire, it will reshape the way decisions can and will be made by all levels of government, and the private sector as well.

So it's not surprising that the decision has sparked a vigorous debate, a debate that itself contributes to the shape and evolution of the role of government.

If information *is* power, the final outcome of the census debate will have a real impact on how Canadians are able to participate in their own democracy.

But for now, I look forward to the debate this panel has triggered.



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