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Close Encounters of the 'Thirties' Kind

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"Progress, far from consisting in change, depends on retentiveness. When change is absolute…no direction is set for possible improvement: and when experience is not retained…infancy is perpetual. Those who cannot remember the past are condemned to repeat it."

Georges Santayana, The Life of Reason, 1906

Introduction

Many commentators and pundits are making comparisons between the great recession of 2008–09 and the Great Depression of the 1930s. One thing is clear: we will know a lot more in 2018, 10 years after the crash of 2008. After all, the Great Depression lasted all 10 years of the 1930s decade and is often referred to as "10 lost years".[1]

The standard of living our parents and grandparents experienced was, materially speaking, much lower than our standards today. In the 1930s, many families were still waiting for electricity and indoor plumbing. Refrigeration was achieved through cumbersome iceboxes while central heating was a distant new idea on the horizon. Work-saving machinery and technology were a far-off dream.

There was no cash welfare as we understand it today. By 1935, when the first cash relief was paid in Ontario, provincial bureaucrats in the Department of Public Welfare seriously believed that large numbers of Ontario's population were in danger of imminent starvation. Significant numbers of municipalities went bankrupt, unemployment exceeded 20%, monetary deflation made paper money more valuable and stashing some of it under the mattress a rational investment plan.

Yes, times were worse and they were worse for everyone.

Regardless of huge improvements in living standards, the new interest in the 1930s is completely understandable because the economic and social events leading up to the current recession so greatly resemble the comparable period before the Great Depression.

For example in both 1929–30 and 2008–09, we experienced

TABLE 1 Per capita income by province, 1928–29, 1933

Province	1928–29 average per capita income	1933 average per capita income	% decrease
British Columbia	$594	$314	47
Ontario	$549	$310	44
Alberta	$548	$212	61
Saskatchewan	$478	$135	72
Manitoba	$466	$240	49
Quebec	$391	$220	44
Nova Scotia	$322	$207	36
New Brunswick	$292	$180	39
Prince Edward Island	$278	$154	45

SOURCE The Rowell-Sirois commission: http://en.wikipedia.org/wiki/Rowell-Sirois_Commission

- Market crashes of similar proportion, both that took place in the Fall;
- Large scale crises in confidence among consumers;
- An abrupt increase in unemployment following the market crashes;
- Sudden tightening in previously easy low interest credit; and
- Very tight eligibility standards on social programs (i.e. very stringent relief standards in 1929–30 and historically tough EI and social assistance requirements in 2008–09).

The Third Article in the "Horror Trilogy"

The Last Recession Spook (the first of three CCPA articles) alerted readers to the fact that it was only the last recession in the early-1990s that was followed with cutbacks to basic social programs. In all of the preceding recessions going back to the Great Depression, Canadian governments responded with major increases to benefits and easing in eligibility criteria. *The Last Recession Spook* showed the early-1990s recession was an exception.

The Silence of the Lines (the second article) showed how the Crash of 2008 would not result in a reprise of the images of the 1930s. Some of the differences between the current recession and the Great Depression will be the:

- Absence of long line-ups for basic necessities;
- Low percentages of people receiving basic relief or welfare compared to past recessions and the Great Depression (7% vs. 15–20%); and
- Net labour market demand — (there are still many 'survival jobs' available in 2009).

Why do we have these differences?

First, a whole new infrastructure is in place respecting food that extends from supermarkets to food banks. Another reason is that the welfare programs in place now allow very few people in the door. Not to put too fine a point on it, today's programs are not very different in structure than those inaugurated by Premier Mike Harris in 1995 (with the 21.6% benefit cuts) and 1998 (with the proclamation of Ontario Works).

Ontario Works was a program put in place to get people off while times were good. With its tendency to require destitution before eligibility was attained, it was not a program designed for tough times. Finally, demographics favour employment for most working age adults as the Baby Boom retires.

Here I attempt to go beyond the surface similarities between 1929 and 2009 and make the case that there is a lot more to learn from the 1930s than we might otherwise think. Thankfully, we have already dodged the first bullet through governments' adoption of stimulus measures. But this doesn't mean we will dodge all the bullets. There is much to do.

A top 11 list of important similarities between the Great Depression and the Great Recession of 2008–09 in Ontario

1. Both downturns were unplanned

Both the Great Depression and the Crash of 2008 were caused by unplanned economic conditions. In contrast, each of the recessions between 1945 and 1995 can be viewed as *'manufactured recessions'* where governments and central banks used high interest rates and high unemployment to wrestle inflation to what they believed to be tolerable levels. Once success with inflation was evident, governments and bankers eased high interest rates to boost the economy and reduce unemployment.

The difference in 2009 is that interest rates are at historic lows and there is no room to lower them further. As was the case in 1930 when easing credit was not available as a solution, stimulus had to be found from other sources.

2. The V shape upticks of 1930 and 2009

In both 1930 and 2009, huge stock market increases followed the two crashes. Much debate has occurred over the shape of recovery both in 1930 and 2009. Some now call for a continued 'V' while others call for the two-step 'W' while still more predict the dreaded 'L' where no recovery occurs at all. In both periods, the recessions were declared 'over' because of the market run-ups.

But solutions like spending stimulus seem counterintuitive in the face of market profligacy. Printing money sounds like a stopgap. Deficit spending and increasing government debt are solutions that similar governments warned us against when times were good.

How could they be good in the bad times if they were bad in the good times?

All we do know is that the last unplanned recession became a Depression. We don't know what will happen beyond 2009 but the lesson of history is that unplanned downturns are unpredictable and recoveries are far harder to orchestrate.

3. No agreement by heads of government on the direction of the economy

One year after the crash of 1929, few had any inkling that the world economy was about to enter a decade-long downturn and there are few today predicting another lost decade.

But the President of the United States, caught in what we now call *optimism bias*[2] or the *conventional wisdom*[3] thought good times were around the corner. On May 1, 1930, Herbert Hoover[4] told the audience at the annual dinner of the Chamber of Commerce of the United States:

> "While the crash only took place six months ago, I am convinced we have now passed the worst and with continued unity of effort we shall rapidly recover. There is one certainty of the future of a people of the resources, intelligence and character of the people of the United States—that is, prosperity."

Later that year on October 2, he told the annual convention of the American Bankers Association,

> "During the past year you have carried the credit system of the nation safely through a most difficult crisis. In this success you have demonstrated not alone the soundness of the credit system, but also the capacity of the bankers in emergency."

Yet G. Howard Ferguson, Premier of Ontario, had a different view when he noted in the summer of 1930:

> "I shudder to think what is facing us in this country...unless something is done to improve conditions, I believe we are going to pass through an experience such as we have never had before since back in the early seventies (1870s)."[5]

It is interesting to note that Herbert Hoover remained President longer than Ferguson remained Premier. Bad news is never popular even when you have it right.

4. Welfare to wage ratio at historic lows

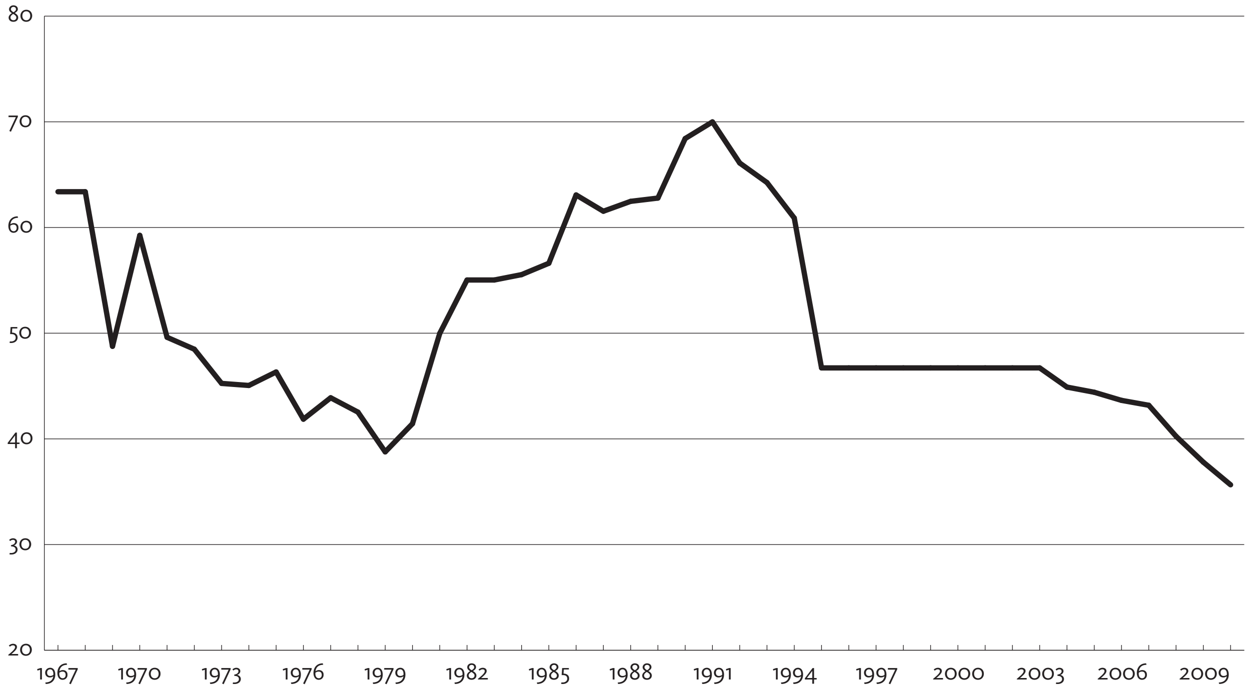
The maximum welfare payment to a single unemployed person in Ontario will reach approximately $7,000 a year in 2010. At $10.25 an hour, minimum wages will gross $20,000 on a full-year basis in 2010 based on a 37.5 hour work week. These two levels of income (using welfare as the denominator) represent a ratio of 35%.

The chart below shows that this ratio has not been this compressed in the last 40 years.

However, the single cash relief rates in 1937 were approximately $19.75 (in Toronto) a month while the minimum weekly wage was set at $12.50 ($55 a month) in 1937 by Mitch Hepburn's Cabinet. This ratio is 36%, meaning that the ratio of 35% in 2010 will fall below the ratio experienced during the Great Depression.

This means that the concern over work incentives is a current non-issue as almost anyone accepting an income of one third what they can realize working is facing barriers that do

CHART 1 **Ontario Annual SA Income as Percentage of Annual Income from Minimum Wage Employment, Single Employable Person, 1967–2009**



not relate to unwillingness to work. True for those riding the rails 75 years ago and just as true now.

5. Great economic downturns and the study of human need

In early 1929, before the surprise market crash that occurred later that year, the Ontario government commissioned a study that resulted in the creation of the Department of Public Welfare in 1930. When most people look at the date the new Department was formed, they think that the new Department was a response to the downturn. Nothing could be further from the truth. As historian Cliff Williams noted:

"Coincidence can look like cause, and we might think from our perspective half a century onward that the Department (of Public Welfare) was a timely response to the economic disaster. The opposite is true. If anything, the Department came out of the prosperity that brightened the first and last years of the 1920s, when new welfare benefits seemed affordable and the lengthened list of services suggested a need for administrative unity."[6]

One can speculate that half a century from now, readers of history will think the anti-poverty legislation of 2009 and the poverty reduction strategy in 'Breaking the Cycle' was a reaction to the Crash of 2008 and the rising unemployment and welfare numbers of late 2008 and 2009. It was not.

But the parallels continue. In 1932, Ontario's Premier George Henry asked Wallace Campbell, general manager of the Ford Motor Company and arguably Ontario's most important business person, to chair the Advisory Committee on Direct Relief for the provincial government. This review is somewhat analogous in form to the current government's proposed review of social assistance that it announced in Breaking the Cycle.

In 1934, Herbert Bruce, Lieutenant Governor of Ontario, sponsored a committee that reported on Housing Conditions in Toronto. Derek Hayes, in his Historical Atlas of Toronto, sets the scene:

"In the middle of the Depression in 1934, Ontario's Lieutenant Governor Herbert Bruce, stood up at the city's bicentennial luncheon and, addressing, the city's elite, proposed that something should be done. And this in a city where over 20% of its people were unemployed and on relief, and even relatively well-to-do homeowners were taking in lodgers to pay the bills."[7]

The Bruce review again is analogous in form to the housing review announced and conducted by the government in 2009, again well after the crash of 2008.

The two points of divergence are interesting. The first is that both the present social assistance and housing reviews are being conducted immediately after the crash while the reviews of the Great Depression were conducted two years after and four years after respectively. The second point of interest is that both of the reviews of the 1930s were conducted at much more senior levels of government, the former being a Royal Commission reporting directly to the Premier and the latter conducted from the Office of the Lieutenant Governor.

But fanfare does not necessarily equal clout as both the Campbell and Bruce reports were largely shelved by the governments for which they were prepared[8] — yet both reports proved to be ahead of their time as each was dusted off by future governments to history-making effect. Welfare rates of today are directly traceable to Campbell's schedule of 'relief rates' and Bruce's Housing Report led to the thinking that called for social housing in the late 1940s. The land that Bruce intended to use for his housing experiments included none other than present day Regent's Park.

6. Community hubs vs. Wallace Campbell's leagues

In Breaking the Cycle (2008), the Ontario Government's poverty reduction program, community hubs are an important plank in the strategy. As Breaking the Cycle intones:

"Community hubs have the capacity to act both as the physical co-location of services, but also as that one, well-known place, where people can go to get services, meet people, or give back to their community".

"The Poverty Reduction Strategy will invest $7 million annually in the development of a Community Hub Program. The Program will focus on using schools as hubs that respond to community needs related to poverty reduction and student achievement."[9]

No more than a quick read of Wallace Campbell's report of 1932 reveals Campbell's high interest in the formation of 'community leagues' that he and his committee of businessmen saw as one of the important answers to meeting social needs during the Depression. As Campbell recommended:

"...encouragement should be given to a policy of federating such organizations into an Association or League through which cooperation may be developed....."

"Such an Association may be constituted on the basis of representation...which may include Board(s) of Trade, Service Clubs, Knights of Columbus, the YMCA, Trades and Labour Council(s), social services organizations, the Red Cross, women's organizations...and other bodies interested in community well-being"[10]

Governments understand especially in tough times that civil society must be mobilized to create community solutions to economic and social issues. It is interesting to compare the similarity of the calls, over 76 years apart, at the provincial government level for community solutions to economic and social problems.

7. The debate over idleness, cheating, and bad behaviour among the poor

Almost nothing is more enduring than suspicion of the poor as causing their own predicament. It always reaches its zenith when times are bad. No matter how well-known the economic causes of a recession, there is always an impulse to blame the victim. This sentiment found particularly harsh voices in the Great Depression, following the recession of 1990–92 and now once again in 2009. The following is a brief sampling.

"No relief is granted before a careful personal enquiry is conducted and the home conditions are investigated. These officers work on the theory that...most men squeal before they are actually hurt." *Provincial Welfare investigator James Malcolm, April 1932*[11]

"There's a growing impression among the taxpayers of this province that they are being drained of their money to provide a living for idlers... We will pay the municipalities a lump sum each month... In other words, we will say to them: 'Here's the alimony , you raise the children.'" *The Honourable Mitchell Hepburn, Premier of Ontario, July 31, 1935*[12]

"Our goal is to help people get back to work, and get back to work quickly in jobs that will last. We do not want to make it lucrative for them to stay home and get paid for it, not when we have significant skills shortages in many parts of the country." *The Hon. Diane Finlay Human Resources and Skills Development Minister, February 2009*

In 1937, Mitchell Hepburn was re-elected as Premier with a majority the size of which has never been repeated in Ontario in the subsequent 72 years. The political popularity of hitting people over the head and blaming them for falling is, if nothing else, enduring.

8. Federal government declarations of non-responsibility for poverty and recession

In April 1930, seven months after the crash of 1929, the provinces asked the federal government of Mackenzie King to contribute towards the cost of their public works programs.

In the House of Commons in April, 1930, the Prime Minister famously thundered:

"With respect to the giving of moneys out of the federal treasury to any...government in the country for these alleged unemployment purposes, with these governments situated as they are today with policies diametrically opposed to those of this government, I would not give them a five cent piece."[13]

Less than one year after the crash of 2008 in June 2009, the federal government tabled its intent toward poverty reduction — without overt partisan bluster — but with equal effect:

"Canada does not accept...the...recommendation...to develop a national strategy to eliminate poverty. Provinces and territories have jurisdiction in this area of social policy and have developed their own programs to address poverty. For example, four provinces have implemented poverty reduction strategies. The Government of Canada supports these measures, notably through benefits targeting children and seniors. These efforts are having a positive impact: low-income rates for seniors, women, and children have fallen considerably in the past decade."[14]

For both federal governments, even though 80 years separates them, the statements are equally preposterous. The federal government owns, controls, administers or funds almost 85% of the income security programs in Canada in 2009.

To cede social policy and governance respecting poverty to sub-national governments with no reasonable prospect of capacity or success — is either an act of cruelty or fantasy — and most likely both.

And with so many unable to access Employment Insurance and with welfare doors often shut, the new stories resemble those we read from the 1930s when neither of these programs were firmly in place.

9. Public debate loudest on unemployment relief — workfare then, workfare now

"Even the most progressive of the private charities, and the social work profession, found the idea of cash relief to be shocking. "Shall we have cash relief? asked the Board of Governors of the Canadian Council on Child and Family Welfare in a statement of January, 1934. The answer was a modified 'no'; supervision of recipients was usually a necessity. Furthermore, the board added in a private letter to Prime Minister Bennett, cash issuances would entice low-wageworkers to quit (work)."[15]

It is of interest that there were no workfare programs — that is, work for welfare — during the period from 1966 to 1996 in Canada. The reason is that provinces and territories that implemented workfare would be ineligible for cost sharing of 50 cents on every dollar from the Canada Assistance Plan (CAP).

The CAP reasoning went as follows: each province and territory was required to implement a 'budget deficit needs test' which meant that a dollar-denominated level of need established by a province or territory would apply to families of different sizes and compositions. Income as defined would then be subtracted from the level of need established and the resulting amount would be paid as social assistance.

The imposition of workfare violated CAP because it could deny payment to a person or family after the amount of assistance payable to them through a financial calculation was established. CAP did not allow such denials of assistance after financial need had been established.

Until 1935, no assistance to single men and women in Ontario was paid. From 1941 to 1958 it was cancelled entirely. This means that Ontario essentially had what we commonly think of as workfare for all unemployed employable singles and families from 1935 until World War II, when it effectively became irrelevant. In 1998, workfare was reinstated under the Harris government and is now a fact of life in the Great Recession of 2008–09. Interestingly, there was workfare during the Depression and there is workfare now but for most of the time in between, workfare was either outlawed or inoperative.

10. Provinces are scared — they are running deficits and they can't pay the bills

At the height of the Depression one in five Canadians was unemployed. Between 1931 and 1932, the cost of relief spending in Ontario jumped from $4,300,000 to more than $13,500,000.

Ontario now expects to run a deficit of $18 billion dollars after running razor-thin surpluses for a number of years. Just as Premier G. Howard Ferguson warned of a Great Depression in Ontario while Herbert Hoover talked of recovery (and Mackenzie King denied funding to provinces), it was the provinces that bore the brunt of recession along with Ontario municipalities.

In 1930, there was no federal cost-sharing agreement with the provinces and territories and in 2009, no such agreement exists, even though formal agreements of various sorts existed between the federal government and the provinces and territories from 1935 to 1996, a span of 61 years. A 'close encounter of the thirties kind' is the lack of a formal federal provincial agreement on the cost sharing of welfare costs in both the Great Depression and the modern era.

11. Municipal costs of welfare — a unique Ontario issue

"With Toronto's welfare caseload expected to surge, a former budget chief worries the city could be on the brink of financial "disaster" by the end of 2009 after raiding its reserves during the good times to fund successive operating budgets."My stomach turns over when I look at what's been presented [in the 2009 operating budget], what we're facing."[16] *Toronto Councillor David Shiner, February 11, 2009*

When John Graves Simcoe became the Lieutenant Governor of Upper Canada in 1793, he did not implement the British Poor Law and thus set the course of social services in Ontario for the next two centuries and more. By refusing to implement the poor law, services developed at the parish pump and local levels throughout the 19th century.

Municipalities developed services, they paid for them, they administered them and they controlled them. By the 1930s, those municipalities that did not go bankrupt carried a lot of weight. They set their own welfare rates in defiance of the (Campbell) rates set by the province, they spent relief grants how they saw fit, ignored provincial inspectors, thumbed their noses at various reports, staged strikes, disobeyed directives and generally carried on as they had for the previous 130 years. In other words, at the local level, they ran the show.

Still, many of the municipalities went bankrupt because of the costs of relief and, in many ways, things are not that different today. From the time of the Great Depression until the 1990's, there was a 'safety net' clause in provincial welfare legislation that called for enhanced cost sharing for municipalities in trouble so that the experience of the 1930s with widespread municipal bankruptcies would not be repeated.

The clause that was in the early Unemployment Relief Legislation and the General Welfare Assistance Act since 1958 was removed in 1993, meaning that municipalities have no real short-term protection. Although all direct welfare costs will be taken over by the Ontario government by 2018, there may be difficult times ahead.

Conclusion

This essay started with Santayana's oft-quoted warning that those that do not learn the lessons of history are doomed to repeat the mistakes of the past. Indeed, governments have chosen to remove many of the layers of protection that were put in place after the Great Depression — cost sharing agreements, protections for municipalities, a more robust safety net, eligibility protections, benefit levels that support basic needs, civil protections, and sound leadership. We should relearn the lessons of history and ensure these protections are restored.

Despite the drama of the narrative, the solutions can sound dull — almost humdrum. But they are important solutions for tough times. We must not forget the protections that have been taken away and the safeguards that have been eroded. When Roosevelt's appointee for Governor of the Federal Reserve Bank in 1933 (Marriner Eccles) was asked by Senator Gore (senior)[17] how the USA could possibly afford to pay for the New Deal, he asked, in return, how America afforded its unsecured investment in the First World War.

The point is that governments make choices about what they choose to borrow for, what they pay for and what they say we cannot afford. The economic managers of the post Depression era realized the fundamental error of promoting policies that increased inequality and sought to pursue policies that promoted what we now call inclusion . The lesson of history is to make those choices intelligently and to afford the costs that help people survive and flourish regardless of the times.

About the Author
John Stapleton worked for the Ontario Government in the Ministry of Community and Social Services and its predecessors for 28 years in the areas of social assistance policy and operations. During his career John was the senior policy advisor to the Social Assistance Review Committee and the Minister's Advisory Group on New Legislation. His more recent government work concerned the implementation of the National Child Benefit. He is a Commissioner with the Ontario Soldiers' Aid Commission and is a volunteer with St. Christopher House and Woodgreen Community Services of Toronto. John was Research Director for the Task Force on Modernizing Income Security for Working-Age Adults in Toronto and was the co-chair of the working group associated with this project. He is undertaking an Innovations Fellowship with the Metcalf Foundation. He teaches public policy and is a member of 25 in 5. John has published op-eds in the Globe & Mail, National Post and the Toronto Star. He has written reviews for the Liter-

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Notes

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