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The 'Last Recession Spook'

A VERY CURABLE DISEASE

John Stapleton

I have started hearing it everywhere. Strangely, I am hearing it most from advocates and activists. They are cheering small increases to social assistance and modest increases to comfort allowances for seniors[1]. At the same time, they talk in hushed tones of a looming recession and an expectation of a reduced anti-poverty agenda. All on their own, they are scaling down their expectations for reform and their wish lists from governments.

On the other side of the street, free marketers are telling us that "the party's over"; the easy years of fat surpluses are done. We're tapped out. Get ready for some serious belt-tightening. Never mind that it was always their party. The important part to understand is that it's over.

Bankers are nervous. Editorial boards are apprehensive. Politicians are 'talking down' new initiatives. Everyone is starting to feel the heat. When the US catches cold, Canada gets pneumonia. Get ready!

So what is this all about? I call it the 'Last Recession Spook' that is now taking hold of people expecting another downturn. The last real recession (before all the 'soft landings') was the early 1990s structural recession that resulted in negative economic growth, accelerated losses in manufacturing and an ornery public mood. It resulted in the largest round of cutbacks in social programs and expenditures that Canada has experienced in the post WWII era spanning 63 years.

In the mid-1990s, public housing stopped growing, welfare rates were cut. The poor were vilified. Child care was cut. Voluntary agencies were flat lined. Social services started to run like lean small businesses. Federal cost sharing was annulled. Employment Insurance was decimated. A major review of social security didn't even produce its own final report[2].

Low-income people voted for workfare. Municipal funding was reduced. Education was cut. Accountability trumped compassion while entitlements turned to privilege. Let's face it. Except for a few CEOs whose paydays soared, most of us thought we were living through some pretty tough times.

We turned back many clocks and we were glacially slow at climbing out of the hole that we dug. Our memories of these times are vivid. For many of us, they are so clear in our rear-view mirror that they have taken on the stature of inevitability.

In other words, 18 years later, it's going to happen again — look out below!

The last recession spook has us all under its spell and there are no clinics, no shots, and no vaccination. The last recession spook looks like an incurable disease.

Or is it?

The last recession was unlike all others and rather than reducing government programs during recessions, we used to increase them. I use the example I know best from Canada and Ontario's income security programs to make my case.

Previous Downturns were Different

The Great Depression

"*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.)*"
— Premier G. Howard Ferguson, Summer 1930

Let's start with the Great Depression itself. In July 1935, welfare or relief rolls had risen to their highest point ever at 15.5% of Ontario's population (the all-time record) after five relentless years of negative or stagnant growth and deflation.

So what did we do? We introduced cash assistance for the first time and throughout a period of deflation and unprecedented hardship in the years from 1935 to 1939; we raised relief rates in Ontario as much as 39%. It was 39% in '39.

The cautionary thinking of 2008 sends a different message. It tells us that we can't raise subsistence incomes in the coming bad economic times because we won't be able to afford them. It's against the grain — but only against the grain if you are suffering from the 'last recession spook'.

The Recession of 1957–1958

"*Towards the end of 1957, municipal offices began to be visited in large numbers by a class of applicant they had not encountered in force for the past 15 years: the unemployed employable, the head of a family or single person able and willing to work who could not find a job and whose unemployment insurance payments had been exhausted or were unobtainable. The post-war full employment prosperity had suddenly declined.... Governments felt disillusioned when they discovered that the long established Unemployment Insurance scheme failed to support a substantial proportion of the unemployed.*"
— Clifford Williams, *Decades of Service*[3]

The first post-war recession was on in earnest. Through the rear-view mirror, perhaps we would think that politicians of yesteryear would have repeated the mantra of fiscal conservatism first heard in the early years of the Great Depression[4]. But the Tory government of the time in Ontario under Premier Leslie Frost did exactly the opposite. They kept to their plan to revamp the Unemployment Relief Acts of the 1930s and replaced them with the modern General Welfare Assistance Act of 1958. With the enactment of the GWA Act in 1958, public assistance was restored to unemployed employables for the first time since 1941. The federal government, for its part, rushed through the Unemployment Relief Act signed on January 1, 1958.

It was also at this time during the same recession that a federal election was fought in part on the issue of how large the increase to Old Age Pensions would be.

"*The first increase in Old Age Pensions, under the Liberal government of Louis St-Laurent, was an attempt to win votes during the June 1957 election campaign. This was characterized as a political blunder. The mocking terms "six-buck boys" and "six-buck Harris" (referring to W.E. Harris, Finance Minister from July 1, 1954 to June 21, 1957) were used by the Conservatives, who went on to win the election. The newly elected Conservative government led by Prime Minister John Diefenbaker further raised Old Age Security benefits, this time in November by $9 to $55 per month (an increase of 19.6% during a period of modest inflation).*"
— Government of Canada website: Civilization.ca[5]

Remember that a 19.6% increase to Old Age Pensions was occurring at the same time as the first real downturn since the 1930s. The reaction of Canada's governments was just as they had learned in the depression — to increase income security when it was needed. The politics of retraction and retrenchment had not worked in the early 1930s and they would not be allowed to take hold in the first post-war recession.

The Oil Shock Recession of 1973–1975

"*But in the early 1970s, the situation changed. The Organization of Petroleum Exporting Countries had become a force and in 1973, the first major oil shock hit the world as Arab nations refused to sell to countries that had expressed support for Israel in the Yom Kippur War of October 1973.*

Within a few months, the price of oil climbed from around $3 a barrel to about $12. That may sound like a bargain, compared with just over $75 in July 2007. But expressed in today's dollars, the price went from around $10 a barrel to $40 a barrel. It was a huge increase — and the impact on the global economy was devastating."
— CBC News[6]

The second post-war recession hit with stunning swiftness and it was a recession of global proportions. But the reaction to sudden inflationary pressures in the form of surging commodity prices and a persistently high Canadian dollar that reached $1.04 by early 1976 was curious by the standards of those of us who now suffer from the 'last recession spook'.

In Ontario, social assistance rates that had not been increased since 1970 were increased by 8% in 1973 followed by two increases in 1974 — over 16% at the beginning of the year and 12% in October of 1974. Another increase took place in 1975 of 8%.

At the same time (1973), Premier William Davis announced the Guaranteed Annual Income System (GAINS) for both aged persons and persons with disabilities. Some of the increases for these target populations were even higher than those receiving regular social assistance. Although inflation was high, these increases exceeded the inflation rate. Minimum wages also received regular increases.

Not to be outdone, the federal government released its Orange Paper on income security and social services reform in 1973 and announced as a down-payment that Family Allowances would be tripled; a 200% increase. Ontario and other provinces promised to exempt the new much larger payments under social assistance programs.

Although some budgetary retrenchment was announced in 1975 with the publication of the Maxwell Henderson Report in Ontario[7], all of the increases in programs made from 1973 to 1975 were made permanent by the governments of the day. There were no decreases as we saw in the mid-1990s.

In today's terms, the increases in the face of recession in the early- to mid-1970s seem almost fantastic and other-worldly, and especially in terms of the economic uncertainties faced at the time. By present day standards, these governments seem especially courageous. They did not have an affliction known as the 'last recession spook'. They had not lived through the 1990s and were not in a position to possibly experience their first recession since then.

The Structural Recession of 1981–83

"*It's a Recession! The worst recession since the depression hits Canada in 1981. As interest rates climb towards 23%, the number of unemployed people is larger than the entire Canadian armed forces in World War II. One and a half million people are out of work, not counting tens of thousands who have given up looking.*"
— YMCA Canada[8]

Frank Drea became Minister of Community and Social Services in Ontario in early 1981 and came to office just as the recession hit. Over the two-year period of the recession, single rates for employable recipients were raised by 54.9% from $202 a month to $313 a month. These increases seem unbelievable now but were much higher than the increases that had taken place from 1975 to 1981 when rates moved from $177 a month to $202 a month. While Minister Drea talked tough, the money to help the poorest of the poor was always there throughout his recession tenure.

At the federal level, Health and Welfare Minister Monique Begin made the new Child Tax Benefit permanent. She raised the federal Guaranteed Income Supplement by extraordinary amounts that exceeded inflation just before the 1980s recession hit.

Faced with recession and downturns, previous governments actually accelerated their rate of increases to the economically vulnerable during those periods as opposed to the 1990s post-recession reaction where cutbacks were the order of the day.

The Recession of 1990–1993

"*The past quarter-century has witnessed dramatic changes to federal and provincial-territorial budgetary balances. The 1980s and early-1990s were characterized by large, chronic federal deficits, which peaked at more than 8 per cent of GDP in 1984–85. Over this same period, provincial deficits were also significant but did not reach the same levels as those recorded by the federal government.*

After some improvement in the late-1980s, the 1990–91 recession resulted in a deterioration of the fiscal situation for provinces and territories and a further setback for federal efforts to reduce its

deficit. For both orders of government, spending control as well as the post-recession return to economic growth led to a significant turnaround from large deficits to surpluses."
— Federal budget, 2006

In 1990, Ontario went into a deep recession yet the Ontario government under the NDP continued to provide increases to income security programs that followed on substantial improvements made under the Liberals in the heady years of the late-1980s. In 1991, they announced a 7% increase to basic social assistance rates and 10% to shelter rates. They uploaded single parents from the municipalities and raised all lone parents to the same income standard.

They implemented many of the recommendations contained in 'Back on Track', the report of an advisory group on the implementation of the landmark Transitions Report on 1988. In each of 1992 and 1993, they implemented successive, albeit more modest increases, to social assistance.

At the federal level, the Family Allowance was revamped and increased (in 1993) when refundable and non-refundable tax benefits were consolidated (a major undertaking) into one refundable credit raising expenditures on child benefits to over $5 billion.

These initiatives do not demonstrate something unusual. They simply show that governments reacting to recession in the same way as they did in the Great Depression and the subsequent three recessions of the post-war period.

But 1993 also marks the year in which we fell off a cliff.[9] The second shoe fell.

In the introductory paragraphs of this essay, I noted some of the changes that took place as we were seized by a collective urge to cut back — but it remains difficult to do justice to what actually took place. All political parties participated.

In Ontario, NDP Minister of Finance Floyd Laughren introduced his Expenditure Control Plan[10] and the government introduced cuts through its social contract. In the following year when social assistance caseloads peaked in March 1994[11], the Ministry of Community and Social Services (MCSS) introduced a program called Casefile Investigation in part to control issues related to welfare fraud in a year where no increase was provided, the first 'no-increase year' since 1978.

At the federal level, the Liberals changed the name of Unemployment Insurance (UI) and made the largest set of cuts to the program ever. The cap on the Canada Assistance Plan (CAP) was fought out in the courts and finally fully implemented in 1993. Then the federal government, in the middle of Minister Axworthy's review, put plans in place to end CAP and replace it in 1996 with the CHST, the so-called 'Mother of All Transfers" a phrase borrowed from the recently concluded counter-invasion of Iraq.[12]

But as the Carpenters sang so many decades ago: "We've only just begun".

In 1995, Mike Harris was swept to power in a majority government that cut social assistance rates by 21.6% and introduced so many other cutbacks of great familiarity to readers, that there is little need to chronicle them here. Almost all provinces engaged in similar cutbacks and the cutback mentality continued into the new millennium with the Draconian program reductions brought in by Gordon Campbell in BC.

The cuts made to social programs and the almost decade-long annulment of increases is simply without precedent in Canada's modern history. Minimum wages and increases to social assistance did not occur until eight years after the first round of cuts were made and when increases did start up again, they were extremely modest. These modest increases were also made as the federal government rang up massive surpluses and all provinces began to record budgetary surpluses.

But history is neither easy nor linear. In 1998, the federal government put in place the National Child Benefit that started a whole new way of thinking about paying benefits to families with children. Despite important implementation issues at the provincial and federal levels on how to treat children's benefits going to social assistance recipients, the NCB was a public policy success. The NCB initiative now pays out more than $10 billion in benefits to families with children and more to low income families than others.

In 2007, the Ontario government joined many other provinces by implementing its own child benefit (the Ontario Child Benefit — OCB) and the federal government announced important new benefits in the form of the Working Income Tax Benefit and the Registered Disability Savings Plan. New initiatives in 2008 like the Tax Free Savings Plan, though largely aimed at the well-to-do, have promising components for low-income families.

The income security system of the future will likely be much different than the legacy system we have now. Perhaps we will have the capacity and the creativity to modernize our welfare programs and replace them with more generally available programs like we did for seniors in the 1960s and children in the 2000s. Perhaps we don't have to think in modest terms.

Conclusion

The 'last recession spook' has us all thinking that we can only think in modest terms. If the sub-prime fiasco in the US results in a worldwide recession and a downturn in Canada, we should not be thinking about hunkering down. We should not be thinking 'look about below' and we should not be reining in our calls for change.

The 13 years of prosperity experienced by most of us from 1995 to 2008 resulted in healthy balance sheets for all our governments. Despite Mr. Flaherty's two-year long campaign to give away our rainy day fund, we must remember that significant amounts of the surpluses were booked against our national debt. This is what allows us the fiscal resiliency to make social programs more robust and to improve them when they are needed most.

In closing, I am reminded over and again of the financial commentator who noted recently that "the party's over". Looking back on the decimation of income security programs from 1993 to 2008, a time in which the single welfare rate in Ontario fell from $663 (in 1993 dollars) to $560 (in 2008 dollars), we know all too well who did not attend *his* party.

It's time to take the antidote to the 'last recession spook' and start calling for the real change and real improvement. After all, that's what we accomplished in all of the last four downturns except the last one.

Let's get to work.

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Notes

1 The 2008 Ontario Budget announced an increase in Comfort Allowances that will increase them from $122 a month to $125. In 1985, these allowances were $112 in 1985 dollars or $225 in 2008 dollars, exactly $100 a month higher than where they would now be had they been indexed to inflation 22 years ago.

2 There was no final report of the Social Security Review headed by then HRDC (now HRSD) Minister Lloyd Axworthy.

3 Dr. Clifford Williams, Decades of Service: A history of the Ontario Ministry of Community and Social Services, 1984, The Ministry of Community and Social Services, page 83

4 See Linda McQuaig, *The Cult of Impotence: Selling the Myth of Powerlessness in the Global Economy*, 1998, Penguin Books; page 196–202. McQuaig narrates the rise of Marriner Eccles in Roosevelt's inner circle set against a backdrop of Hooverite advisors that had no solutions to the third year of economic decline in 1932.

5 http://www.civilization.ca/hist/pensions/cpp-a52-pe_e.html

6 See: http://www.cbc.ca/news/background/oil/

7 Maxwell Henderson, The Report of the Special Program Review, Queens Printer for Ontario, November 1975

8 See http://www.ymca.ca/downloads/Time/YMCA_1980_99.pdf

9 See John Stapleton, Like Falling off a Cliff: The Incomes of Low-Wage and Social Assistance Recipients in the 1990s, in *Finding Room: Policy Options For a Canadian Rental Housing Strategy* Edited by J. David Hulchanski & Michael Shapcott CUCS Press, 2004 Centre for Urban and Community Studies University of Toronto www.urbancentre.utoronto.ca

10 See Floyd Laughren's Empire Club address at http://www.empireclubfoundation.com/details.asp?FT=yes&SpeechID=1956

11 Welfare caseloads reached post war peaks in March 1983 and March 1994. In percentage of population terms, the 1994 peak was only exceeded by the all time high of July 1935.

12 The language used eerily corroborates the analysis of Naomi Klein in her recent work, *The Shock Doctrine*. Naomi Klein, *The Shock Doctrine: The Rise Of Disaster Capitalism*, 2007, Alfred A. Knopf Canada

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