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Canadian Centre for
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How will the new federal government respond to an economic crisis?

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Far from altering the risky behaviour that precipitated the 2008 financial crisis, bankers, financiers and corporate CEOs have grabbed government handouts and continued on their merry way. Corporate mergers and stock buybacks have benefitted their bottom lines, while the global economy stalls in the face of trade disputes, war, and hot spots of growing civil unrest. Our federal election revealed deep regional divides that reflect the discontent found around the world. These developments make the threat of another economic downturn truly alarming.

Former Bank of England governor Lord Mervyn King counts himself as among those worried about a repeat of 2008. He notes that after the Great Depression, there was a fundamental intellectual change in our understanding of the financial sector and how it needed to be regulated. With the right rules in place, a more rational economy—one that benefited the majority of society—was possible.

Decades of lobbying by the financial sector eventually eroded those regulations, and the 2008 crisis ensued. Canada's banking sector would be held as an example to the world of how proper regulation protects countries from these sorts of crashes. But nothing could shield us from plummeting demand for exports, which dropped 16% over three quarters in 2009, and a stunning 22% decline in investment over the same period. At one point, 430,000 Canadian workers and 8.7 million Americans had lost their jobs.

Unfortunately, the sort of reforms that ushered in a period of calm after the Depression have not been seriously considered in the U.S. or Europe, adding to experts' worries. King argues, "no one can doubt that we are once more living through a period of political turmoil. But there has been no comparable questioning of the basic ideas underpinning economic policy." His warning is particularly dire considering the following post–Great Recession challenges to the Canadian economy:

- Canada's relatively weak recovery since the 2008-09 recession was largely built on household consumption facilitated by historically low interest rates. But those low interest rates have resulted in worrisome rates of household debt, with the debt/income ratio at 177%. Canadians are ill-equipped to take on more debt to stimulate the economy.
- Corporate debt is also at record highs, but many corporations have

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IN LABOUR ISSUES

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not invested in the real economy; they've spent lavishly on mergers and other financialization schemes that boost shareholder value (and CEO salaries) without stimulating the economy.

· Interest rates can't go much lower, so that tool can't really be used again in the event of a recession.

· China was relatively untouched by the crisis and was buying Canadian resources, keeping our exports moving. China's economy is not nearly as strong today and cannot be counted on to play the same role in the future.

· As King reminds us, the global economy is "stuck in a low growth trap," and the post-slump recovery was weaker than the recovery after the Great Depression.

These conditions mean that the next recession could be longer and deeper. Nonetheless, there are some practical policies that could be lined up to support workers when it hits. One program that needs attention is employment insurance. Former CCPA economist Armine Yalnizyan found that in the 1970s, 85% of unemployed men and 81% of unemployed women were eligible for EI. In the Great Recession those percentages had fallen to 45% of men and 38% of women. This weakening of the EI system meant that workers' demand for products and services remained weaker than it should have.

The Canadian Labour Congress believes that a system overhaul to better meet workers' needs is urgently needed before we find ourselves in another recession. Donna Wood's research found that there was a gap between those who need coverage and those who are eligible to receive it. Benefits are too low to meet workers' needs and there are many workers who pay into the system but who cannot collect benefits.

Governments should be rolling out measures ***now*** to combat climate change, including spending on green infrastructure and retraining workers in the oil and gas sector for new jobs. Training of this nature should be part of the EI reforms.

When the next recession hits, governments should be ready to ramp up these investments to keep workers employed and prevent a catastrophic collapse in demand, and advance a transition away from fossil fuels. Having a plan in place now would also go a long way to addressing western workers' understandable fear of job loss and uncertainty regarding the region's future.

No one knows when the next downturn will arrive, but arrive it will. Will a minority government rise to the occasion, or will partisan bickering sideline the changes workers will so desperately need? Given the potential severity of the next economic downturn, the parties better find a way to move ahead with policies that work for all Canadians.

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References available upon request.

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