How to make recovery quicker and less painful for those hurting most

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Roy J. Romanow, former premier of Saskatchewan and commissioner on the Future of Health Care in Canada.

The Bank of Canada recently declared an end to the recession. There's a world of difference, however, between an end to economic decline as measured by Gross Domestic Product (GDP) and a real recovery as felt by Canadians. And when we look behind the numbers, we can't avoid the fact that the costs of the recession are profoundly unequally shared, as those who suffer most will be those who can bear it least – unemployed and poor Canadians.

History has a lot to tell us about the difference between the technical end of a recession and real economic recovery, and about the economic consequences for lower and middle income Canadians.

A recently released report, The Economic Crisis through the Lens of Economic Wellbeing, points out that in each of the past two recessions, lower and middle income families experienced much larger losses of income proportionately than higher income households. In the 1982-83 recession, the market income of the bottom 20 percent of households dropped by 38 percent and that of the middle 20 percent dropped by 13 percent, while the top 20 percent of households lost just 3 percent. In the 1990-93 recession, the bottom 20 percent lost 74 percent of income and the middle 20 percent lost 19 percent compared to 5.1 percent for the top 20 percent. This means that whether the recession ends now or later, recovery will be longer and slower for low and middle income households.

Connecting the dots between unemployment and poverty, the report also reveals that during the recession of the 1980s, the unemployment rate grew by 4.4 percentage points while the poverty rate went up by a much smaller 2.4 percentage points thanks to the impact of Canada's relatively strong social safety net. During the recession of the 1990s, however, unemployment rose by 3.9 percentage points but poverty increased even more by 4.1 points. That change shouldn't surprise anyone as it coincided with significant cuts to EI coverage and benefits – the safety net designed to cushion Canadians from the worst effects of economic downturn. Even though the unemployment rate started falling in 1994, poverty kept rising until 1997 – three years later.

Poverty is expected to grow in step with unemployment in this recession as well. Employment Insurance (EI) is even weaker now than it was in the 1991 recession, and the impact of those cuts has been magnified by a weakening of welfare benefits in most parts of Canada. To put it bluntly, it is much more difficult to avoid becoming poor in a weakening economy in Canada today than it used to be and it is much more difficult to climb out of poverty than it used to be. The report suggests that unemployment will continue to climb to 10 percent in 2010, with the poverty rate rising to more than 13 percent – a level our country hasn't seen since 1998.

From a public policy perspective, there are two priorities for government action. First, governments must continue to offset the shortfall in private-sector spending that prevents our economy from operating at full capacity. This is no time to become complacent and assume that just because GDP may be picking up a little, the market economy will take care of everything. It was that kind of thinking that got us into trouble in the first place.

Second, since recessions primarily hit the unemployed hardest and longest, it is vital that governments support individual Canadians who lose their jobs through income supplement and retraining programs that meet their needs. The system we now have simply isn't up to the task and fixing it is going to require more than tinkering.

In short, ongoing government stimulus and support for both individuals and the economy is still very much needed if we are to avoid the extended periods of high unemployment and even higher poverty rates that have followed previous recessions.

Canada has already acted by lowering interest rates and injecting massive stimulus into the economy to ensure a shallower and shorter recession than most had predicted. It must now demonstrate that it has also learned how to make the recovery quicker and less painful for those who are hurting most.

Roy J. Romanow is Chair of the Institute of Wellbeing advisory board.

Download the The Special Report- The Economic Crisis through the Lens of Economic Wellbeing (PDF).