The Great Recession Horror Trilogy

Over the 18 month period from February 2008 to October 2009, I wrote three pieces that I conceived of as a horror trilogy: The Last Recession Spook, written several months before the crash; the Silence of the Lines (a wordplay on the Silence of the Lambs) –a prediction made boldly (and correctly) that welfare caseload increases would be modest and entirely unlike the 1990's; and Close Encounters of the Thirties Kind (a wordplay on Spielberg's 1977 Classic – Close Encounters of the third kind – a prediction that the aftermath of the Great Recession would have eerie similarities to the 1930's – we have to wait eight more years to see if that one comes true. Now all three articles are here in one place.

John Stapleton – November 23, 2011

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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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The Silence of the Lines

POVERTY REDUCTION STRATEGIES AND THE CRASH OF 2008[1]

John Stapleton

"There's something happening here; what it is ain't exactly clear..." *For What it's Worth*, **Buffalo Springfield,** 1967

With the adoption of *Breaking the Cycle*, Ontario plans to reduce child poverty by 25% in five years. It will be tough for the Ontario Government to meet this commitment as poverty usually increases during recessions and welfare caseloads grow. Poverty and its attendant costs increase a lot in major recessions.

We already know that it is going to be a major recession. The stock market has already dropped almost 50%, commodity prices have gone south, consumer confidence is in question, unemployment is heading the wrong way and the former stalwart of the economic bubble, house prices, have started to move down.

We started this recession with a full blown liquidity crisis, a debt bubble, and a crisis in confidence. This makes things very similar to the 1930s and the Great Depression.

Comparing the Crashes: Already Worse than 1929

In July 1929, the Dow Jones Industrial Average peaked at 380 points. On October 28, 1929, it had dropped to 261 points (68% of its previous value) and on the day of the crash, Black Tuesday, it fell 31 points to 230 or 61% of its July value.

In November 2007, the Dow peaked at 14,165. On October 28, 2008 it had dropped to 9,065 (64% of its previous value) and by November 20th, had fallen to 7,552 (53% of its previous value). In other words, the crash of 2008 is already larger than the crash of 1929.

But the 'moral individualism' following the 1929 crash that caused Treasury Secretary Mellon to admonish Herbert Hoover to "Liquidate, liquidate, liquidate" has been replaced by the US mantra of "save them at any cost". The new Obama administration is continuing to save all that fail.

What About the Poor?

In the first three years of the Great Depression in Ontario, our relief expenditures tripled while our Old Age Pension costs doubled. Following all but the last big recession of 1990–93, governments made sure that they protected the vulnerable. What will happen this time?

The answer is that things will be different.

1. There will be plenty of low pay jobs for the newly unemployed to accept

Labour market demand at the low end will offset all but the deepest recessions. The OECD recently noted that the increase in working age adults from 1950–2000 in the richest countries was 76%. In the next 50 years, from 2000–2050, the increase will be 4%. That's 19 times slower than the previous 50 years and it means that net labour market demand is here to stay. Richer governments will be competing for low wage labour between themselves.

Low paid jobs that would have gone to new immigrants and guest workers will now be offered to unemployed factory workers and those laid off from a myriad of sectors and industries.

The faces at your local coffee shop serving us over the next while may look an awful lot different than they did before. This will be one of the first canaries down the well and you can look for it soon in a coffee shop near you. If you speak English, have your high school and are mobile, you will have a job during the recession — but it won't be necessarily a good one.

This will be the first big change.

2. Employment Insurance and welfare will both be turning people away from their doors

In Ontario, the Variable Entrance Requirement (VER) under Employment Insurance (EI) generally runs from about 500 to 700 hours. In essence, this change from the 360 hour EI requirement for some regions means that far fewer unemployed workers will be eligible for EI. The increases in EI rolls from Ontario in the fall of 2008 is likely to be a one-time 'blip' as those with fewer hours start to apply.

But people who once could successfully apply for welfare during a rough patch (along with all the people turned away from EI) are going to be turned away at the welfare office. The reason for this is that since the last major recession, governments have brought in four significant sets of changes:

- Lower social assistance rates;
- Much lower assets limits;
- Earning exemptions policies that do not apply to new applicants; and
- 'Workfare' — now called 'community participation'.

The confluence of these four sets of changes has not been tested in a recession but when the 'new poor' make a welfare application, they will be turned down to live off lower paid jobs or their dwindling savings.[2] When they re-apply later on, they will be told that 'any job is a good job' and will be pointed in

TABLE 1 Ontario Population Receiving Social Assistance as a Percentage of Population
Twenty Seven Years (Based on December Caseloads)

Year	Ontario Population	Total Beneficiaries of Social Assistance	Percentage of Population
1981	8,812,286	392,540	4.5%
1982	8,920,288	453,456	5.0%
1983	9,039,564	465,750	5.2%
1984	9,167,484	474,077	5.2%
1985	9,294,657	477,015	5.1%
1986	9,437,359	499,938	5.3%
1987	9,637,945	517,329	5.4%
1988	9,838,620	556,177	5.7%
1989	10,103,305	606,710	6.0%
1990	10,295,832	806,501	7.8%
1991	10,431,306	1,099,326	10.5%
1992	10,572,205	1,246,173	11.8%
1993	10,690,038	1,329,760	12.4%
1994	10,819,146	1,309.472	12.1%
1995	10,950,115	1,231,928	11.3%
1996	11,082,903	1,144,828	10.3%
1997	11,227,651	1,098,659	9.8%
1998	11,365,901	922,891	8.1%
1999	11,505,759	816,574	7.1%
2000	11,896,663	713,599	6.0%
2001	11,897,000	682,862	5.7%
2002	12,091,029	663,374	5.5%
2003	12,242,273	659,961	5.4%
2004	12,390,599	660,991	5.3%
2005	12,528,480	677,315	5.4%
2006	12,665,346	684,852	5.4%
2007	12,793,572	693,453	5.4%
2008	12,928,996	724,678	5.6%

the direction of the relatively plentiful low paid jobs that will be available.

Welfare is usually a leading indicator of a recession. For example, Ontario's caseloads galloped forward before the recession of 1990. In July 1989, with only the prospect of good times ahead, the social assistance caseload in Ontario stood at 298,700. When Bob Rae took office, caseloads were already up by 35%. By August 1991, (less than one year after Bob Rae took office) and just as talk of a recession was intensifying, the caseloads stood at 505,600, an increase of almost 70%. In the recessions of both 1974 and 1982, caseload increases of 13% had preceded each of those recessions.

Fast forward to 2008 — caseloads are silent. As shown in Table 1, Ontario Works caseloads are where they were eight years ago or two years ago. The December 2008 caseload of 202,121 is about the same as it was in December 2000 (202,875) and March 2006 (201,603).[3] The diversion of would-be 'persons in need' to take up the slack of the low paid job market is already happening — silently.

We await the bread lines that won't materialize. The symbols of the past have irrevocably changed.

3. New pressures on seniors' benefits

In 2011, the baby boom will turn 65. The babies of 1946 and onward number many more than the rare wartime babies of 1944 turning 65 in 2009. Already, headlines have started to alert us to the costs of our programs for seniors as they now comprise almost one half of our entire income security system in Canada. There will be many calls for review. We will start talking about intergenerational equity and fairness again. Without sound leadership and direction in Canada, these debates could be damaging. We must try to avoid them

Four Predictions

1. Survival loans

Consumers who can no longer qualify for the safety net that was there in the past will be loaned money to survive. Just as Wall Street and Bay Street got their protections in the form of loans, the political calculus tells us that Main Street will not be denied their loans. Just as the banks had their loans guaranteed by government, new survival loans will likely be offered to consumers with easy payment terms.

The new poor will deposit their loans in Tax Free Savings Accounts and governments will provide them with some sort of match. To keep many people from starvation, all tax advantaged instruments (RRSPs, RESPs and TFSAs) will be loosened and taxpayers will be allowed to liquidate them in part to meet their needs. Seniors will be allowed to keep their RRIFs but social assistance rates will not rise.

2. A new search for resources

Many more people will start to apply to other programs like those that provide benefits for disability. If EI and welfare are no longer there, one has to look elsewhere and there are many untested areas in our income security system.

3. A raid on our nest eggs

The third event will be mass liquidation of RRSPs and RESPs and other less defined nest eggs. In some senses, this has already started but when people start to need money to buy food, the tax advantaged nest egg will start to look very good as a source of food for the next meal. We will see more people taking packages and early retirement. The lucky 11% with long-term employment and defined benefit plans will be the big winners — everyone else will fare less well.

4. Social assistance will not be increased

Following all our past recessions except the last one, Ontario experienced large increases in social assistance rates and rules were usually loosened to accommodate short-term recipients so that they would not get trapped on welfare.

It is likely that memories of the 1990s will make welfare increases a cautionary tale that decision-makers will not want to repeat. They will do almost anything to keep from increasing social assistance to meet need. But this does not mean that they won't do anything.

An Answer: Building Income Security Outside of Welfare

We do not want to relive the two decades from 1980 to 2000. During this period, social assistance benefits became a matter of very high public interest. In the late 1980s and the early 1990s, benefits were increased, rules were relaxed and caseloads increased dramatically through the recession and afterwards. By the time caseloads started heading down in April 1994, it was too late to keep Ontario from an unprecedented backlash of rate cuts and eligibility clampdowns.

If we open up social assistance rules again, especially in the key four areas mentioned in this paper, welfare may be forced to do the heavy lifting that it took on in the last recession and it could once again be faced with serious cutbacks again, if history repeats, from seven to ten years from now.

But it doesn't have to be like that. We could do what we have started with the Ontario Child Benefit (OCB) and the Canada Child Tax Benefit (CCTB). Currently, a poor lone parent with two young children receives 46% of her total income from child benefits other than social assistance. Any poor lone parent with three young children or more derives more than half of her income from child benefits outside of social assistance.

This is not the case for poor single people who receive about 8% of their income from sources outside welfare. Single welfare recipients receive less than $7,500 a year (including GST credits); down 45% in real terms since 1993 and less than 50% of what the lowest income senior receives.[4] The $7,500 figure is about one third of what someone will be able to earn at $10.25 an hour and less than 40% of the poverty line (after tax LICO). It is also $300 less per month at $572 than the $872 a month a single employable recipient would have received had the rates been indexed to inflation.

Similarly, a single disabled recipient obtaining a disability allowance under the Ontario Disability Support Plan receives just over $12,000 a year, down more than 20 per cent in real terms from the early 1990s, and now at least $3,500 a year less than the neediest senior.

Setting New Targets

Governments could provide a new base income of $1,000 a month and $12,000 a year to all single persons and increase disability benefits up to the level received by aged persons at $15,600.

How Could It Be Done: What Are the Mechanics?

We could start by reforming Employment Insurance by setting the Variable Entrance Requirement (VER) at 360 hours across Canada to allow EI to flow to those displaced from their jobs due to recession.

We could then convert non-refundable tax credits into refundable credits that pay every single low-income person in Canada a basic income of $2,500. Everyone would pay tax but those at the bottom of the income scale would get some money back. It could be planned in a way that does not incur major new costs.

On top of that, we could allow a further working income tax benefit of $1,200 to supplement earnings.[5] For those without any resources we could continue the payment in place now of close to $7,500 a year without raising or cutting welfare rates.

We could also, over time, transform the existing shelter component within welfare to a generally available housing benefit for all low-income people, further reducing the role of welfare.

Finally, with a small matching grant to the new Tax Free Savings Accounts, the base income for a single non-aged person could approach $1,000 a month across Ontario.

Conclusion

As we start to slowly climb out of the great downturn of 2008, things will be different. To the good, we will not repeat the recession of 1990 because we were smart enough to widen the denominator for reform from social assistance (Transitions: 1988) to poverty reduction in 2008. We will have recognized that the 'poor can be us' and we will have made the important investments in the programs we needed.

But we will have become a far more suspicious lot as a public. The unprecedented market run-up from 1980 to 2007 that made many of our fully invested seniors well-to-do will no longer be with us and our savings perspectives will have changed. We will also be suspicious as to why we cut our safety net in the good times somehow not believing that we would ever need it again.

As we bring to mind the vision of the men lining up for food from the 1930s, we will be careful to remember that the first direct cash relief was not paid in Ontario until the summer of 1935. Needless hardship was endured for almost five years.

But our best chance to ensure the adequacy of the amounts we provide and the form in which we provide them is now. Let's hope we take advantage of the opportunity.

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Notes

1 This paper is a longer version of an op-ed feature in the *Toronto Star* called "Welfare won't be much help." http://www.thestar.com/article/558110

2 This is contrary to the fears of some municipal politicians. See http://www.thestar.com/article/545812. The only part of the overall caseload that is growing is among single recipients, mostly ODSP. This latter program is 100% delivered and funded by the Ontario government.

3 See *New York Times*: February 2, 2009. http://www.nytimes.com/2009/02/02/us/02welfare.html?th&emc=th

4 A resident of Ontario who turns 65 with no savings, no Canada Pension or other income of any kind receives a base guarantee of $15,600 a year through Old Age Security, the Guaranteed Income Supplement and provincial credits of various sorts.

5 Partially achieved in federal Budget 2009.

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OAB 2009

ONTARIO ALTERNATIVE BUDGET October 2009

Close Encounters of the 'Thirties' Kind

John Stapleton

"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

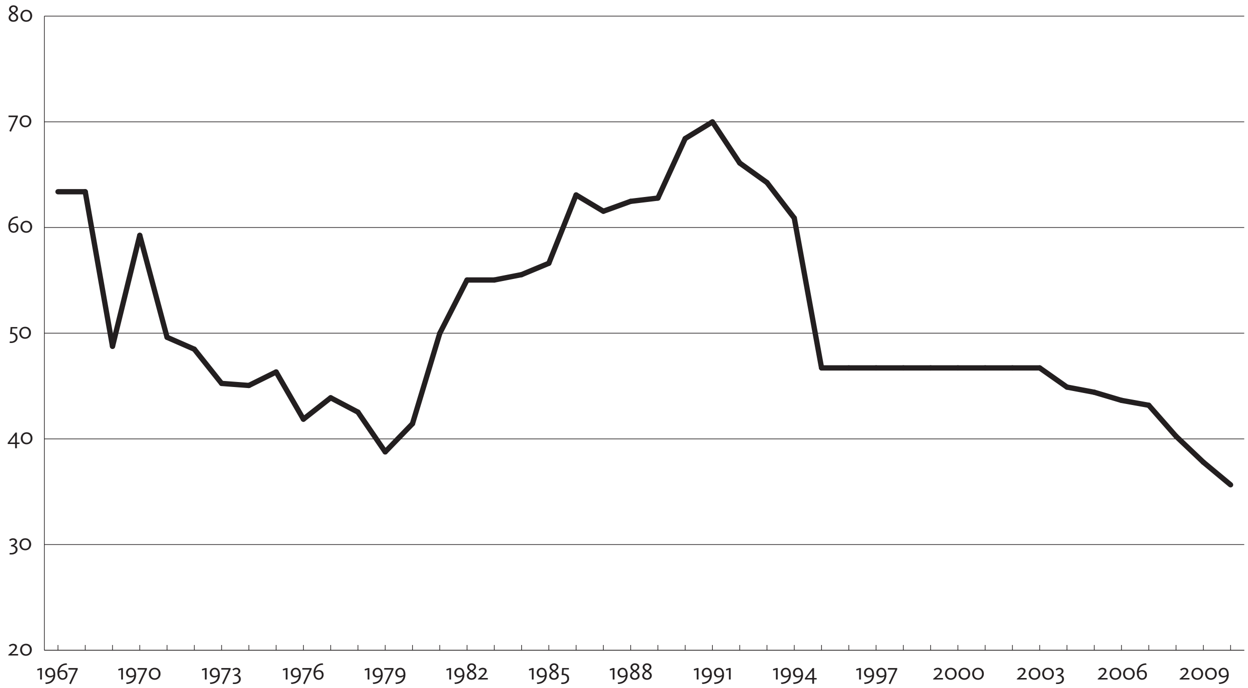
The maximum welfare payment to a single unemployed person in Ontario will reach approximately $7,000 a year in 2010. At $10.25 an hour, minimum wages will gross $20,000 on a full-year basis in 2010 based on a 37.5 hour work week. These two levels of income (using welfare as the denominator) represent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