IS THE RECESSION REALLY OVER?

Introduction

One year after the credit crunch and financial crash of late 2008, the Canadian economy remains mired in a recession. Jobs are scarce, personal incomes and retail sales have declined, families are coping with high levels of debt, bankruptcies and business failures are at a record high, and signs of a recovery are few and far between. Federal Finance Minister Jim Flaherty warned a business audience in late November that although there were some indications that the economy was beginning to revive, growth was still too slow for the government to begin any major attack on the ballooning fiscal deficit. At the same time, however, he stated that the economy was stable enough that no new federal stimulus measures would be necessary to reinvigorate it any further.

Flaherty’s cautious approach to the recession was in keeping with the government’s handling of the economic crisis since it began just over a year ago. Canada was spared the massive collapse in the value of home mortgages that had triggered the failure of powerful financial firms in the United States and had ushered in the recession. Indeed, compared with other Western industrial nations, Canada seemed to be coping somewhat better than most.

But this was cold comfort to the growing number of Canadians who were witnessing the loss of secure, full-time jobs, especially in important sectors of the economy such as the automobile industry in southern Ontario and Quebec. For retailers hoping that the traditional increase in sales over the Christmas holiday period would provide some relief, prospects were uncertain as of late November. This was because many Canadians were cutting back on purchasing non-essential consumer goods at the very time that such spending was most needed to kick-start the economy back to life.

The economy’s tortoise-like movement out of the recession led many experts to wonder just what kind of recovery would finally emerge from the current slump. Some economists warned that unemployment might remain at a very high level even after Canada passed through the worst of the recession, perhaps sometime in 2010 or 2011. They forecast a “jobless recovery,” with full-time jobs disappearing for good, replaced by less secure and lower-paying part-time employment.

Such a prediction was especially bad news for the youngest cohort entering the labour market—that is, people between the ages of 15 and 24 who were looking for their first jobs. In all likelihood, it is this group that was going to have to be most flexible in adapting to the harsh new economic realities of the post-recession era, including part- or short-time employment, little job security, no benefits, and modest rates of pay at best.

To Consider

1. Why is Finance Minister Jim Flaherty adopting a cautious approach in dealing with the continuing economic recession?

2. How has the recession impacted Canadian workers and business people?

3. Why are young Canadians a particularly vulnerable group, as the economy enters what has been termed a “jobless recovery”?
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Video Review

Pre-viewing Activity
Before watching the video, discuss the following questions with a partner or in a small group.

1. How would you define the term recession? What evidence is there that Canada is in a recession now?

2. What do you think caused the recession? What do you think will bring it to an end?

3. Do you agree with the decision of governments in Canada and the United States to spend large amounts of taxpayers’ money on stimulus programs to revive the economy? Why or why not?

4. Have you noticed any effects of the recession on your own family or friends? Give specific examples.

5. Why do you think the recession has caused problems for young people who are looking for their first jobs after completing their education?

Viewing Questions
Watch the video and answer the following questions.

1. When did the recession begin? What caused it?

2. What signs of an economic recovery were appearing in the summer of 2009? What prediction did this lead the governor of the Bank of Canada to make?
3. What is meant by the term *jobless recovery*? What evidence was there that this was occurring during the summer and fall of 2009?

4. What problems do young people face in trying to find a job during the recession?

5. What examples of people who have been successful in finding jobs are presented in the video?

6. What are the problems with some of the jobs that young people in Canada have been able to find?

7. What advice does economist Carlos Leitao offer to young Canadians who have not been able to find good jobs during the recession?

8. According to the mayors of the Ontario communities of Kitchener and Cambridge, how effective have federal stimulus programs been in reviving the local economies of these cities?

9. Why is the rising value of the Canadian dollar bad economic news for the manufacturing sector of the economy in this country?

10. How has the rise in the dollar’s value affected Maxtech Manufacturing, Inc., a Waterloo, Ontario, automobile parts firm?

11. What effect has the massive U.S. federal stimulus package had on job creation in that country so far?
12. What have major U.S. banks and financial firms done with the billions of dollars they received in bailouts last year?

13. What bad economic news did Canadians receive in early November 2009?

14. How does the example of Diane Jackson, an unemployed Oshawa, Ontario, woman help to put a human face on the statistics about growing joblessness as a result of the recession?

Post-viewing Activities
After you have watched the video, discuss and respond to the following questions. Your teacher may choose to place you in a small group with other students.

1. When and how do you think the current recession will end? What will the economy look like, especially for young people, once it is finally over?

2. From what you have seen in the video, how would you describe the behaviour of U.S. banks and financial firms in using the billions of dollars they received in federal bailouts to reward their CEOs with huge salaries and bonuses and use the money for profitable investments in the stock market?

3. Do you think that economist Carlos Leitao’s advice to unemployed young people to abandon their job searches and go back to school is realistic? Why or why not?

4. Is it likely or possible that many young people in Canada could follow the example of Marion Waffle, the Port Hope, Ontario, student who started her own wool business?
IS THE RECESSION REALLY OVER?
What do we know, what have we learned?

When and why did the current economic recession begin?

Although economists have different views on the factors that triggered it, many trace the onset of the economic crisis of late 2008 to the collapse of the prominent New York investment firm Lehman Brothers on September 15 of that year. The fact that the U.S. government permitted this major player on the Wall Street financial circuit to go bankrupt was a warning that it would no longer come to the rescue of other companies that found themselves facing similar financial difficulties as a result of their own reckless investment practices. Three other firms—Bear Sterns, Merrill-Lynch, and AIG—had been considered “too big to fail” and had received federal assistance to restructure themselves in order to stay afloat as the credit crunch deepened during that chaotic September.

But the failure of Lehman Brothers sent shock waves through financial markets and led to plummeting stock values, a rapid drying up of credit, and the very real possibility of a total collapse of the U.S. economy. The value of all stocks traded on the New York Stock Exchange dropped six per cent—or USD$3-trillion—in just three days following the Lehman Brothers collapse.

Had it not been for massive government bailouts to failing banks and financial institutions, and later to other struggling firms like the crisis-plagued automobile industry, it is possible that the U.S. could have entered a deep depression such as the one that struck so catastrophically following the stock market crash of October 1929. If this had happened, the effects on other economies such as Canada’s would have been truly disastrous, and economists might now be talking about a full-blown depression rather than a recession.

What were the impacts?

One year after the economic meltdown, the world’s industrial nations are still trying to cope with the effects of the ongoing recession as their leaders seek to navigate through uncharted waters toward an eventual recovery. Despite the unpopularity of the huge federal bailouts that rescued banks and other financial institutions, U.S. President Barack Obama argued that they were necessary to avert a total failure of the economic and financial system.

And although the amount of Canada’s federal stimulus package—$50-billion—was far smaller than Obama’s in relative terms, the Conservatives under Stephen Harper were obliged to abandon their traditional suspicion of government spending and fiscal deficits in order to deal with the crisis. More importantly, political figures in this country, the United States, and elsewhere were under pressure from their citizens to demonstrate bold leadership in acting to protect them from the worst effects of the recession while working in tandem to ensure that a global economic recovery finally began to take hold.

What lessons can be drawn from the recession of 2008-09?

Answering this question depends a great deal on the perspective one brings to the current economic crisis. Two differing points of view are offered by Toronto Star columnist Thomas Walkom and Globe and Mail business reporter Gwyn Morgan. According to Walkom, the seriousness of the recession and the
dramatic government fiscal measures taken to counteract it prove that the free-market capitalist system is prone to periodic crises and sometimes needs government action to rescue it from its own worst features.

Walkom believes that the stimulus packages, bailouts, and similar measures have been instrumental in avoiding a major economic failure in the United States and Canada today, even though the eventual cost to the taxpayers of these countries will be very high.

However, despite applauding Western governments for their action, Walkom cautions that there are still some lessons to be learned. Among these are the fact that even though Canada and other countries may start to register statistical growth in their GDPs (Gross Domestic Products)—the value of all the goods and services produced annually—this will not mean that the recession is really over. This is because job growth may lag seriously behind any overall improvement in economic conditions. To Walkom, an even more important lesson of the economic crisis of 2008 is the need for far greater government regulation and oversight of the economy, in particular the financial sector, where the crisis first began.

Gwyn Morgan’s perspective on the recession and what lessons can be learned from it differs markedly from Walkom’s. In his view, the massive government spending on stimulus packages and bailouts to troubled firms in the United States and Canada, coupled with growing government involvement in the management of banks, finance companies, and even automobile manufacturers may represent a case of the cure being worse than the disease.

Morgan warns that such measures have been adopted far too hastily and will result in costly long-term effects on the Western economies that introduced them, including ballooning deficits, crushing long-term debts, and the danger of serious inflation. He argues that, far from ending the recession, such policies may actually place the chances of any real economic recovery in jeopardy.


Activities

1. Why was the failure of the Lehman Brothers financial firm such an important factor behind the economic crisis that began in September 2008?

2. In your own words, summarize the main lessons that Thomas Walkom and Gwyn Morgan think governments should learn from the recession. Which of these lessons do you most agree with? Which do you most disagree with? Why?

3. Do you believe that financial problems like the one Canadians have been experiencing for over a year are something that can be avoided in future? Why?
IS THE RECESSION REALLY OVER?
Taking a Hard Look at Capitalism

Over one year after the onset of what many economists believe is the worst recession to strike the industrialized world since the Great Depression of the 1930s there were growing concerns about what kind of recovery would follow once it had finally spent itself. Economists refer to the business cycle as the movement of the economy through successive stages of growth, prosperity, decline, recession, and recovery. The length of time each stage takes to complete can vary immensely from months to years or even decades and is very difficult to predict in advance.

Both the depth and scope of the current economic recession have unsettled many people and have led to calls for an overhaul of the capitalist economic system. Criticism of capitalism has been around for many years, but as you will learn in this section, modern critics argue that the system is rife with corruption and may not be sustainable.

Differing Views on Capitalism
Many people are reassured by the claim that the free-market economy is basically a self-correcting mechanism that will inevitably restore itself to health, even if it requires some assistance from governments to do so along the way. But a few left-wing or socialist economic thinkers—beginning with the influential 19th-century German theorist Karl Marx—have argued that capitalism is a fundamentally unsound, irrational, wasteful, and unjust economic and social system. Marx felt that capitalism would one day collapse under the weight of its own internal contradictions, perhaps helped along by a revolutionary movement of its main victims, the industrial working class.

A more modern take on this theory is the recent movie by the American documentary filmmaker Michael Moore titled Capitalism, A Love Story.

However, few mainstream economists give much credence to such radical ideas today, especially after the collapse of communism, not capitalism, in Eastern Europe and the Soviet Union in 1989-91. Indeed, practically all of the few remaining “communist” governments remaining today—most importantly China’s—have combined a basically capitalist economic system with a one-party communist political regime that encourages private enterprise and free trade.

Milton Friedman
One consequence of the recession that began in late 2008 has been the discrediting of promoters of totally free-market economic thinking, such as the late Milton Friedman. Friedman was a Nobel Prize-winning economist who claimed that government had no positive role to play in the economy and should leave the stage to private businesses whose operations it should encourage or at least not impede. Friedman’s views were extremely influential in the 1970s and provided the foundation for experiments in radical free-market economic approaches such as those of the Chilean dictatorship of General Augusto Pinochet and the governments of British Conservative Prime Minister Margaret Thatcher and U.S. President Ronald Reagan.

But in the wake of the financial collapse and rising unemployment beginning in late 2008, most Western governments—including Stephen...
Harper’s right-of-centre Conservatives in Canada—have abandoned strict adherence to Friedman’s principles. Instead of a focus on balanced budgets, reduced government spending, privatization of publicly owned firms, and tax incentives for private enterprise, many governments have introduced fiscal stimulus programs to create jobs and boost ailing economies.

In the United States—at one time the loudest champion of free-market thinking under former president George W. Bush—the Obama administration has spent billions of dollars bailing out failing financial firms and manufacturing companies and even taking them under government management and control. This was once called “nationalization,” a hallmark of socialist regimes, and before the recession of 2008 was almost unthinkable as a viable economic policy for Western governments to adopt.

Paul Krugman
Like Milton Friedman, the U.S. economist Paul Krugman is a Nobel Prize winner, but his views about the role governments should play in the economy are markedly different. Krugman is not optimistic that the recovery that will finally emerge after the current recession will restore the economy to anything like the prosperity that North America once experienced in its golden age of the 1950s and 60s. He notes that even though the official unemployment rate in the United States is about 10 per cent, the real figure is probably almost double that, since it would include those who have given up looking for work or are employed in part-time jobs that do not provide them with enough income to live above the poverty line for very long.

He believes that measures such as the Obama fiscal stimulus plan will help restore the economy to at least some degree of health, but that far more ambitious programs, and even greater government spending, will be required to create meaningful and secure employment, especially for young people who have borne the brunt of the recession so far.

Joseph Stieglitz
Joseph Stieglitz is also a renowned economist who takes a very pessimistic view about the prospects of a real recovery from the recession of 2008-09. Although he concedes that the stock market is beginning to bottom out following the calamitous crash that began in September 2008, he does not envision that this will result in any significant job creation until 2010, or even later. In addition, he is concerned that government measures that have restored the financial support to banks and other financial institutions that were on the verge of collapse a year ago have done little to curb their excesses and the dubious investment practices that led to the crisis in the first place.

He points to the fact that after the bailouts, the banks are bigger again, and their CEOs—the very people responsible for the meltdown of 2008—continue to draw immense salaries and receive generous bonuses. He believes that far more stringent government policies need to be adopted to reign in the power of private financial institutions and provide a greater degree of transparency or oversight of their operations. As well, unless they are put under some kind of government control, another, more serious recession may occur.

In this event, a prolonged period of economic crisis, coupled with growing unemployment and social and political unrest might just put the very existence of the free-market capitalist system in question, bearing out at least part of Marx’s prophecy of its eventual demise.
What kind of alternative economic order might emerge from the ruins of capitalism would be anyone’s guess.


**Activities**

1. What is meant by the term *business cycle*? In what stage of the cycle would you place Canada’s economy today? Why?

2. Why do you think radical ideas such as those of the founder of communism, Karl Marx, are not taken very seriously today, even though the capitalist, free-market system appears to be in a state of crisis?

3. Why should young people be particularly concerned about the future of the Canadian and global economies? What can they do to protect themselves from their harshest features in the years ahead?
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Retail Reality

As shoppers in Canada and the United States prepared for the annual holiday rush to the malls, retailers were anxiously holding their breath to see how the recession would impact their sales and profit margins. The holiday season is a crucial time for the retail sector of the economy. Most stores traditionally break even and begin to register a profit in their total sales during the period from the U.S. Thanksgiving in late November to the end of the year. However, the lingering effects of the recession and continuing uncertainty over the nature of the anticipated recovery may make many consumers wary about spending too much money on gifts for friends and family members.

In anticipation of reduced sales, many stores intentionally cut back on their pre-holiday-season orders and slashed inventories on many products. This could mean that if and when shoppers do decide to descend on the malls in search of presents, they may be disappointed to discover that the items they wanted to purchase are not in stock. In addition, many consumers will probably be watching the prices on the gifts they plan to place under the Christmas tree, hoping that the traditional post-holiday sales will spill over into the main shopping season as retailers try to lure them into the stores with the prospect of finding bargains.

One survey by the marketing firm Deloitte found that almost half the people polled indicated that they planned to spend less on gifts this year than they did over the past two years. This would support the view that the holiday season of 2009 may be no better for the retail sector of the economy than it was in 2008—which was a particularly bad year because it followed the financial crash and recession that started in September of that year.

However, the news was not all bad for store owners as Statistics Canada reported in late November that retail sales grew one per cent in September 2009 over the two previous months, totalling $34.9-billion. The rise was most pronounced in six main areas, including automobiles, food and drink, and general merchandise like furniture, home furnishings, and electronics goods. Across the country, the biggest bump in retail sales occurred in Prince Edward Island, which registered an impressive 4.1 per cent increase, with Quebec in second place with 2.2 per cent. However, the rise in consumer spending in the rest of the country, including Ontario, Canada’s largest province, was far less spectacular, and in Saskatchewan it actually declined almost one per cent.

One retailer who is warily watching shoppers’ behaviour during the 2009 holiday season is Susan Ditchburn, the co-owner of the clothing stores Noise and Decibel in downtown Toronto. As of late November, she reported that sales were slow, and that her clients were stocking up on gift certificates that could be used during the traditional Boxing Week sales.

Unlike their larger competitors, small retailers like Ditchburn have not usually offered sales during the main holiday season. “I have never gone on sale before Boxing Day,” she said (Toronto Star, November 23, 2009). “I have stood my ground because I do have the luxury of having things other people don’t have,” referring to her store’s high-end clothing targeted at teenagers and young adults. But this year, she concedes that she is thinking of changing her marketing...
strategy in order to draw potential customers away from the big-box chains and into her store. As she notes, “When people don’t have enough money, and they can get the same look from a place like H&M, they’re going there.”

A consumer behaviour study by the marketing firm Ernst & Young paints a dismal picture for retailers, predicting a disappointing holiday season for them that will probably be only marginally better than 2008 at best.

The holiday season can be a stressful one for many people who feel pulled by the contradictory impulses of wanting to buy gifts for friends and loved ones while at the same time trying to rein in their spending on non-essential products during uncertain economic times. If previous patterns continue, most shoppers will be using credit cards to finance their holiday purchases, running the risk of driving themselves even deeper into debt.

Levels of personal indebtedness are at record high levels in both Canada and the United States and show no signs of declining. In some extreme cases, this is resulting in declarations of personal bankruptcy, which are also at an all-time high. Even though “cash is king,” and many small retailers offer substantial discounts to those who make their purchases in loonies, it is feared that the high many shoppers feel while completing their holiday shopping with plastic may be followed by a very unpleasant hangover when they study their credit card statements the following January.


Analysis

1. Do you and your family plan to spend as much on holiday gifts this year as you did last year? Why or why not?

2. Some people argue that one of the positive results of the recession is that people are starting to buy less and consume less. Do you think it would be better for people to spend less during the holidays? Has spending gotten out of control? Explain your answers.

3. Do you think that retail advertising campaigns promoting purchases of holiday gifts have some responsibility for encouraging consumers to only spend what they can afford at this time of the year? Why or why not?
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Recovery by the ABCs

Economists have different theories about what kind of recovery will finally emerge from the recession of 2008-09. In order to assist them in explaining their sometimes quite technical and hard-to-understand formulations to the general public, they have adopted a handy classification for different kinds of possible economic recoveries based on the letters of the alphabet. Here is a selection of them.

V-shaped Recovery
This recovery is marked by a sharp downward slide in growth rates, followed by an equally sharp snap back to pre-recession conditions with very little in between. There is also a small-v version of this kind of recovery, meaning a sharp slide followed by a more modest gain. According to Mark Carney, the governor of the Bank of Canada, the recession is actually over in this country, and we are now on the upward slope of the “V.”

U-shaped Recovery
A recent survey of private-sector economists in the United States found that only one in six of them believed there would be a V-shaped recovery in that country. Most of the rest expected it to be more U-shaped, which means a slow but steady climb out of the recession that may take some time to complete. While stock prices have risen since the September 2008 crash, other factors such as a weak housing sector, slumping consumer spending and tight credit markets have reduced the chances of the V-shaped recovery and made a U-shaped one much more likely.

W-shaped Recovery
This kind of recovery is also known as the “double dip.” The shape of the letter “W” indicates that the economy may be on a roller-coaster ride out of recession before it reaches a sustained recovery. This scenario was very popular during the sharp recession of the early 1980s when high interest rates prevented a full recovery from occurring right away. Nouriel Roubini, an influential U.S. economist who predicted the financial crisis of late 2008, is a proponent of the W-shaped recovery, believing that commodity prices are rising too sharply to keep the momentum of recovery going and that there is likely to be another recession when the money from government-sponsored fiscal stimulus packages runs out.

L-shaped Recovery
This is really no kind of recovery at all, just a slide to the bottom where the economy remains in recession for a lengthy period of time. Japan’s economy entered this kind of limbo during the 1990s, which was a prolonged period of stagnation and zero growth. However, most economists do not think this scenario will play itself out again after the current recession ends.

While these are the most popular scenarios economists use to explain the kind of recovery they anticipate, there are also a few less common ones.

h-shaped Recovery
A lower-case “h” is used here to designate a slump, followed by a sharp snap back, then a flat line, and another dip. Like the L-shaped recovery this is really a misnomer, since it is not a scenario for a recovery at all.
**O-shaped Recovery**
According to some cynics who are quite skeptical of the models economists use to make their forecasts, this is the most useful prediction, since it indicates that both the experts and the political leaders taking their advice are really going around in circles, unsure as to how to handle the crisis.

**X-shaped Recovery**
In this formulation, familiar to students of mathematics, “X” represents the unknown. It was first promoted by former U.S. treasury secretary Robert Reich, who dismissed the V- and U-shaped recovery scenarios as unlikely because in his view, “this economy can’t get back on track because the track we were on for years simply can no longer be sustained. The ‘X’ marks a brand new track—a new economy. What will it look like? No one knows” (CBC News In Depth, August 26, 2009).


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**Analysis**

1. How helpful do you think these various letter-shaped recovery scenarios are for forecasting what will happen after the recession ends? Why?

2. Which of the proposed recovery scenarios do you think is most plausible? Why?

3. Under which of the letter-shaped recovery scenarios does the following information best fit?

   According to retail analyst Daniel Baer, “a flat prediction is not a healthy one for retailers. The consumer is looking for a lot of practicality—gifts that are useful.” In children’s toys, for example, one of the hottest items on many holiday lists this year is the Zhu Zhu Pets hamster, which retails for $20 and is already out of stock in many stores. Another popular product is the more expensive Mindflex, manufactured by Mattel, which uses brainwaves to navigate a ball through a number of obstacles. It sells at $100 but is a cheaper alternative to more expensive video game systems.
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Activity: Personal Impact of the Recession

Your Task
In small groups, prepare a news story portraying the personal impact of the recession on an average Canadian individual or family.

Procedure
1. To prepare, review the information in this News in Review story and the information below on the concept of jobless recovery.

2. Write a fictionalized personal story, or create a fictional dramatization, about some aspect of the recession, e.g., a parent’s loss of a job, a personal bankruptcy, loss of a home.

3. Decide how you want to present your story to the class. You might want to simulate a newscast, conduct a news interview, or create your own broadcast.

Additional Information: A Jobless Recovery
Most political leaders and economists are confident that the current recession, like all of its predecessors, will eventually end and that a period of economic recovery will begin that leads to a reduction in the rate of unemployment and greater prosperity. However, at least two influential economists today have expressed the view that such a recovery, when it comes, may be a “jobless” one. This means that although the stock market might rebound and the economy will begin to register growth in GDP, this will not translate into significant job creation.

Many people in industrialized countries like Canada and the United States will no longer be able to count on enjoying relatively high-paying, secure manufacturing jobs that include pension plans and other attractive features. Instead, they may have to settle for far less remunerative employment—including part-time work in the retail or service sectors of the economy—that will not offer much, if anything, in the way of security or long-term benefits.