CANADA AND THE JOBLESS CRISIS

Introduction

Focus
The global recession that began in 2008 showed no signs of easing at the beginning of 2012. This *News in Review* story looks at Canada's troubling unemployment rate, particularly among young people, and the slow and uneven growth of the Canadian economy.

Did you know . . .
Dot-com bubble refers to the surge in sales of computers, software, and peripherals as well as a dramatic rise in Internet-based company stock prices between 1995 and 2000. The bubble burst in 2001 when investor confidence waned and stock prices crashed back down to earth.

Try telling the 1.5 million Canadians who are unemployed that Canada has one of the world's strongest and most stable economies. After a year of ups and downs on the job front, Canada's 2011 unemployment rate was stalled at a gloomy 7.5 per cent as the year came to an end. While economists continue to encourage Canadians to remain optimistic, the recession of 2008 is testing the patience of individuals who lost their jobs when the economy began its downward spiral in the fall of that year.

After the dot-com bubble burst in 2001, economists were hopeful that the recession that followed would be short lived. In a sense, they were right. After a difficult two years the economy rebounded and prosperity appeared to be returning. But beneath the surface an even bigger bubble was about to burst. Banks, particularly in the United States, became very lenient about lending money, especially for mortgages. People started financing the purchase of houses, cars, and other products on credit, causing the economy to boom as demand grew. Then, in 2006, the U.S. housing market crashed, with home values in some regions dropping by as much as 30 per cent. This led to hundreds of thousands of foreclosures as the dream of home ownership vanished for people who were no longer able to continue making their monthly mortgage payments.

Meanwhile, the big three automakers (General Motors, Chrysler, and to a lesser extent Ford) faced slumping sales and mounting debt, a deadly combination that put them on the verge of bankruptcy. This led to a financial disaster in the U.S. as the economy plunged into recession, with the automotive and banking sectors pleading for, and eventually receiving, a financial bailout package from the U.S. government. While the Canadian government did come to the aid of the automotive industry, the banking sector was able to stand on its own. Sound banking regulations and stable lending practices allowed Canadian banks to weather the recessionary storm better than almost any nation in the world. However, the damage was done, and by late 2008 Canada and the rest of the world followed the U.S. into a recession.

While the survival of the banking system may have spared Canada from the worst of the recession, the economic downturn was still felt in this country. Unemployment jumped from a pre-recession figure of six per cent to over eight per cent at the lowest point of the downturn. By 2011, more than a million Canadians were looking for work in what financial analysts were calling a "jobless recovery." Meanwhile, economists warned that the job market was not likely to improve for at least another year, leading many to wonder when and if Canada would be able to crawl, rather than surge, out of the recession.

To Consider

1. How many people were unemployed by the end of 2011? Does this number seem high in light of the fact that the Canadian economy was considered one of the strongest in the world as the recession took hold?
2. What events in the U.S. contributed to the onset of the recession?
3. Economists are asking people to remain optimistic, but why is this difficult in light of the current economic situation?

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YV Video Review

Pre-viewing Questions

With a partner or in a small group discuss and respond to the questions below.

1. What is a recession?

2. What is the difference between a recession and a depression?

3. How would you describe the state of Canada's economy at present?

4. Do you think economic conditions in Canada will improve in 2012? Why or why not?

Viewing Questions

As you watch the video, respond to the questions in the spaces provided.

1. a) Why was Canada able to manage the 2008 global recession better than other nations?

   b) What international events have slowed the Canadian economic recovery since then?

2. Why are the job numbers from month to month troubling for some economic analysts?

3. What two areas of the economy have suffered the greatest job losses since the start of the recession?

4. What was the unemployment rate in December 2011? Did the economy appear to be on the road to recovery or were the gains considered modest?

5. What was the youth unemployment rate in December 2011? Why is this a cause for concern?

6. What factors are contributing to the widening gap between the rich and the poor?

7. How much more money do the richest 10 per cent make compared to the poorest 10 per cent?

8. Which province is doing the best in terms of creating jobs? Which province is doing the worst?

9. How did the downsizing of the auto industry in the 1990s and the economic collapse of 2008 affect St. Catharines, Ontario?

10. How does Mayor Brian McMullan plan to revitalize the St. Catharines economy?

11. How do business owners and the citizens of St. Catharines feel about the mayor's plan?

12. What is Windsor doing to stimulate its economy?

13. How many jobs has Windsor lost since 2003?

14. What does Windsor resident Les Danielski think of Windsor's economic prospects?

15. What do economists forecast for the Canadian economy in 2012?

Post-viewing Questions

Join with your partner or small group again and respond to the following questions.

1. Now that you have watched the video, revisit your answers to the Pre-viewing Questions. Add any information you learned from the video, or otherwise update your answers.

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2. Does the video suggest that the recession that started in 2008 could lead to a depression? How much more devastating is a depression than a recession?

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3. How do individual stories like those of Nila Zameni and Diane Jackson help to put a human face on the jobless crisis in Canada?

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4. Do you share the optimism of the mayors of St. Catharines and Windsor that their cities will eventually rebound from the recession? Why or why not?

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CANADA AND THE JOBLESS CRISIS
Background to the Crisis

Reading Prompt
The former head of the U.S. Federal Reserve, Alan Greenspan, once commented that investors enjoying the benefits of a prosperous economy often behave with "irrational exuberance." Blinded by the pursuit of profit, many financial professionals forget the sound business decisions that built the prosperous economy and begin throwing money around in what Greenspan refers to as a "speculative mania." Such behavior can sometimes lead to unfortunate results for the economy (Robert J. Shiller, www.irrationalexuberance.com).

As you read this section, find examples of what you would view as "irrational exuberance" and "speculative mania," using the chart below to organize your information.

Irrational exuberance	Speculative mania

A Surprise Recession?
Every time it happens, the global reaction to a recession is the same. The self-proclaimed experts claim they never saw the recession coming, and the average citizen watches in shock as the markets tumble. However, there is no prosperity without a recession. Markets rise and fall as part of a healthy business cycle, with the hope that the economic peak will push a little bit higher each time and the recessionary troughs won't dip too low.

The Economic Downturn of 2008
By the time the most recent recession occurred in the fall of 2008, the economy had rapidly expanded amid a wave of massive spending caused by boundless consumer confidence. People were buying everything from computers to cars to houses. Banks around the world, with the support of many national governments, loosened their once-stringent lending policies, allowing people to gain unprecedented

Did you know . . .
After the U.S. Congress voted down the proposed financial bailout package in the fall of 2008, Federal Reserve director Ben Bernanke warned of an imminent depression similar to that of the 1930s. Shortly after, Congress reconsidered and approved the second bailout bill, heading off a potential implosion of the U.S. economy.

access to credit. In the U.S., families could obtain a home mortgage at historically low interest rates—even with "subprime," or below-average, family incomes—sometimes with no down-payment required on the houses they were purchasing. Flexible mortgages were accompanied by easy credit with generous spending limits. Once the economy started to decline and unemployment rose, consumers were stretched beyond the limit of their spending ability and were facing personal bankruptcy.

Unregulated Investment

Meanwhile, the financial markets had been soaring to record levels before the crash. Frustrated by rigid regulations surrounding mutual funds, aggressive investors turned to unregulated investments called hedge funds. A hedge fund's goal is to gather as much capital as possible in an effort to invest it in companies that are likely to outperform the traditional stock market and provide investors with huge short-term returns. These funds are highly speculative, very risky, and incredibly complicated. One popular money-making strategy used by hedge fund managers was the purchase of derivatives. A derivative is essentially a bet on the performance of a stock. As long as stock values rise, holders of derivatives make big profits. But once they fall, all they are left holding are virtually worthless "toxic assets," which are almost impossible to trade or sell.

Inflation

While consumer confidence and the financial markets rose, inflation started to appear in two critical areas: food and fuel. Many believe that the two worked hand in hand, with food prices trending upward in part because of the high cost of the fuel needed to transport these products to market.

Problems in the Auto Sector

Fuel prices also thrust the auto industry into turmoil. Car buyers purchased an increasing number of sport utility vehicles (SUVs) early in the decade, leading to a market saturated with large vehicles. After gas prices rose, car owners found themselves paying a fortune to fill their tanks. And when the time came to purchase a new vehicle, prospective buyers were either keeping their old cars or considering something much smaller (and less expensive). With a huge inventory of high-priced, fuel-thirsty vehicles waiting for buyers, the North American automobile industry crashed. The only thing that saved the industry from bankruptcy was a huge bailout: $25-billion from the U.S. government and $3.3-billion from the Canadian government for both GM and Chrysler. These loans saved millions of North American jobs and kept the economy from spiraling downward into an economic depression.

Bank Trouble

While this was happening the real estate market in the U.S. started to cool, and house prices dropped by as much as 30 per cent. Many people defaulted on their loans and stopped making their mortgage payments. With a significant number of people abandoning their mortgages and their homes, the banks went into a tailspin. A wave of mortgage foreclosures spread across the country, and those homeowners still able to hold on to the houses they had originally bought with virtually no down payment now found themselves "underwater," meaning their mortgages were worth far more than the market value of their properties.

The reverberations of the U.S. crisis were felt in Canada and around the world. Stock markets slumped, consumer confidence evaporated, and

Did you know . . .
When the Great Depression began in the early 1930s, the Canadian unemployment rate jumped to 27 per cent and the gross national product (GNP) dropped by 40 per cent. This was the worst economic crisis Canada has faced to date in its history.

Further Research
More information on the stages of the current global economic crisis can be found at www.guardian.co.uk/business/2011/aug/07/global-financial-crisis-key-stages.

banks, particularly in the U.S., were struggling to survive. In fact, a number of U.S. banks and financial institutions received a $700-billion government bailout to keep them afloat. Once-stable lenders were reduced to ruin as the U.S. government assumed ownership and control of a many floundering financial institutions.

The Impact on Canada

Canada escaped the banking disaster thanks to banking regulations that established sensible limits on loans and mortgages. Heralded as a global leader in fiscal common sense as the financial crisis attacked one national economy after another, Canada was able to weather the recessionary storm reasonably well. However, the Canadian economy is so closely tied to the global economy, and that of the United States in particular, that there was no way Canada would escape unscathed. Unemployment rose from the pre-recession low of six per cent to over eight per cent at its peak. Every facet of the economy took a hit, with the manufacturing sector bearing the brunt of the recessionary impact.

Is it over?

By the end of 2011, economists were hopeful that the recession had reached its lowest point. However, most believed that the climb back to prosperity was likely to be a long haul, with unemployment probably staying at over seven per cent and Canada's overall economy making only incremental progress for at least the next year.

Follow-up

1. What evidence can you find of "irrational exuberance" and "speculative mania" in this section?

2. What caused the global economy to fall into a recession?

3. According to Statistics Canada, the debt-to-income ratio for the average Canadian has risen dramatically over the years and currently rests at 148 per cent. In other words, many Canadians owe more money than they earn. Why is this cause for concern? Is this an example of "irrational exuberance" at the consumer level? What do Canadians need to do to resolve this problem?

CANADA AND THE JOBLESS CRISIS
The Business Cycle

Definition
Gross Domestic Product (GDP) is the total value of a nation's goods and services in a given year. Canada's GDP is valued at close to $1.5-trillion, or about $40 000 for every person living in Canada (the per-capita GDP).

Before Reading

Take a blank piece of paper and draw a straight horizontal line that goes slightly upward from one side of the page to the other. Next draw a series of waves (at least five) that curve at the peak and curve at the trough, or bottom. Each wave needs to intersect with the straight line. Keep this image in mind as you read the following description of the business cycle.

What is the business cycle?

If you study economics, you will learn that recessions are a normal part of a functioning economy. In fact, a recession is one of the stages of what economists call "the business cycle." Essentially, an economy functions like a wave. It starts at a low point, rises to a peak, crests, and then returns to its original low ebb before rising again. The high point on the wave represents the peak of financial prosperity, while the low point represents the lean times of a recession. Here is a more specific look at the phases of the business cycle:

Expansion: The economy grows, jobs are created, and a period of prosperity begins. The expansion of an economy usually occurs as a nation begins a period of recovery after a recession.

Peak: The economy has expanded as far as it can. This peak period is characterized on the one hand by affluence and on the other by a kind of financial blindness as investors assume that the economy will expand forever.

Recession: The economy begins to contract. Spending decreases and jobs disappear. Supplies built up during the peak period are suddenly left in warehouses as the demand disappears. The economy shrinks for a period of time. The main goal of business and government during a recession is to keep the economy from sliding into a depression. A depression is characterized by a Gross Domestic Product (GDP) loss of more than 10 per cent to the overall economy. Recessions result in a much less severe decline in a nation's GDP. A recession lasts from the move downward from the peak until the economy bottoms out in the trough.

Trough: The low point of the business cycle. At this point the economy has stopped shrinking and a new period of expansion is ready to begin.

Factors Affecting the Business Cycle

Supply and demand: The business cycle runs on supply and demand. As demand for products goes up, the supply goes up. As demand goes down, the opposite is true. Thus, as a business cycle moves to its peak, supply and demand drive the cycle toward its peak. After the peak, demand wanes and the supply of goods and services is reduced accordingly.

Consumer spending: The business cycle is also driven by the amount of goods and services consumers are willing and able to purchase. High consumption moves the economy toward its peak, and less consumption leads to a recession.

Business investment: When businesses make a profit, they are able to hire employees and invest their money into expanding their operations. In turn, the economy grows. When businesses are not making profits, begin to lay off workers, and are either reluctant to invest or cannot invest, the economy can slip into a recession.

Government policy: The government makes economic decisions regarding fiscal and monetary policy, interest rates, and taxation that directly affect the economy. The wrong decision in one or more areas can trigger a recession.

Global events: War, famine, human-made and natural disasters can all affect the business cycle.

Innovation and invention: Innovative ideas and groundbreaking inventions can propel an economy forward.

Significant Recessions in Recent Canadian History

1970s – The Oil Crisis: Oil-supplying OPEC nations introduced an embargo that sent oil prices skyrocketing and triggered the onset of a recession. The numbers in 1978: Unemployment – 8.4 %; Youth unemployment – 14.8%

1980s – The International Monetary Crisis: Monetary policies introduced to bring inflation under control contributed to the start of a recession. The numbers in 1983: Unemployment – 12%; Youth unemployment – 19.2%

1990s – International Debt Crisis: Long-neglected national debt levels needed to be reduced, and policies were introduced that saw government spending slashed and services cut back or eliminated. The numbers in 1993: Unemployment – 11.4%; Youth unemployment – 17.2%

2001 – The "Dot-com Bubble" Bursts: After a spending spree on computer technology and Internet-based businesses, the appetite for these products softened and a recession followed. The numbers in 2002: Unemployment – 7.6%; Youth unemployment – 13.8%

2008 – The Global Financial Crisis: Easy credit and loans based on very little collateral, along with rising food and fuel prices, resulted in a crisis that wreaked havoc on the global financial system. The numbers in 2009: Unemployment – 8.3%; Youth unemployment – 15.3%

Follow-up

1. Return to the drawing that you made prior to reading about the business cycle. On each wave that you drew, label the expansion, the peak, the recession, and the trough.

2. Once you have labelled the waves, take the information provided in the Significant Recessions in Recent Canadian History section and label each individual wave (e.g., 1970s – The Oil Crisis).

3. From what you have learned from this section and your drawing, how common are recessions? What should Canadians do to prepare for the next recession? Will there ever be an economic cycle without a recession?

CANADA AND THE JOBLESS CRISIS

YV *Youth Unemployment*

Did you know . . .
The unemployment rate is calculated by taking the total number of people in the labour force and dividing it by the number who are unemployed. That figure is then multiplied by 100 to reflect the unemployment rate as a percentage.

The youth unemployment rate is a little different. It is calculated by dividing the total number of people in the 15-to-24 age group by the number of that age group who are unemployed and then multiplying that figure by 100.

Before Reading

Whether or not they have completed a post-secondary program, young Canadians are having a difficult time finding work. Most job postings call for one to five years of work experience before a company will even give someone an interview. How can a young person find a job if businesses erect these kinds of barriers? Should businesses make a point of hiring and training young employees and forgo the requirement for work experience?

Young and Out of Work

The youth unemployment rate is about double the overall unemployment rate in Canada. Some believe that this isn't cause for concern because many young people between the ages of 15 and 24 are pursing an education and are considered to be *technically* out of work. However, while many young Canadians may be going to school, over half are either heading straight to work or are leaving school—particularly post-secondary programs—to join the workforce. In other words, a high unemployment rate among young Canadians should be viewed as cause for major concern.

For its part, the Canadian government is trying to help young job seekers, but some critics feel it is not doing enough. In January 2012, Service Canada's job bank provided close to 60 000 job postings from across Canada. Only 139 of those jobs targeted young employees. While job services like résumé writing and career consulting are available for young job seekers, most of these resources are being used by adults who are more desperate to find work. While past government initiatives targeted youth unemployment, today's approach is to consolidate federal and provincial programs to assist all job seekers, regardless of age. This has left many young and inexperienced workers feeling that not enough is being done to help them find employment.

Unemployment in Canada

Year	National Unemploy-ment Rate (%)	Youth Unemploy-ment – 15-24 (%)
2000	6.8	12.6
2001	7.2	12.8
2002	7.7	13.6
2003	7.6	13.8
2004	7.4	13.4
2005	6.8	12.4
2006	6.3	11.6
2007	6.0	11.2
2008	6.1	11.6
2009	8.3	15.3
2010	8.0	14.8
2011	7.5	15.3

Source: Statistics Canada (www.statcan.gc.ca)

Analysis

1. Why should Canadians consider youth unemployment cause for major concern?

2. Why do some people believe that the youth unemployment rate is a bit misleading?

Did you know . . .
High rates of youth unemployment were a major contributing factor in the Arab Spring uprisings in Tunisia, Egypt, and Libya in 2011, and have also provoked mass demonstrations in Greece and other European countries.

Further Research
More information on youth unemployment worldwide can be found on the ILO website at www.ilo.org/employment/areas/youth-employment/lang--en/index.htm.

Canada and the World

Comparatively speaking, Canada sits around the middle of the pack when comparing youth unemployment statistic with those of other countries. In Spain, almost 40 per cent of the nation's youth are unemployed. After a year of political and social unrest, Egypt has seen its youth unemployment rate rise to 32 per cent. Meanwhile, the United Kingdom and the United States both come in slightly above Canada in the world rankings. Canada's 15 per cent youth unemployment rate puts it 74th among a 129-country Index Mundi sample.

The United Nation's International Labour Organization (ILO) cited youth unemployment as one of the most significant labour issues facing governments worldwide. It is important to involve young workers in the labour force as soon as possible in order for them to feel that they are valued, contributing members of society. According to the ILO, governments should introduce job creation policies that:

- ensure long-term and sustained employment for youth
- make sure the jobs are well-paying
- provide the education and training necessary for youth to acquire and maintain good, full-time jobs
- implement a national youth employment strategy
- make a special effort to help disadvantaged youth in the job creation process
- introduce policies and programs that remove barriers to youth employment

Critics of Canada's "find jobs for everyone" approach to unemployment point out that the needs of young workers are vastly different from those of older, more experienced workers. Therefore, a separate strategy—one that more closely resembles the ILO's recommendations—needs to be implemented in Canada.

Source: Global Trends for Youth Employment (www.ilo.org)

How does Canada compare?

Ranking (of 129-country sample)	Country	Youth Unemp-loyment Rate (%)
1	Armenia	58
9	Spain	38
17	Saudi Arabia	28
25	Greece	26
32	Egypt	25
39	France	23
46	Morocco	22
50	Argentina	21
63	United Kingdom	19
66	United States	18
74	Canada	15
93	Australia	12
98	Germany	11
109	Japan	9
123	Vietnam	5
129	Benin	1

Source: Index Mundi: Unemployment, youth ages 15-24 (www.indexmundi.com)

Analysis

1. In the summer of 2011, the city of London was engulfed by riots. Some experts believe that poverty and youth unemployment played an important role in triggering the riots. What role do you think poverty and unemployment play in causing violence and rioting, especially among young people?
2. Why does the ILO urge that jobs created for young people should be "decent?" Certainly another word could have been used in this context but the word *decent* has been chosen to make a point. What would a "decent" job for a young person mean to you?

CANADA AND THE JOBLESS CRISIS

YV Activity: Get a job!

In this activity you will learn how difficult or easy it is to find a job in today's labour market. Form small groups and follow the steps listed below to explore the job market in your local community.

Step 1: Find a job resource

Investigate a job search resource online. Here are a few to choose from:

- Service Canada's Job Bank: www.jobbank.gc.ca
- Monster: www.monster.ca
- Workopolis: www.workopolis.com

Navigate the site and research what resources the site offers. For example, find out if the site offers youth employment opportunities or résumé-writing assistance.

Step 2: Check out the jobs

Use the site's search engine and investigate a job you might be interested in. For example, you can type in *accountant* and then the area where you live. See what comes up and review the job posting. Look at six or seven job postings in order to find out how they work.

Step 3: Get a job

Pick three job postings that you think would interest you. Answer the following questions in relation to each posting:

1. What is the job title?
2. What qualifications does the job require?
3. What skills must the applicant possess?
4. What level of education is required for people interested in applying for the job?
5. How much experience does the employer expect an applicant for the job to have?
6. How much money will the successful applicant make? If no wage is indicated, why would the company not include that information in the posting?
7. What exactly would you have to do to get the job?

Step 4: How difficult is it to find a job?

Based on your research, how difficult is it to find a job in today's market? How much planning is needed to successfully land a job in your community?

When you have completed the four steps of the activity, summarize your findings and present a report to the rest of the class on how easy or difficult is to find a job in your community. Then explain what you learned from this activity in the form of a 150- to 250-word reflection paper.