

# CANADA FACES A RECESSION

## Introduction

### Focus

This *CBC News in Review* story focuses on the growing economic problems that Canada is facing, along with many other countries, and examines the causes, events, and possible consequences of what appears to be a full-scale recession.

As 2008 entered its final month, Canadians were becoming more used to hearing the dreaded “r-word” from the lips of political, business, and economic experts. That word is “recession,” and anyone who is old enough to remember the last two recessions in the early 1980s and 90s, to say nothing of the Great Depression of the 1930s, will wince at the sound of it. A recession is defined as a period of economic slowdown, or “negative growth,” and its most painful result is a rise in the number of people who lose their jobs. As unemployment grows, even people who still have jobs start to cut back on purchases of non-essential goods, especially homes and cars. This drives the economy even further into recession as manufacturers cut back on production and retailers reduce inventories and lay off staff.

A recession is really a vicious circle of job losses, reduced spending, and even further job cuts. At the same time, financial pressure on governments increases because fewer people are paying taxes and more are finding it necessary to turn to social programs such as Employment Assistance (EI) or welfare. As revenues shrink and expenses mount, governments find themselves in a difficult fiscal situation and have to run up budget deficits to cover the shortfall. In addition, they may also be forced to spend more money through bailout packages to failing industries or financial institutions or through fiscal stimulus plans designed to strengthen the economy by creating new jobs, especially in infrastructure programs such as transportation and public works projects.

At the end of 2008 Canada’s difficulties were not unique, as most Western countries were facing similar problems with their economies. The United States

had been dealing with a serious credit crunch since the summer of 2007, when a number of important financial institutions went bankrupt and a wave of mortgage foreclosures drove down housing prices. For a while, it appeared that Canada might be able to escape the worst effects of the U.S. credit and mortgage crunch, but as stock markets tumbled in the fall of 2008 it was becoming more obvious that a recession was about to strike. Along with this, plummeting world prices for oil and other natural resources that Canada exports, coupled with a decline in U.S. demand for our products, were sending the clear signal that tough economic times lay ahead. The country’s top economists warned in October that a serious recession was on its way—one that could last well into 2009 or even 2010.

As talk of an imminent recession began to dominate the mass media, Canadians expressed their concerns about the economy in a number of ways. Some people, especially those employed in the troubled automotive sector, were facing the likelihood of layoffs and job losses. Communities such as Oshawa, Ontario, home to a huge General Motors plant, were experiencing a dramatic spike in the number of people in need of social assistance. With the busy Christmas season approaching, when retailers expect to make a huge percentage of their annual sales, many stores were forced to slash prices as an inducement to persuade reluctant shoppers to keep spending at the same level as in the previous year. And the real estate market, always a good indication of the economic health of the country, was also showing signs of declining. The average price of a house in the once-hot market of Toronto dropped by \$25 000 in a single month, from September to October 2008.

**Did you know . . .**

*Bailout* was looked up so often in the 2008 online version of the Merriam-Webster dictionary, that it was named the “word of the year” in 2008.

With concerns about a recession growing, government leaders in Canada and other countries were forced to deal with the crisis and reassure an increasingly anxious public that they had workable solutions to propose. The U.S. Congress had already passed a \$700-billion bailout package designed to rescue failing banks, insurance companies, and financial institutions from bankruptcy. It was also being asked to approve a similar measure to help the ailing automobile industry. President-elect Barack Obama, who had won the November 2008 election on a program of change, was unveiling a new economic team and some bold measures designed to strengthen the economy even before he officially took office. Here in Canada, Stephen Harper’s Conservatives, re-elected to another minority government, were taking a more cautious position. It decided to delay any significant announcements of new economic policies until the next federal budget was tabled in early 2009.

For those with long memories or knowledge of history, talk of a prolonged recession or even a depression was cause for great concern. The two previous recessions of the early 80s and 90s had been sharp and painful for many but had been followed by periods of great economic boom. This is the “boom and bust” pattern familiar to economists who study the business cycle. But the Great Depression of the 1930s had been something far more serious. It was international in its scope and profoundly unsettling with all of its economic, social, and political consequences, including the Second World War. With the world’s economies now even more closely interconnected through trade, financial, and communication links, it seemed likely that the next recession would also be a global one, possibly prolonged, and carrying with it potentially serious implications for Canadians, Americans, and people around the world.

**To Consider**

1. Why is a recession really a “vicious circle” of harmful economic events and consequences?

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2. What evidence is there that Canada might fall victim to a recession?

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3. What are likely to be some of the most serious consequences of a recession for Canadians?

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4. Why do some people fear that the next recession might be prolonged and global in scope, like the Great Depression of the 1930s?

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5. How has the recent economic turmoil affected your family or community?

# CANADA FACES A RECESSION

## *Viewing Activities*

### Quote

With the economic crisis, it's clear working families have to be talking about their future just as loudly as the banks and corporations."  
— John Cartwright, President, Toronto and York Labour Council (*Toronto Star*, November 23, 2008)

### Part I

Watch the video and answer the following questions.

1. When and where did Prime Minister Stephen Harper first admit that Canada might be entering a recession?  
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2. How do economists define a recession? What are its main effects?  
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3. In what month of 2008 did stock markets in Canada, the U.S., and other countries fall dramatically? In what other years did a similar crash occur?  
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4. What is the impact of the economic downturn on: a) the value of the Canadian dollar and b) oil prices?  
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5. Why are companies involved in the petroleum industry in Alberta worried about the future of big developments such as the tar sands?  
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6. What is the consumer confidence index? Why has it reached such a low point?  
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7. When did the most recent recessions occur? In what ways is the situation today similar to and different from these past recessions?  
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8. What problems in the U.S. economy began to be noticed in 2007?  
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9. What are the "Detroit Three"? What do they want from the U.S. government?  
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# CANADA FACES A RECESSION

## *The Recession and the Automobile Industry*

Canada's automobile industry is one of the most important and productive sectors of the economy, employing many thousands of people. Along with those who actually work for major car manufacturing companies, such as Ford, General Motors, Chrysler, and Honda, there are many more employed by "ancillary" firms such as those producing spare parts, tires, and other products. The hub of Canada's automobile industry is located in Southern Ontario, especially the Golden Horseshoe running along the western shore of Lake Ontario from Oshawa in the east to Oakville in the west. For many years, it has been one of the most productive and prosperous areas of the country. However, the potential recession has caused dark clouds to move in over the auto industry and those whose livelihoods depend on it.

Economists viewed the automobile industry as one of the most vulnerable sectors of the economy as a recession loomed in late 2008. The Conference Board of Canada ([www.conferenceboard.ca](http://www.conferenceboard.ca)) warned that as many as 15 000 jobs in this industry could be at risk by the end of 2009 if the recession were to last that long. New vehicle production could drop by 15.3 per cent, resulting in a loss of \$1.7-billion in sales. According to Sabrina Browarski, an economist with the Conference Board, the main reason for this decline in production and sales of automobiles was a sharp reduction in demand in the United States. By the end of 2009, she forecasts that a drop in production of new cars will lead to an additional \$1-billion in losses of revenue for the "big three" automobile firms, something that has not been seen since the last recession of the early 1990s.

According to the Conference Board's report the auto industry has found itself

caught in a "maelstrom of cyclical and structural industry changes." This means that the slump in sales and production is tied to the downward turn in the business cycle that a recession signifies, and that the industry is struggling to adapt its product line to new consumer choices—especially more fuel-efficient vehicles. In addition, one of the problems faced by potential purchasers of new cars, especially in the U.S., is a shortage of credit. Most people do not pay in full for big-ticket items like a new automobile, opting instead to finance it over time.

But banks and other lending institutions in the U.S. are limiting the availability of credit to people who may be already heavily in debt or who are facing an uncertain employment position. And even the automobile companies themselves, whose dealers offer their own credit, are raising the standard required for a loan. As a result of all this, the 43 per cent of Canadians and 20 per cent of Americans who are currently leasing a vehicle are likely to be very reluctant to trade it in for a newer model until the credit market becomes more flexible and the recession appears to ebb.

In Detroit, the home of the "big three" auto companies, the alarm bells are already starting to sound in corporate boardrooms. General Motors is facing \$2.5-billion in losses over the third quarter of 2008, and Ford has lost \$129-million over the same period. Both companies have announced major layoffs and job cuts, which will have a devastating effect on communities in Michigan and other Midwestern states whose residents depend on the auto sector for their livelihoods. In November, a group of top CEOs from this industry visited Washington, D.C., to lobby the U.S. Congress for a \$25-billion bailout

package to shore up their struggling firms. While some politicians were sympathetic, others were reluctant to commit public funds to the rescue of private companies, at least before seeing a detailed business plan for how the money could be used. Many of these executives travelled to Washington on private jets and stayed in luxury hotels while there, which was noted in the media and aroused considerable negative reaction from the public.

In Ontario, the difficulties the automobile industry was facing were already having a serious impact on many people. The number of residents of Oshawa who were receiving Employment Insurance (EI) benefits shot up 96.4 per cent over a one-year period from September 2007 to 2008—the greatest increase in Canada. Windsor, another city where this industry is an important part of the local economy,

posted a 30.4 per cent increase. According to Bob Malcolmson, CEO and general manager of the Greater Oshawa Chamber of Commerce, the decline in the U.S. economy has had a negative impact on Oshawa in particular because about 85 per cent of the cars and trucks General Motors manufactures there are destined for the slumping U.S. market. However, he noted that the economic downturn is not affecting all sectors of the local economy equally, since Oshawa is no longer a one-industry town and has diversified its economic activities in recent years.

Sources: "15,000 Canadian auto jobs at risk," *Toronto Star* online, [www.wheels.ca/printArticle/476290](http://www.wheels.ca/printArticle/476290), and "Oshawa, Ont., sees 96.4 per cent jump in regular EI recipients," Yahoo Canada News, [http://ca.news.yahoo.com/s/capress/081125/business/statscan\\_ei-recipients?printer=1](http://ca.news.yahoo.com/s/capress/081125/business/statscan_ei-recipients?printer=1)

## Activities

1. How are "cyclical" and "structural" problems in the economy impacting negatively on the automobile industry in Canada and the United States?

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2. Why are potential buyers delaying the purchase of a new vehicle?

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3. What are the CEOs of the "big three" automobile companies demanding from the U.S. Congress? Do you think they should receive it? Why or why not?

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4. Why are some communities such as Oshawa, Ontario, more vulnerable to a slump in the automobile market than others?

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# CANADA FACES A RECESSION

## *Canadian and U.S. Leaders React to the Crisis*

### Quote

"Deficits are generally bad, but there are occasions in which deficits are not necessarily bad, but in fact they are essential." — Stephen Harper (*Toronto Star*, November 26, 2008)

As the deepening economic crisis in Canada and the U.S. became more serious in late 2008, leaders in both countries were coming under increasing pressure to introduce policies to head off a major recession. In Canada, Stephen Harper's Conservatives had recently been re-elected, but with a minority government. South of the border, the incoming Democratic administration of President-elect Barack Obama was set to take office in January 2009. However, the two leaders and their respective governments were pursuing very different approaches to the gathering economic storm.

### **Canada: Harper waits for the new year**

The economy was a major issue in the election campaign that saw Stephen Harper's Conservatives return to power with a strengthened minority position in October 2008. However, at that time Harper and Finance Minister Jim Flaherty were reassuring Canadians that although economic conditions were deteriorating, the country was probably not heading for a full-blown recession. In addition, the Conservatives promised that they would maintain a balanced-budget policy and not put the country's finances into deficit should they be re-elected. Just over a month later, it seemed that the Harper government was reconsidering both of these statements. Flaherty admitted that it was likely Canada would be in a "technical recession" by the end of 2008, and Harper indicated that it would likely be necessary for the government to run up a short-term deficit in order to finance measures necessary to stimulate the economy in 2009.

However, unlike U.S. President-elect Barack Obama and other Western leaders, Harper appeared reluctant

to introduce any bold new policies to counter the worsening economic situation in Canada. Despite the fact that the Organization for Economic Cooperation and Development (OECD) predicted in late November that Canada was heading for a recession and rising unemployment, Harper refused to give any details of a fiscal stimulus package prior to the unveiling of the next federal budget, expected in February 2009. This reluctance was puzzling, given Harper's statement at a global economic summit in Lima, Peru, in early November that the world may be facing an economic slump even more serious than the Great Depression of the 1930s. And although Flaherty promised he would address the recession in his financial update to be delivered to Parliament in early December, it was unlikely that this statement would contain any dramatic new policies. In fact, his fiscal statement caused much anger and division in the newly elected Parliament and threatened to overturn the new minority government.

The opposition parties were quick to pounce on the government's alleged foot-dragging over the recession, and also for its apparent flip-flop on the issue of fiscal deficits. Outgoing Liberal leader Stéphane Dion accused Harper of "getting it wrong" on both issues and of misleading the Canadian people during the election campaign by promising not to abandon his balanced-budget policy. For his part, New Democratic Party (NDP) leader Jack Layton stated that Harper was "asleep at the switch" as the country teetered on the brink of economic disaster and wondered why he was not announcing any substantial policies to deal with the crisis, as other leaders were doing.

Economists too were critical of the Harper government's inaction and reluctance to introduce new infrastructure programs that would create jobs and stimulate the economy. Avery Shenfeld, an economist at CIBC World Markets, stated: "Historically the evidence suggests that infrastructure has the biggest bang for the buck. The only problem is the delay." And Derek Holt, vice president of economics at Scotia Capital Inc., cautioned that, "if you wait till the spring, you're potentially throwing in stimulus far too late. We've got to move really quickly." These and other economic experts believed that one of the major threats to the Canadian economy was the plummeting level of consumer confidence, leading people to hesitate before making major purchases or investments. In order to restore Canadians' faith that the economic situation would turn around, these and other economists argued that it was essential for the Harper government to show that it was taking the crisis seriously and propose some sweeping, specific policies to deal with it immediately.

### **Team Obama unveils its program**

Although he does not officially take office until January 2009, U.S. President-elect Barack Obama has not been hesitant to announce the economic policies he intends to introduce to deal with the growing recession in his country. He has also named the members of the economic team of experts he will be working with to push these policies through Congress and into reality. At a Chicago news conference a few weeks after his election, Obama told reporters that, "we are going to do what is required to jolt this economy back into shape." This would mean a massive federal fiscal stimulus plan that could cost the U.S. government up to \$700-billion and be designed to save or create 2.5 million jobs by 2011.

Obama also used the opportunity to

introduce three members of his economic team of advisors: Treasury Secretary Jim Geithner, National Economic Council director Lawrence Summers and Council for Economic Advisors director Christina Romer. Obama stated that one of his immediate actions upon assuming the presidency would be to offer a bailout package to Citigroup, the latest U.S. financial institution to go bankrupt. The reaction of Wall Street to "team Obama's" announcement was strongly positive, with the Dow-Jones industrial average showing a significant gain after days of losses.

Obama's stimulus package will focus on programs that will rebuild the country's decaying infrastructure—roads, bridges, and schools—along with developing new sources of energy to replace petroleum. In addition, the Democratic-controlled Congress will also reconsider the appeal from the CEOs of the "big three" automobile manufacturers for a \$25-billion bailout to help them avoid going bankrupt, with the potential loss of millions of jobs in that crucial sector of the U.S. economy. Obama's choices for his team of economic advisors sent out a strong signal that his administration would be taking the country in a very different direction from that of the outgoing Republican president, George W. Bush. Unlike Bush, Obama believes that there is a major role for government to play in curbing the excesses of the free-market capitalist system that can occasionally lead to financial crises, recessions, and economic hardship for many people. For example, Lawrence Summers has called for much greater oversight and government regulation of financial institutions in order to avoid the "credit crunch" that wreaked such havoc in the housing market, and for strong government action to reduce the widening income gap between rich and poor in the United States.

### Further Research

To learn more about the Great Depression in Canada, visit the CBC Digital Archives at [www.cbc.ca/archives](http://www.cbc.ca/archives) and explore the files "Devastating dry spells: Drought on the Prairies" and "R.B. Bennett: Triumph in Canada's 'great dark days.'"

Predictably, Republicans who now find themselves in opposition were critical of Obama's policies, condemning them as leading to bigger government and higher taxes. John Boehner, the party's leader in the House of Representatives, stated that, "families and small businesses are hurting, and they're asking for solutions that let them keep more of what they earn rather than spending more of it." But the verdict of the November 2008 U.S. election was clear, indicating that a majority of Americans wanted a new direction in the government's economic policies.

Obama in some ways was seeking to model himself and his administration after the great Democratic president Franklin D. Roosevelt, who first came

to power during the depths of the Great Depression in 1933. He did not hesitate to proclaim a "New Deal for the American people," that would result in a far greater role for government in managing the U.S. economy, creating new jobs, and restoring public confidence in the capitalist system. If the recession continues to worsen, then Americans may be looking to Obama as a second Roosevelt who can use his mandate from the voters to turn the economy around.

Sources: "Canada bides time, U.S. sets course," *The Globe and Mail*, November 25, 2008, and "Dion: PM got it wrong on deficit, recession," [www.cbc.ca/money/story/2008/11/25/flahertyupdate.html](http://www.cbc.ca/money/story/2008/11/25/flahertyupdate.html)

### Analysis

1. Why was the Canadian government of Prime Minister Stephen Harper reluctant to announce any major economic policies to deal with the recession before the federal budget of early 2009?

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2. In what ways are the economic policies that U.S. President-elect Barack Obama has announced so different from those of the outgoing Bush administration?

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3. Which policy approach is best for dealing with the growing concerns about the economy in Canada and the United States: Harper's or Obama's? Why?

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### Extension Activity

Find out more about U.S. President Franklin D. Roosevelt and his "New Deal" and discuss whether you think this might be a good model for President-elect Obama to follow in dealing with the current recession.

# CANADA FACES A RECESSION

## *A Glossary of Economic Terms*

Here is a list of some important economic terms and what they mean. Try to make them active parts of your vocabulary when discussing economic issues.

**Recession:** A period of slow or negative economic growth, usually leading to widespread unemployment. Economists define a recession either as a period when the economy is growing at less than its long-term rate of growth, or more specifically as two consecutive quarters of the year when the Gross Domestic Product (GDP) has fallen below zero. This indicates that the economy has not only stopped growing, but is experiencing “negative growth.” Canada and the U.S. suffered two severe recessions during the early 1980s and 1990s, but rebounded strongly from them and witnessed considerable growth in their economies and increased prosperity during the last half of both decades. The early 2000s have also been a “boom” period in the economy, particularly in the real estate market, which now shows signs of slowing down.

**Depression:** A severe and prolonged recession. Economists do not have a clear or precise definition for a depression and usually point to the example of the Great Depression of the 1930s as a way of distinguishing it from the recessions that have occurred since then. During the Depression, the economies of Canada, the U.S., and many other countries ceased to grow. Unemployment skyrocketed to levels never seen before or since. Banks failed, people lost their homes, and the capitalist system came close to total collapse.

In the U.S., President Franklin D. Roosevelt proclaimed a “New Deal” that sought to restore the economic health of the country with massive government spending on job-creation programs. But

the real solution to the problems of the Great Depression, especially widespread unemployment, proved to be the onset of the Second World War. In 1939, a decade after the Depression started, many Canadians were still without work before the demand for weapons and war materials created thousands of jobs in wartime factories, bringing the Depression to an end.

**Debt:** Going into debt is not viewed as a wise move, but it is sometimes necessary for individuals, companies, and even governments to do so to make investments they might not otherwise be able to afford. Individuals borrow money from banks to finance the purchase of homes, cars, and other big-ticket items that would be difficult to pay for all at one time. Companies borrow millions of dollars for investment and expansion, and even governments borrow money to finance major spending projects and programs. The national debt is the total amount of money a country’s government has raised that has not been paid off. The current estimated U.S. national debt is a staggering \$8-trillion, or approximately half the country’s GDP. By contrast, Canada’s national debt is \$460-billion (about 27 per cent of the GDP).

**Deficit:** A fiscal deficit occurs when a country’s government spends more in a given year than it collects from taxes and other sources of revenue. Deficits are generally viewed as undesirable but are sometimes necessary when the economy is in a recession and government spending is required to stimulate it,

**Did you know . . .**

Canada has balanced its books and avoided a deficit every year since 1997-98.

**Note**

The term *subprime* does not refer to the interest rate being charged on a mortgage. It refers to the risk associated with a borrower. A subprime mortgage is between a lender and a customer with a below-average credit rating.

by creating jobs and restoring public confidence. During the 1990s, the Liberal government of Prime Minister Jean Chretien and Finance Minister Paul Martin set the elimination of budgetary deficits as a high priority.

Through a combination of spending cuts and the elimination of certain government programs, the big deficits of the 1980s were slashed, and by the end of the decade, the federal government could boast that it had “balanced the budget.” It was even able to achieve budget surpluses, where more money was being collected than spent. This additional revenue was used for increased spending on social programs, reducing the national debt, and cutting personal and corporate income taxes. Since then, governments of all political stripes have generally endorsed the principle of a balanced budget and have been very reluctant to incur deficits again. However, the growing recession of late 2008 forced the Conservative government of Stephen Harper to reconsider its previous opposition to deficits in difficult economic times.

**Credit crunch:** Credit is any form of loan that a bank or other financial institution offers to an individual, company, or even a government. These loans must be paid back over a period of time, and include interest, which is the cost of borrowing money. A credit crunch occurs when financial institutions start to withhold loans or make the conditions for obtaining one more stringent than they previously were. When this happens, the effects on the economy can be very severe, and not only for individuals who are unable to finance big purchases on credit, but also for financial institutions who frequently lend money to each other.

The wave of bankruptcies of such firms in the United States, coupled with the collapse of the subprime mortgage

market, falling housing prices, and mortgage foreclosures, are all symptoms of the credit crunch. Many government leaders and economic experts hoped that the credit crunch would not affect other areas of the economy, such as manufacturing. However, by late 2008 it was beginning to appear that it had played a major role in triggering a serious recession.

**Mortgage:** A loan to purchase a home. In Canada and the U.S. most people’s mortgages are issued by banks and other financial institutions and are amortized (paid back) over a lengthy period of time, with interest. The terms and conditions for the issuing of a mortgage are much more highly regulated in Canada than they are in the U.S. Many Americans with low incomes were able to obtain subprime mortgages at low rates of interest with almost zero down payment required on the homes they were buying.

After a period of time, the interest rates on these mortgages increased dramatically, making it difficult for the owners to make their monthly mortgage payments. In addition, falling housing prices put many people into a position of “negative equity,” meaning that the outstanding amount of the mortgage on their home was greater than the property was worth. This led to a wave of foreclosures across the country. Because government regulations in Canada make the issuing of subprime mortgages almost impossible, it is unlikely that such a situation can occur in this country. However, in a recession, housing prices have a tendency to fall as people either hold back on purchasing a home or wait until the recession bottoms out and buy before house prices start to rise again.

Sources: “Economics A-Z,” [www.economist.com/research/economics/searchActionTerms.cfm](http://www.economist.com/research/economics/searchActionTerms.cfm), “A quick romp through the credit crunch,” CBC News

In Depth: Personal Finance, [www.cbc.ca/news/background/personalfinance/subprime.html](http://www.cbc.ca/news/background/personalfinance/subprime.html), and "The U.S. subprime mortgage meltdown," CBC News In

Depth: Personal Finance, [www.cbc.ca/news/bckground/personalfinance/mortgage-meltdown.html](http://www.cbc.ca/news/bckground/personalfinance/mortgage-meltdown.html)

## Inquiry

1. What is the major difference between a recession and a depression? Why do you think many economists and government leaders are reluctant to use these words in describing economic conditions?

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2. Why do governments try to keep their budgets balanced? When it is advisable for them not to do so and instead incur budgetary deficits?

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3. Why was the "credit crunch" that started in the U.S. in 2007 such a serious problem for that country's economy?

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4. How is the issuing of mortgages in Canada more tightly regulated than in the United States?

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5. In your view, how likely is Canada to enter into a recession or a depression? Explain carefully.

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# CANADA FACES A RECESSION

## *Activity: Brainstorming Solutions*

Form groups with your classmates to brainstorm and propose solutions to the economic problems Canada is likely to face should a serious recession occur starting in late 2008 and continuing into 2009 or possibly even beyond. Be prepared to share your suggestions in a full-class discussion session.

Here are some possible solutions that may assist you with this activity:

### **1. Personal Tax Cuts**

The government cuts personal income taxes to give individuals more money to spend on the purchase of goods. This is intended to boost consumer confidence in the economy, prompt more spending, and spur economic growth. If people buy more, then companies will have to produce more and will need to rehire workers laid off by the recession.

Tax cuts sometimes can work as a stimulus to the economy, but the problem is that if people are uncertain about the future in a recession, they may choose to pocket the money rather than spend it, or use it to pay off existing debts. As a result, the government has lost much-needed revenue at a time when fewer people are paying taxes because of job losses, and demands on public funds for social assistance programs such as Employment Insurance (EI) are growing.

### **2. Infrastructure Program Spending**

When governments invest large sums of money to build and repair roads, bridges, public transit, and other areas of transportation, more people are needed to work and the economy is boosted. In addition to this short-term benefit, infrastructure improvement programs also have a positive long-term impact on productivity and economic efficiency, in addition to providing better public transportation for Canadians.

The Federation of Canadian Municipalities, which represents the mayors of Canada's cities and towns, is lobbying the federal government for a \$3-billion investment in infrastructure development that would grow to \$9-billion when provincial and municipal levels of government contribute matching funds to it. This investment would eventually create 100 000 new jobs in construction and other related industries. However, it is very difficult to plan such projects and achieve the agreement necessary among the three different levels of government in time to ward off the immediate effects of a major economic downturn.

### **3. Corporate Tax Cuts**

Cutting corporate taxes encourages businesses to expand their investment and activities, requiring more jobs and thus stimulating the economy. Countries such as Ireland that have cut corporate tax rates have seen many companies locate there because they can be more profitable than elsewhere. This has had a very positive effect on the Irish economy, creating many new jobs.

A cut in corporate tax rates does increase business confidence, encouraging firms to invest their profits in expansion, research and development, and further investment. But it does little or nothing to help those companies that are not

profitable, such as the automobile firms facing slumping sales and production resulting from the recession. Instead of a tax cut, such companies are looking for a direct financial bailout in order to remain in business, which may be a risky investment for governments to make with taxpayers' money (see below).

#### **4. Direct Financial Aid to Troubled Industries**

The government chooses a struggling sector of the economy—such as the automobile industry—to receive a special financial bailout to help it avoid bankruptcy and rebuild as a stable, productive industry.

Such bailouts may be necessary. One example is the \$700-billion the U.S. Congress approved in October 2008 to assist near-bankrupt banks, financial institutions, and insurance companies. Allowing these firms to fail could have triggered a massive recession, or even a full-scale depression. But there is no guarantee that the \$25-billion the “big three” automakers have requested from the U.S. Congress would help them out of the deep financial hole in which they now find themselves. Some critics of the industry, including prominent filmmaker Michael Moore, argue that the problems of the U.S. automobile industry are largely of its own CEOs' making, and that public funds should not be used to pay for its mistakes, such as continuing to build large and fuel-inefficient vehicles that consumers no longer want or can afford to buy. In the worst-case scenario, the government could issue the bailout to a company that goes bankrupt anyway, leaving taxpayers to pick up the tab.

Source: “Can Harper fix it? The recession,” *Toronto Star*, November 26, 2008

### **Extension Activity**

Select your best ideas and pass them on to the Prime Minister of Canada.

You can send your comments by e-mail to [pm@pm.gc.ca](mailto:pm@pm.gc.ca) or write or fax the Prime Minister's office at:

Office of the Prime Minister  
80 Wellington Street  
Ottawa  
K1A 0A2  
Fax: 613-941-6900

You might also contact your local member of Parliament or send your comments to the Letters-to-the-Editor page of your local newspaper.