

A United Steelworkers District Three Publication

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# The Meltdown Chronicles

## WHILE HARPER CLAIMED “FUNDAMENTALS FINE”, THINGS UNRAVELLED

By Kim Pollock



The past year was dismal for Canadian workers, their families and their communities. The global economic meltdown brought job loss, declining economic opportunities, lost savings. Yet our political leaders have worked overtime to persuade us the “fundamentals” of the Canadian economy were “sound”.

Finance minister Jim Flaherty, for instance, claimed in late July: “Different experts have different views about the likely growth, but its all on the plus side in terms of positive economic growth in Canada this year and next.” Prime Minister Stephen Harper said in September: “Canada is not in the same situation as the United States... The Canadian economy's fundamentals are solid.”

Even after the federal election, on October 30 Harper claimed: “The fundamentals of Canada's economy remain stronger, more stable and more durable than those of many other nations.”

But if Canada is doing much better than the US as Flaherty suggests, it's hard to find signs that we enjoy especially strong fundamentals.

### *Let's Consider Those “Fundamentals”*

In the key area of business profits, for instance, Canadian corporations have experienced the same long-term decline as the US: (*chart below*)

As in the US as well, workers' real wages have stagnated. In measuring real wages we control for inflation to see what workers' pay will actually buy. “Between 1980 and 2005, the median real earnings of Canadians workers stagnated, while labour productivity rose 37 per cent,” report Andrew Sharpe, Jean-François Arsenault, and Peter Harrison in a 2008 study for the Centre for the Study of Living Standards.

In addition, Canadian business productivity is nothing to rave above. A new study by Proudfoot Consulting finds that only 11 per cent of Canadian firms could be considered “high performers” when it came to productivity gains, compared to 22 per cent of international corporations. In fact Canadian businesses are believed to leave untouched 42 per cent of potential productivity gains, compared to 30 per cent globally.

A 2007 study by the Certified General Accountants Association of Canada found that the growth of capital intensity – the amount of machinery and equipment used per worker – fell from 0.4 percent in 1996 to -0.6 percent in 2004. The ratio of real investment in machinery

**Figure 8**  
**Profits/GDP**



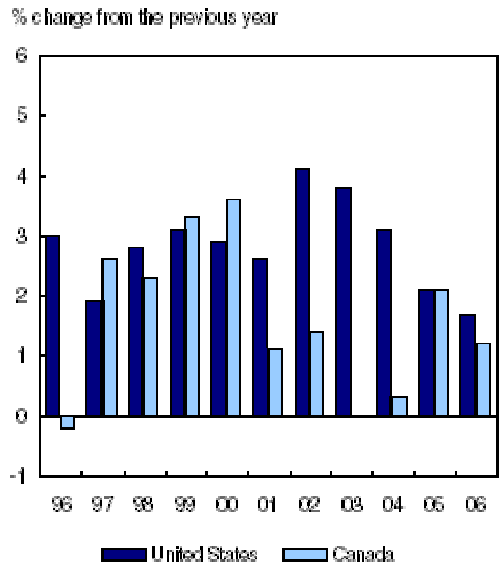
and equipment (M&E) to GDP was only 6.8 percent between 1981 and 2004, compared with 7.9 percent of the United States, despite the fact that manufacturing is Canada's second-largest industry and relies heavily on M&E investments to remain competitive. As this graph from Statistics Canada shows, neither Canada nor the US has performed especially well in productivity in recent years -- but Canada clearly comes out on the bottom:

*“Over the last five years Canada has lost more than 350,000 jobs.”*

A recent report by the US Bureau of Labor Statistics shows just how badly Canada's manufacturing sector has performed globally. It compares average annual growth rates from 2000 to 2007 for a number of indicators. In terms of real manufacturing output for example, Canada dropped 0.3 percent annually, worst among the 16 countries considered.

In productivity Canada also ranks near the bottom. Average output per hour in manufacturing grew 1.1 percent per year from 2000 to 2007; only Italy was worse. Employment fell at an average rate of 1.2 percent, ranking in the middle of the pack of the 16 countries for the whole period. Remember however that manufacturing was still doing well in 2000 and 2001: since 2003 the decline in Canadian manufacturing employment has been the second worst of the 16 – only the U.K. has experienced more job loss.

Productivity growth slows in both countries in 2006



It's certainly true that Canadian exports have fared better than the US. However fully half the 3.2 percent annual increase in exports since 2003 has consisted of energy products – mainly oil and gas for the energy-dependent US; they account for half of export growth. Other key sectors such as lumber, machinery and equipment and autos have either stagnated or declined since 2003.

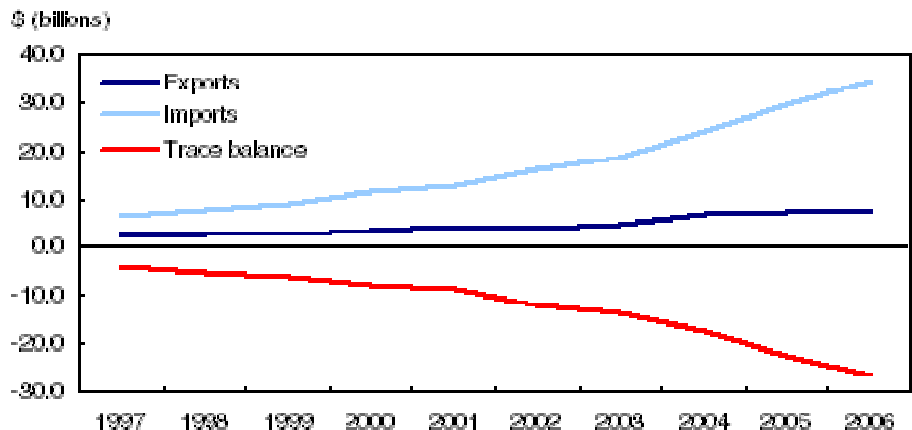
As in the US, we're rapidly losing manufacturing jobs. Over the last five years Canada has lost more than 350,000. Not only have all those petroleum exports helped push up our dollar; we also face the same unfair trade policies and low-wage competitors as the US, made worse by the federal government's failure to deal with the issue.

And the main reason for our declining manufacturing is not at all different from the US, either: the

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growth of trade with China and other low-wage countries and the resulting massive trade deficit, as this graph from Statistics Canada shows:

Again, a big chunk of those imports are manufactured goods. Of \$35.6 billion worth of imports from China in 2006, \$7.2 billion was machinery and equipment; \$6.8 billion electronic goods; \$3.4 billion clothing and apparel; \$2.4 billion toys and games and \$2.2 billion furniture. Just like the US, we are basically trading good-paying manufacturing jobs for billions of dollars worth of manufactured goods from low-wage countries like China. And just like the US, Canadian corporations have eagerly taken advantage of China's low wages, firm "labour discipline" and lax environmental standards.

A report by the Department of Foreign Affairs and External Trade says that: "The stock of Canadian FDI in China for 2006 was \$1.56 billion. Though current Canadian investment in China is modest, the potential for further investment is substantial. Canadian investment in China covers a broad range of sectors including transportation, biotechnology, education, finance, information technology, manufacturing, and natural resources."



The impacts of this growing trade deficit on living-standards and social services are easy enough to find. Look at health care. Although we Canadians pride ourselves on our publicly-funded health-care system, Medicare has in fact been seriously eroded in the past 20 years. A 2005 Statistics Canada survey of out-of-pocket health-care expenses

found, for instance, that Canadian families' out-of-pocket spending on medications rose by 71 percent between 1992 and 2002, while out-of-pocket health-care spending in general rose by 53 percent.

In fact, a paper presented by Kam Yu and Ruolz Ariste at the Canadian Economic Association's Annual Meeting in June 2008 indicates that with cutbacks, rising costs and privatization, today only 68 percent of Canada's health-care system is publicly-funded; of seven countries surveyed only the US (44.5 percent) provided less of its health care through the public system; France, Germany, Italy, Japan and the UK all provided much more.

And Medicare and other social programs will be under even greater pressure as federal and provincial governments go into a deficit position. The federal government forecast combined deficits of \$84.4 billion over the next five years. Both Ontario and British Columbia will also post big deficits this year and likely for years to come; other provinces are almost sure to follow.

Again, as late as December Harper and Flaherty denied there would be a deficit, even though it was clear that a deficit was unavoidable even without a major economic stimulus plan. As long ago as April, for instance, bond-rating agency DBRS said Canada might post a budget deficit year for the first time since 1996-97. Even then, DBRS said the Conservative government's assumption of 1.7 percent economic growth this year "may turn out to be optimistic" and that more sluggish growth could lead to lower revenue in the 2008-09 fiscal year.

In other words, Canada's economic fundamentals appear to be about on a par with those of the US, perhaps with the exception of petroleum exports. In other sectors, however, we see the same decline in manufacturing, productivity, profitability, exports and wages.

And remember one other major factor: Canada's huge dependence on the US market itself. Nearly 80

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*"Canadian families' out-of-pocket spending on medications rose by 71 percent between 1992 and 2002"*

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per cent of Canadian goods exports go to the United States, contributing roughly 22 per cent of economic activity. Add in services, and the U.S.-centric orbit of the Canadian economy is even more pronounced.

The collapse of the US residential-housing market beginning in late 2006, for instance, threw Canada's key forest-products and building-materials industries into a deep and prolonged slump. So even were our fundamentals sound, it wouldn't take a faltering US economy very long to undermine that "soundness".

### *Canadians Deserve Better*

Like leading figures in the Bush administration in the US, Stephen Harper and Jim Flaherty obviously were either lying or didn't know what they were talking about when they claimed the fundamentals of our economy were sound. Canada's economic fundamentals were not sound during 2008; they are even less sound now. Yet it took the threat of a coalition of Parliamentary opposition parties promising to bring down his government to force Harper to bring in even a tepid economic stimulus budget. And even though Liberal leader Michael Ignatieff now says he'll support it, that budget will in fact result in very little stimulus or job creation.

The nasty truth is that Harper doesn't particularly care about working people, their families or their communities. His priorities are those of Big Oil and Big Business. As long as the oil flows south and the profits flow to oil companies and banks, they don't much care about economic conditions in Canada. If Canadian workers lose their jobs, that's their problem. Even the threat of massive unemployment couldn't convince Harper, Flaherty – or Ignatieff – to reform the Employment Insurance system to provide more benefits to more Canadians, even though we all pay into the EI Fund.

Surely it's about time we demanded better. Canadian workers need a stimulus plan that will create good-paying jobs doing useful work – transportation, public works, alternative energy projects, infrastructure. And we need to rebuild the major sectors of our economy. If corporations won't do it, the government must. We should be taking advantage of slow times to create the basis for a secure economic future for all Canadians, not just Harper's wealthy constituents on Bay Street and in the Oil Patch.

And we should all stop listening to Harper and Flaherty. After all, they have proven that they either don't know what's going on or can't be trusted to tell the truth. ♦

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