

Paul Martin's Economic Record Living Standards of Working Families and Prospects for Future Prosperity

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December 2003

Between 1993 and 2002, Paul Martin was the single major architect of Canadian economic policy, and the policies for which he was responsible shaped key outcomes. Mr. Martin can, and does, point to a record of strong economic growth and rising employment during his watch: by the key measure of growth of real GDP per person, Canada put in just about the strongest economic performance of any major industrialized country, including the U.S.

However, the overall economic record is more flawed when viewed from the perspective of working families, who have mainly increased their incomes by working longer hours. The quality of jobs has not greatly improved, despite strong employment growth. And income inequality and poverty have both increased when account is taken of the state of the business cycle. Re-distributive economic transfers, economic security, and access to public and social services were all undermined by Mr. Martin's spending cuts, particularly cuts to the Employment Insurance program and transfers to the provinces.

Economic Growth and the Well-Being and Incomes of Canadians

While the GDP growth numbers have been impressive, it is striking that income in the hands of households failed to grow at anywhere near the same pace. Real GDP per person grew by 26.9% between 1993 and 2002, but real personal income per person rose by just 11.5% over this period, or by an average of only about 1% per year.

There are two major reasons for this. First, government income transfers to households fell sharply as a proportion of national income. Thus, gains in labour income from higher employment were, in the aggregate, offset by lower income transfers to households from all levels of government. Second, corporate pre-tax profits have grown as a share of national income at the expense of wages and salaries.

Declining Transfers to Working-Age Households

While GDP growth was strong in the 1990s and did raise incomes from work as unemployment fell, the impact on incomes of working-age households was significantly offset by cuts to EI and social assistance programs.

Both EI and welfare benefits fell in dollar terms because of falling unemployment, which is a good thing. But Paul Martin's cuts to EI benefits had a big negative impact on spending as well. In 1993, there were 1.6 million unemployed workers on average over the year, 57% of whom collected regular EI benefits. By 2002, the number of unemployed had fallen to 1.3 million, but just 38% of the unemployed now qualified for benefits. The dollar saving was much greater than that justified by the fall in unemployment, and the cost was borne directly by the unemployed.

Mr. Martin's re-design of the federal child benefit system, notably the introduction of the National Child Benefit, resulted in higher benefits for some low-income working families with children but, by design, did not provide an income supplement for the many low-income families with children on provincial social welfare programs.

Cuts to provincial transfers and the elimination of 50/50 federal cost-sharing of welfare under the Canada Assistance Plan pushed the costs of social assistance (and related social programs such as child care) onto the provinces, including provinces which had little fiscal room to manoeuvre.

Soaring Household Debt

Soaring household debt has been the flip side of mounting government surpluses. Over the last decade there has been a very sharp decline in the personal saving rate. Canadian households saved between 10% and 15% of their incomes from the mid-1970s through to the early 1990s, but the savings rate fell from 11.9% in 1993 to historic lows of 4.2% in 2002. By 2002, the average Canadian household held consumer and mortgage debt equal to 98% of their after-tax income, up from 85% in 1993.

Employment, Unemployment and Job Quality

While the overall job creation record is very impressive, there were some flaws in the record.

Young people relatively lost out, public sector jobs shrank, and at least one in three adult part-time workers, overwhelmingly women, want but cannot find full-time jobs, and part-time jobs are much lower paid on average and provide lower benefits than do full-time jobs.

There was a slight tilt towards more precarious and insecure forms of work hidden in the overall job creation record. This had disproportional impacts on women workers and workers of colour, who are much more likely to hold "precarious" jobs.

Furthermore, the erosion of EI has made such temporary unemployment relatively more painful and the erosion of union density is associated with shrinking pension and health benefits coverage, a higher incidence of low pay, and larger pay gaps between women and men and between workers of colour and all other workers.

Stagnant Wages

While job growth has been healthy and has certainly benefited working families, it is striking that, on average, there were no real wage gains whatsoever for workers during Mr. Martin's tenure as Minister of Finance. Real median annual earnings did increase -- by 10%-- between 1993 and 2001 (from \$23,028 to \$25,387), but this was due to working more hours in the week and weeks in the year, rather than because of higher wages per hour or week. International data show that the incidence of low pay in Canada is, among the advanced industrial countries, second only to the U.S.

Increasing Income Inequality

Income inequality increased significantly in the Martin years, mainly because the increasingly unequal distribution of market income was not offset to the same extent as in the recent past by government transfers to lower income families.

The top 20% of families increased their share of after-tax/after-transfer income between 1993 and 2001, from 37.1% to 39.2% of the total, while the share of all other income groups, including the bottom 20%, fell. This is unusual in a period of strong economic recovery, which usually provides strong benefits to lower- and middle-income groups because of falling unemployment.

Poverty rates for the working-age population in 2001 were still well above the level of 1989, when unemployment was at about the same level. The fact that the child poverty rate was about the same in 2001 as in 1989 is no reason for great celebration, given that this was the decade for the elimination of child poverty.

The Social Wage

While Mr. Martin was directly responsible only for federal spending cuts, lower federal transfers to the provinces certainly played a major role in reduced spending at the sub-national level.

Canadian governments collectively spent 34.8% of Canadian GDP on programs in 2001, while U.S. governments spent 31.9% of GDP. The difference between the two countries fell from 10.9 percentage points of GDP in 1992 to a remarkably small difference of just 2.9 percentage points in 2001, as Canadian government spending fell by almost 10 percentage points of GDP. In short, there has been a major convergence of Canada towards the small government/high inequality/high insecurity U.S. social model.

Canada now spends relatively less than the U.S. on public education, the result of recent cuts in Canada and increases in the U.S. We spend only a bit more on health (though we spend much more efficiently because of public delivery and a single-payer Medicare system). We also spend relatively

more on housing and community services and recreation and culture, though these are relatively small areas of expenditure.

Good Jobs: Building a More Productive and Innovative Economy

In the famous 1993 Red Book, the Liberals committed themselves to building an innovative "knowledge-based economy" through higher levels of public and private investment in research and development, education, and training. However, balanced budgets, tax cuts, deeper integration of the manufacturing sector in the North American economy, and "supply-side" industrial strategies have done little to decisively shift the structure of our industrial economy away from natural resources and relatively unsophisticated manufacturing towards the more dynamic and faster-growing, "knowledge-based" industries.

For all of the focus placed by Mr. Martin on building a "knowledge-based economy," Canada has taken only small steps in that direction in recent years. This begs the question of whether much more interventionist policies -- such as green industrial strategies based on subsidies, regulation, and direct public investment -- are needed in place of a purely "supply-side" strategy.