

## **The Myth of Canadian Exceptionalism: Crisis, Non-Recovery, and Austerity**

—*Jim Stanford*<sup>1</sup>

Since the onset of the global financial crisis and resulting worldwide recession in 2008, Canadian political leaders have consistently boasted (to both domestic and international audiences) about Canada's supposedly superior record in avoiding the worst effects of that crisis, and then quickly repairing the damage and getting back to previous trajectories of growth and prosperity.<sup>2</sup> Indeed, at first federal leaders (led by Finance Minister Jim Flaherty) even denied that Canada would be caught in the global conflagration at all – illustrated most strikingly by Mr. Flaherty's ill-fated fiscal update of October 2008, which denied the existence of a recession which in fact had already hit the country (Department of Finance, 2008).<sup>3</sup> Once it became obvious that this could not be true, the government changed tack, and – in cooperation with other countries, as agreed at the G20's emergency summit meeting in Washington in November 2008 – launched a powerful but temporary series of emergency fiscal, monetary, and financial measures.

The recession that then hit Canada was quick and sharp, but short-lived (by technical economic definitions, anyway): real gross domestic product (GDP) bottomed out in July 2009 and began to grow again. By the autumn of 2010 real GDP had regained its pre-recession peak (reached two years earlier). A few months later (by January 2011), total employment also regained its pre-recession peak, and the government crowed that the damage from the recession had thus been fully repaired. Political

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2 This work extends and updates previous research by the author. See Stanford, 2012; 2012b.

3 The glaring sense of denial which infused that document sparked the subsequent political crisis during which the opposition parties united to vote non-confidence in the minority Conservative government, followed by the prorogation of Parliament by the Governor-General.

figures naturally credited their own economic management for this purported recovery – including, variously, tax cuts (implemented before and during the recession), Canada’s relatively lower public debt, the emergency fiscal and financial measures taken during the crisis, and Canada’s more stringent banking regulations. Economic conditions may be sub-optimal, it was acknowledged, but Canadians should be grateful that the country survived the crisis so much better than the rest of the world. This argument was a potent weapon in the Conservatives’ successful campaign to win a majority mandate in the election of spring 2011.

The traditional “rule of thumb” of economists in Canada is that a recession occurs when real GDP declines for two consecutive quarters, and a “recovery” commences when real GDP begins to expand again. By this definition, the recession lasted for three quarters beginning in the autumn of 2008, and recovery began in the summer of 2009. Real GDP has continued to edge ahead (albeit unspectacularly and unsteadily), employment has increased (also fitfully), and the economy seems headed in a forward direction. So has the Canadian economy indeed been “exceptional” in how the crisis was experienced and managed here?

It turns out that both components of the government’s dual boast – that Canada fared much better than other countries, and that the damage from the recession has already been repaired – are false. And both claims founder on the same underlying empirical fact: Canada’s population grows over time, and relatively quickly. Trends in absolute levels of output and employment need to be considered in the context of that population growth. On average over the last five years, Canada’s total population has increased by about 1.2 percent per year. The working age population (aged 15 years and over, by Canadian statistical definitions) has been growing slightly faster than that: about 1.3 percent per year. With a growing population, therefore, the economy must continuously generate new employment opportunities, and new output and income, simply to support a constant standard of living and a steady degree of labour market utilization. Comparisons of the total number of jobs, or the total volume of output, over time require adjustments for this ongoing expansion in the Canadian population.

In fact, Canada’s population growth is among the fastest in the industrialized world. Canada’s population growth rate is faster than any other G7 economy (including the U.S.), faster than Mexico’s, and nearly twice the Organization for Economic Cooperation and Development (OECD) average. Strong population growth generates a certain underlying economic momentum (since growing population naturally stimulates underlying growth in consumer spending and other variables). But it also sets

a higher “bar” in order to maintain a steady-state economic standard: the Canadian economy must generate hundreds of thousands of new jobs each year, and tens of billions of dollars in new GDP, just to maintain existing economic and labour market conditions. When Canadian officials boast that the pace of job-creation or GDP growth is relatively high compared to other countries, they neglect to mention that Canada’s economy *must* generate more growth and jobs, just to stand still. Other industrialized countries (like Japan or Germany), where population is stagnant or even declining, do not need to generate such significant annual expansion in order to protect existing benchmarks. Similarly, when political leaders claim that the absolute level of employment or production has regained and surpassed pre-recession peaks, they neglect to consider the impact of ongoing population growth in the several years since those pre-recession peaks were reached.

Any comparisons of economic and employment performance, therefore, whether over time or across countries, must take account of the impact of population growth on measures of utilization or prosperity. Once those adjustments are made, then the tone of self-congratulation which typifies so many official pronouncements on Canada’s recent economic performance is shown to be thoroughly unjustified. This paper will consider in turn the twin claims made by Canadian political leaders: namely, that the damage done by the recession to the Canadian economy and labour market has now been repaired, and that Canada did much better than other industrialized countries in traversing the difficult economic conditions of the last few years. Section I indicates that after adjusting for population growth, the recovery in neither GDP nor employment since the recession has yet to recoup the ground lost during the 2008-09 downturn. In the labour market, in particular, the pace of employment-creation has lagged far behind the pace of population growth. After adjusting for population growth, just one-fifth of the damage done by the recession had been repaired by mid-2012 – fully three years after the official onset of the recovery. Moreover, this key labour market indicator has not improved since the spring of 2010, highlighting the stalling of the Canadian recovery since that time.

As discussed in Section II, Canada’s international economic reputation similarly loses considerable lustre when the data are adjusted for Canada’s faster-than-average population growth. In per capita terms, the change in Canada’s real GDP since 2007 ranks an uninspiring 16th among the 34 countries of the OECD. Similarly, after adjusting for growth in the working age population, Canada’s employment performance has been equally middling: once again ranking 17th (out of 33

reporting countries) in terms of the change in the employment rate since 2007. If there is one word to summarize Canada's economic standing among its industrialized peers, it should be "mediocre."

Section III provides further comment on another factor that has been suggested as contributing to Canada's economic performance during and after the global financial crisis: the relative stability of the Canadian banking system. While Canadian financial markets experienced significant stress during the worst moments of the global crisis, no Canadian banks failed, and credit conditions did not experience the same degree of contraction as in U.S. and European markets. This relative stability certainly constituted a Canadian "advantage" in recent years. The reasons for this stability are considered, with special emphasis on the role of powerful stabilizing state interventions – both long-standing policies and regulations, and emergency measures implemented during the crisis. The exceptionalist claim that Canadian banks were somehow inherently immune from the global meltdown is refuted; the success of the Canadian financial system in traversing the global meltdown reflects state policy, not any embedded advantages of Canadian banks.

## **PART I: HISTORICAL COMPARISONS**

Canada's economy (measured by real output) began to shrink in the third quarter of 2008, and declined close to 4 percent by summer 2009, when the official recession ended and real GDP began to recover. In per capita terms, however, the downturn began somewhat earlier: at the beginning of 2008, when slowing economic expansion began to lag behind ongoing population growth. Real per capita GDP then fell by over 5 percent by summer 2009. The decline in the per capita measure was worse than the fall in total GDP, because of the impact of ongoing population growth that continued even as the economy was in recession.

As indicated in Figure 1, real per capita GDP has improved fairly steadily but slowly since mid-2009, with the exception of the second quarter of 2011 when total GDP (and, of course, per capita GDP) declined. However, those 9 quarters (over two years) of economic progress have repaired only about 70 percent of the reduction in real per capita GDP that occurred during the downturn. Real per capita GDP remains 1.4 percent lower as of the third quarter of 2011, than it was at the beginning of 2008. In fact, real per capita GDP is still lower in Canada than it was at the beginning of 2006 (when the Harper Conservative government first took power); during almost six years of Conservative "stewardship," therefore, Canadians have experienced no economic progress (by this measure) whatsoever.

Put differently, real GDP declined by some \$2,100 per Canadian (measured in 2002 dollar terms) during the 9 months of the official recession. The subsequent 27 months of recovery recouped some \$1,500 of that loss, leaving GDP per person \$600 lower than before the recession. Of course, trends in average real GDP per capita are not an adequate portrayal of actual living standards of the majority of Canadians anyway, for several well-known reasons. Average GDP per capita takes no account of the distribution of income, so at a time of growing income polarization,<sup>4</sup> the average measure is an increasingly misleading indicator of the actual material standards experienced by the growing share of marginalized Canadians. And many components of GDP (including corporate profits, depreciation, and others) are never fully reflected in individual incomes or living standards. For this reason, the decline in average real per capita personal incomes has been slightly worse than the decline in real per capita GDP.

In fact, the lasting damage from the recession is considerably worse than that. It is normal for an economy to demonstrate *rising* real per capita output over time, as a result of technological improvements and productivity growth. The pre-recession trend in Canada was for real per capita GDP to increase by around 1.5 percent per year (reflecting capital accumulation, productivity growth, and innovation). Trend *potential* output has continued to grow during the years of recession and subsequent slow recovery (as indicated in Figure 1). Relative to that potential,<sup>4</sup> current real per capita GDP (of about \$39,400 per person, in 2002 dollar terms) is at least 6 percent (or \$3,000) below the level it *would* have reached if the pre-recession trend had been sustained. In this regard, the fact that Canada's economy continues to operate well below its productive potential costs each Canadian thousands of dollars in foregone income each year. And the modest rebound in real per capita GDP experienced since summer 2009 has not been strong enough to begin to close that gap with potential output that was opened up during the recession. This is different from most previous recoveries, which featured periods of above-trend growth which allowed the economy to catch up to potential output.<sup>5</sup>

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4 The Canadian economy was not fully-employed even before the crisis and recession hit in 2008, so even that pre-recession trend does not capture the true full-employment potential of the economy.

5 For example, as Canada exited the painful recession of 1981-82, real GDP began to grow at an annual average rate of 5.6 percent during the first three years after the trough of the recession—more than twice as fast as the average GDP growth experienced in the first three years of the present recovery (author's calculations from Statistics Canada CANSIM Table 380-0002). The recovery after the 1990s recession, however, was also initially halting and uncertain; only by the last five years of that decade was the economy growing at a fast enough clip (almost 5 percent on an average annual basis) to absorb excess capacity still being carried from the 1990-91 recession.

Adjusting employment statistics for population growth results in an even starker comparison to pre-recession benchmarks. Because the potential labour force (represented by the working age population) grows by some 1.3 percent (or around 350,000 Canadians) each year, it is not enough for the Canadian economy to simply create new jobs. It *must* produce enough new jobs to keep up with ongoing population growth; in fact, during a recovery job creation must be even faster, in order to repair the damage done by the recession (as well as offsetting ongoing population growth). The best statistic for comparing the pace of job creation with ongoing population growth is the employment rate, which is the ratio of total employment to the working age population. Especially during periods of sustained labour market slackness, the employment rate is a more appropriate indicator of labour market well-being than the unemployment rate; in particular, it is unaffected by factors such as the decline in formal labour force participation which results when discouraged workers simply give up looking for work.<sup>6</sup> Falling labour force participation reduces the unemployment rate, making it seem like the labour market is strengthening, when in fact discouraged workers are simply throwing in the towel. In this context, the employment rate provides a more accurate reading on labour market conditions than the unemployment rate.

Like real per capita GDP, Canada's employment rate peaked some months before the official onset of recession. The employment rate peaked at 63.8 percent of the working age population in February 2008, after which point the decelerating pace of job creation no longer kept up with ongoing population growth. During the next 17 frightening months, the employment rate plunged by 2.5 percentage points, reaching a trough of 61.3 percent of the working age population in July 2009. That represented the fastest decline in the employment rate of any recession since the 1930s.

The subsequent bottoming and recovery of real output in Canada has hardly recouped any of this sharp downturn. From July 2009 through mid-2010, the employment rate recovered by about one-half of a percentage point, representing one-fifth of the damage that was done to Canadian labour markets by the recession. After summer 2010, however, further labour market progress ground to a halt, as governments shifted from stimulus to austerity and private business investment stagnated.

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<sup>6</sup> As will be discussed, even the employment rate does not capture the deterioration in the quality of work (represented by trends such as increased part-time, contract, and precarious work) that is another feature of a chronically depressed labour market.

During the two years from mid-2010 through mid-2012, the employment rate stagnated at an average of 61.8 percent. The employment rate remains 2 full percentage points below the pre-recession peak. Regaining that pre-recession peak would require the creation of an incremental 570,000 jobs, doubling the number of actual net jobs created in Canada between fall 2008 and mid-2012.

This analysis is rooted solely in the quantity of employment in Canada's labour market, not its quality. But since 2008 there has also been a significant deterioration in the quality of employment in Canada, measured by the incidence of part-time, temporary, and low-wage work. From October 2008 (the pre-recession peak in Canadian employment) through summer 2012, over one third of net new jobs created in Canada were part-time. The share of part-time employment has declined slightly since the recovery formally began in July 2009, but is nevertheless considerably higher than before the recession began.

Similarly, there has been a net reallocation of employment toward lower-wage industries since the recession began. Employment in those sectors of the economy (defined at the two-digit level) which pay higher-than-average wages was still lower in mid-2012 than in October 2008 (mostly due to the net loss of over 200,000 jobs during this time in manufacturing). That means that new jobs in lower-wage sectors account for more than 100 percent of all net new jobs created since the pre-recession peak. This has reinforced the continuing longer-run decline in the average quality of jobs in the Canadian labour market. This decline in employment quality means that the quantitative data on the employment rate described above (properly adjusted for population growth) understates the true extent of weakness in the Canadian labour market.

Whether measured by output or employment, therefore, it is clear that Canada is still grappling with the after-effects of the 2008-09 downturn. In an interesting public opinion poll conducted in late 2011 by the Pollara (2011) firm for the Economic Club of Canada, a full 70 percent of Canadians believed the country was still in an economic recession – even though, according to economists, the recession had officially ended two-and-a-half years earlier. From the perspective of a labour market that was hammered by the recession, and has barely recouped any of that damage since, it is quite understandable why average Canadians could be forgiven for concluding that the recession is still with us. In terms of the employment rate, it clearly still is.

## **PART II: INTERNATIONAL COMPARISONS**

Failing to take account of population growth also distorts international comparisons of economic and employment performance, just as it distorts comparisons over time. For example, Canada experienced the 9th fastest rate of GDP expansion in the OECD, on average, since 2007. However, Canada has a higher-than-average rate of population growth, and hence must generate faster GDP growth simply to “stand still” in terms of per capita standards. If we adjust for differential population growth rates, then Canada’s GDP performance is only mediocre within the sample of industrialized countries.

Table 1 reports the cumulative evolution of real per capita GDP across the OECD from 2007 through 2011. Of the 34 countries in the OECD, Canada ranks only 16th – almost exactly in the middle. Real per capita GDP for 2011 was still 1.4 percent lower than in 2007. Twelve OECD countries have regained and surpassed their pre-recession levels of real per capita GDP (including Germany, Korea, Australia, and several others). These countries might more honestly be able to claim to have repaired the economic damage from their recessions.<sup>7</sup> Canada, in contrast, can make no such claim. Other countries (including Sweden, the Netherlands, Belgium, and New Zealand) have yet to regain their pre-recession real per capita GDP benchmarks, but have experienced smaller declines in that measure than Canada has.

Of the countries which have experienced a worse decline in real per capita GDP since 2007 than Canada, several experienced full-blown financial crises, complete with bank failures and large losses of apparent wealth. This group includes Ireland, Greece, and Iceland (the worst-hit countries), along with the U.K. and the U.S. The fact that Canada’s more strongly regulated banking system avoided these worst-case manifestations of the global crisis clearly contributed to Canada’s avoidance of those very large declines in living standards (and the reasons for this outcome are discussed below). However, among the sub-set of countries which did *not* experience bank failures and associated consequences, Canada’s GDP performance has been relatively poor. Of course, there are many factors affecting each country’s performance during and after the crisis (in addition to the stability of their respective financial institutions).

Canada’s international standing is similarly mediocre in terms of our labour market recovery. Canada’s economy must generate some-

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<sup>7</sup> As noted in Section I, however, simply regaining a pre-recession peak in per capita GDP does not take into account the problem that real output, in the intervening years, has continued to lag far behind potential output.

thing like 225,000 new jobs per year just to keep pace with the ongoing expansion of the working age population.<sup>8</sup> It is not sufficient, then, for politicians to point out that the total number of jobs now exceeds the pre-recession peak. In the nearly four years since that time, the working age population has grown by 1.3 million. A much faster pace of job creation would have been needed in order to create opportunity for new labour force entrants, as well as re-employ those who were displaced by the downturn. Many other industrialized countries, in contrast, do not face that same challenge. Population in some OECD countries (like Japan, Germany, much of eastern Europe, and several others) is stagnant or growing very slowly. In that context, total employment might not grow much at all – yet a given employment rate could still be sustained.

Table 2 reports the change in each OECD country's employment rate from 2007 (the last full year before the recession) to 2011.<sup>9</sup> Canada's average employment rate for 2011 was 0.8 points below its average level for 2007.<sup>10</sup> That ranks Canada 17th out of the 33 reporting OECD countries included in Table 2. Eleven countries (including Germany, Korea, and Australia) achieved a higher employment rate by 2011 than was experienced before the recession. These countries, then, can more genuinely claim to have fully repaired the labour market damage of the recession. In France and Japan, the employment rate is still lower than in 2007, but the decline was not as steep as in Canada.

As with Table 1, the hardest-hit countries in terms of the decline in the employment rate include those (such as Greece, Ireland, Iceland, and the U.S.) where banks collapsed and vast amounts of credit were destroyed. Among a peer group of OECD economies which did not experience such extreme financial shocks, however, Canada's employment performance (like the evolution of GDP) has been relatively poor.

### **PART III: UNDERSTANDING CANADIAN FINANCIAL STABILITY**

An influential stream within the broader ideology of Canadian exceptionalism is the myth that Canadian banks were blameless in the events of the 2008-09 financial crisis and the resulting recession. Canadian banks are strong and safe, the argument goes; they were prudent,

8 This estimate represents the product of the annual absolute growth in the working age population times the pre-recession employment rate.

9 Chile does not report this data and hence is excluded from Table 2.

10 Table 2 reports the decline in Canada's employment rate between 2007 and 2011 as 0.8 percentage points, compared to the full 2-point decline in that rate illustrated above in Figure 2. The reason for the difference is because Table 2 reports the difference in full-year averages (in order to facilitate international comparisons), whereas Figure 2 illustrates the more dramatic evolution in the monthly series.

and above all they (unlike U.S. banks) were not bailed out.<sup>11</sup> This argument is invoked in order to deflect critical attention away from Canadian financial players, even as other countries (like the U.K. and U.S.) debate how to strengthen financial regulation, and indeed challenge the general political and cultural legitimacy of financial elites.

In actuality, Canadian banks were bailed out – and powerfully so. At the end of 2008, and the beginning of 2009, federal Finance Minister Flaherty and other federal officials implemented a new program called the Extraordinary Financing Framework (EFF). This package of measures consisted of several different ways to assist Canadian banks, enhancing their liquidity and shifting risks off their balance sheets, during their hour of need.

The major components of the EFF included:

- Using the public mortgage insurance company (Canadian Mortgage and Housing Corporation) to buy securitized mortgages from the banks in order to inject cash into the banks' coffers.
- Providing large loans, at near-zero interest rates, from the Bank of Canada, when commercial lenders would not do so.
- Providing other lines of credit from the Bank of Canada and other agencies, including in U.S. dollars.
- Even the U.S. Federal Reserve Bank supported the Canadian banks with major assistance offered through its emergency liquidity program.

These loans and other liquidity injections were backed up with very unusual forms of collateral – or sometimes with no collateral at all. For example, the Bank of Canada was willing to accept asset-backed commercial paper (ABCP) from the banks to back up some of these emergency loans. This was just a year after the entire ABCP market froze up in Canada, even before the global meltdown, as a result of growing investor concern regarding the true nature and value of some of the securitized assets contained in ABCP products. Individual ABCP owners were left

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11 Federal government officials boasted about the relative stability of Canadian banks right through the crisis – even as they were channeling unprecedented sums of emergency assistance to those institutions. For example, the government claimed in 2009 that “Canada’s financial system has shown exceptional stability throughout the crisis and has become a globally noted leader in best banking practices.” (Government of Canada, 2009, p.165). The President of the Canadian Bankers’ Association (CBA) stated baldly that “not one bank in Canada ... required a cent in taxpayer-funded bailouts” (Anthony, 2010, p.11). Some of the debate hinges on a matter of semantics: when is a bail-out not a bail-out? As another CBA spokesperson put it, bank critics “seem to be implying that liquidity support is the same as a bank bailout and this is not the case” (Tencer, 2012). Whether it is called a “bailout” or “liquidity support,” it is a matter of record that over \$100 billion of public funds were injected into the private banks in their moment of need.

holding illiquid paper. But banks with ABCP were able to convert it into liquid cash, courtesy of the Bank of Canada, when they needed it.

In total, various federal agencies offered the banks a maximum of up to \$200 billion in cash and short term low-interest loans, at a point in time when the banks could not attain this financing from normal commercial sources because of the global crisis. At peak, it is estimated that Canadian banks tapped \$114 billion of this potential line of credit (Macdonald, 2012). Incredibly, Canadian banks remained profitable right through the dramatic events of 2008 and 2009. Every one of the five largest banks declared an annual profit, and only one of them (the CIBC) declared even a quarterly loss during the darkest days of the crisis. As credit and economic conditions stabilized, profits strengthened further, and the banks were able to quickly repay the government assistance, with interest in some cases. Nevertheless, there is no denying that Canadian banks received unprecedented financial support from government in order to survive the crisis, and that without that support there is considerable likelihood that one or more major Canadian banks would have failed.<sup>12</sup> In this regard, Canadian banks were clearly “saved” (or “bailed out”) by powerful public intervention.

Moreover, quite distinct from the emergency support offered up during the moment of crisis in 2008-09, the Canadian financial system has benefited in a longer-term sense from a public policy regime which is accommodating, supportive, and protective. These long-standing protections and subsidies have served to create a domestic financial industry that is more stable and profitable than those in other countries. It was this policy context (not the good judgment or “prudence” of Canadian bank executives) which explains why Canada’s financial system withstood the storms of 2008-09 more safely than banks in the U.S., the U.K., or Europe did.<sup>13</sup>

Deposits up to \$100,000 per person per bank are fully guaranteed by the Canadian Deposit Insurance Corporation. This eliminates the incentive for a “run” on the bank, and stabilizes the whole system.

Most home mortgages are insured by the Canadian Mortgage and Housing Corporation. This eliminates most of the risk for banks in

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12 Macdonald’s (2012) study notes that at various times the estimated extent of public lending to three of the big five Canadian banks exceeded the market value of the banks; without government support, then, those banks would have been fully “under water.”

13 A very useful summary of the history and nature of Canadian bank regulation, and the continuing risks associated with leveraged private banking even in that more stable context, is provided by Russell, 2012.

writing new mortgages, and also makes it easier for them to “collateralize” their mortgages (packaging them into bonds which are sold to financial investors).<sup>14</sup> By attaching conditions to the mortgages it ensures (such as requiring minimum down payment ratios or maximum amortization timetables), the CMHC contributes to higher quality in mortgage loans, further reducing risk.

The federal government prohibits foreign takeovers of Canadian banks. This prevented any major bank from being swallowed up in the mid-2000s when U.S. banks (riding high on the bubble) were scouring the world for acquisitions. Earlier in the 2000s, the previous Liberal federal government also vetoed mergers between the major Canadian banks, which also likely contributed to their relatively lower leverage ratios as they headed into the crisis.

Canadian bank services are heavily subsidized by the Canadian tax system, including through the partial taxation of capital gains and dividends, the deductibility of carrying charges, and a plethora of tax shelters for financial investments (such as Registered Retirement Savings Plans, Registered Education Savings Plans, Tax-Free Savings Accounts, and now Pooled Registered Pension Plans).

Both during the global financial crisis, and in a longer-term perspective, the Canadian financial industry benefits from a multi-dimensional framework of government support, subsidy, and stabilization. It is certainly true that the relative stability of Canadian banks has been a positive feature of Canada’s economic experience since 2008. But that relative stability can be ascribed neither to the judgment or acumen of Canadian bankers (who were heavily engaged in leveraged, speculative activities like their counterparts around the world), nor to the specific policy actions of the current Canadian government (which inherited the structure of Canadian bank regulation from much-earlier predecessors).

## **CONCLUSION**

Since the onset of the global financial crisis and subsequent recession, Canadian political leaders have stressed that while things may be difficult for Canadians, they are getting better, and the ground lost in the recession has been quickly recovered. Moreover, Canada is said to have escaped the worst effects of the recession, which hit home

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<sup>14</sup> This practice also meant that the incremental risk shifted to government by the purchase of mortgages from the banks during the crisis was modest, since those mortgages were already insured by the public agency.

more painfully in other industrialized countries. Many Canadians accepted this argument (perhaps due more to the power of sheer repetition, rather than empirical validity), and this contributed to the Conservative Party's successful campaign for a majority mandate in May 2011.

This mantra of Canadian exceptionalism is refuted by an analysis of appropriate measures of economic performance. The damage of the recession is still very much with Canadians – and is especially visible in the labour market. Real per capita GDP is still below its pre-recession peak, and several thousand dollars per person below its potential level (given pre-recession trends). And the labour market is still much weaker (measured by the employment rate) than before the recession. Indeed, measured by the employment rate, only one-fifth of the damage has been repaired, and no further progress has been made on this measure in the last two years.

Internationally, Canada's performance according to both standards is at best mediocre. Certainly, Canada has done better than those countries which experienced major banking and financial crises during the 2008-09 downturn (such as the U.S., the U.K., Ireland, Iceland, Greece, and Italy). But among the broader set of industrialized countries, Canadian performance in terms of output and employment ranks exactly at the mid-point of the sample. Instead of allowing politicians to claim credit for doing better than America or Italy, they should be challenged to explain why Canada's performance during this time has lagged so far behind many other industrial countries (including Germany, Korea, Australia, and others).

In short, the self-congratulatory and triumphalist tone of so many official economic pronouncements in Canada is clearly unjustified. In terms of its implications for economic and fiscal policy, the incomplete and relatively weak state of Canada's economic recovery should give considerable pause to policy-makers before embarking on a campaign of fiscal austerity – a campaign which will clearly further undermine output and employment which are still weak. Instead, top priority needs to be placed on expansionary measures to strengthen a recovery that has been slow, incomplete, and unsteady.

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