

Comparing Economic Performance in Five Pre-Recession Periods

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This study contrasts the economic performance in the last five pre-recession periods: 1986–1989 (Mulroney), 1997–2000 (Chrétien), 2005–2008 (Martin-Harper), 2011–2014 (Harper), and 2016–2019 (Trudeau). It includes multiple measures for income, labour, and business investment and focuses on comparisons between the most recent performance during the Trudeau period (2016–2019) and the previous four periods given the dramatic changes in fiscal and regulatory policies introduced by the Trudeau government. This is not, however, meant to imply that all variations in economic performance are caused by federal policies. Indeed, provincial and local government policies are also of great importance as are exogenous factors outside the direct control of government.

(1) Income

The broadest measure of income is gross domestic product (GDP). The Chrétien period experienced the highest average annual rates (adjusted for inflation) of both overall GDP growth (4.6%) and per-person GDP growth (3.7%). The Trudeau period recorded the lowest rates for both: 2.1% for overall GDP growth and 0.8% for per-person GDP growth. To put this in perspective, inflation-adjusted average annual GDP growth was 2.2 times greater during the Chrétien era than in the Trudeau era, and 4.8 times greater when comparing per-person (inflation-adjusted) GDP growth.

Three narrower measures of income (market income, total income, and after-tax income) were also examined for families and individuals. The Chrétien period records the highest average annual increases for all three categories of income for both families and individuals. In contrast, the Trudeau period records the lowest average annual rates of growth in three of the six measures and ties for the lowest in another. Average growth in after-tax income for families and individuals are the only measures for which a lower average annual growth rate is recorded during a different period, specifically during the Mulroney period. (The Trudeau period ranks second lowest for both measures).

(2) Labour

Unemployment rates are the most commonly cited measure for labour-market performance. It is the ratio or percentage of unemployed people compared to the labour force, which is the population 15 years of age and over who were either employed or unemployed during the reference period. Part of the challenge in comparing unemployment rates across time is that the ratio of people active in the labour market (labour force participation rate) changes. After peaking in 2003 at 67.6%, the labour force participation rate has fallen rather consistently to 65.7% in 2019. In other words, there is a smaller share of the population over the age of 15 active in the labour market.

Understanding this dynamic is important because it explains the apparent contradiction between the comparatively low unemployment rates during the Martin-Harper and Trudeau periods with the relatively low rates of private-sector job creation during these same periods. The average annual growth in private-sector employment during the Martin-Harper (1.3%), Harper (1.5%), and Trudeau (1.5%) periods is less than half that of the Mulroney period (3.3%), which is the highest of the five periods.

The average labour force participation rate during the Trudeau period (2016–2019) was 65.7% compared to 67.3% during the Martin-Harper period. Had the Trudeau period maintained a labour force participation rate similar to that of the Martin-Harper period, an extra 448,000 to 576,000 workers would have been employed or looking for work. But as already presented, the Trudeau period experienced comparatively weak growth in private-sector employment. Assuming the growth in private- and public-sector employment remained the same, the revised average unemployment rate for the Trudeau period would have been 8.5% instead of the actual reported 6.2%, which is higher than the average unemployment rate in any of the other periods.

The comparative results for the labour section are less decisive than those for income and business investment, in part because of the effect of the changes in labour force participation over the periods. In sum, however, the Trudeau, Harper, and Martin-Harper periods experienced lower rates of private-sector job creation than the Mulroney and Chrétien periods. This was somewhat offset by the lower average unemployment rates enjoyed during both the Martin-Harper and Trudeau periods. However, as noted previously, part of the explanation for the lower unemployment rate in the Trudeau period is the decline in labour force participation.

(3) Business Investment

The third area of analysis is business investment. The broadest measure of business investment includes residential and non-residential structures (e.g., factories and commercial space), machinery and equipment, and intellectual property. The highest average annual rate of growth is recorded during the Mulroney period (8.1%) though the average rate of growth during the Chrétien era is fairly close (7.5%). On average, total business investment declined by 0.2% during the Trudeau period.

It is important to recognize that the decline in business investment, broadly measured, extends well beyond the energy sector. Indeed, an analysis in 2018 of business investment in Canada between 2014 and 2017 found that roughly two thirds of Canada's 15 main industries experienced declines in business investment.

Canada, like many industrialized countries, has experienced a boom in residential construction. The highest rate of average growth in business investment excluding residential construction is recorded during the Chrétien era (9.2%) though the rates experienced during the Mulroney (8.0%), Martin-Harper (7.0%), and Harper (6.8%) eras are comparable. On

average, business investment (minus residential construction and adjusted for inflation) declined during the Trudeau period (2016–2019) by 0.9%.

The final measure for business investment includes only non-residential structures like factories, machinery, and equipment. The highest average annual rate of growth in this measure of business investment is recorded during the Chrétien period (9.3%) but the rates experienced during the Mulroney (8.2%), Martin-Harper (7.7%), and Harper (7.9%) periods are comparable. On average, business investment declined by 1.5% per year during the Trudeau period.

Of the three areas of economic performance evaluated in this essay, business investment is by far the weakest for the Trudeau period both in absolute terms (recorded declines) and compared to the previous four periods of Harper, Martin-Harper, Chrétien, and Mulroney.



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Conclusion

While there are a number of factors to consider when comparing economic performance, particularly with respect to those factors within the control of governments (that is, policy) and those beyond the control of governments, it is fairly clear from the data presented that the economic performance of Canada was weakest during the 2016–2019 period compared to the previous pre-recession periods. The rates of income growth are clearly lower during the 2016–2019 period and business investment has actually declined. And while unemployment rates were lower during the 2016–2019 period, the explanation for this positive performance at least partially depends more on declining levels of labour force participation than it does to private-sector job creation. Indeed, private-sector job growth during the Trudeau period was decidedly lower than the rates experienced during either the Mulroney or Chrétien periods. Simply put, of the five pre-recession periods covering the governments of Mulroney, Chrétien, Martin, Harper, and Trudeau, it is the latter that records the weakest in terms of income growth, labour market performance, and business investment.