

# How do stock-market crashes happen?

Think of the market like a crowded room where people trade pieces of paper that represent companies.

1. **Boom phase** — Prices go up for a long time. People get excited and buy more (sometimes using borrowed money).
2. **Overinflated stock market” or a “bubble.”** — Stocks become expensive compared with the companies’ real profits.
3. **Trigger** — A bad event happens (e.g., a big company fails, interest rates rise, a bank problem, or a sudden shock like a pandemic). That event makes investors nervous.
4. **Selling starts** — Some investors sell to avoid losses. If many sell at once, prices fall quickly.
5. **Panic and forced selling** —: Fear makes investors rush to sell, causing confidence to collapse and prices to crash.
6. **Contagion** — A crash can harm banks, businesses and pensions, spreading into the real economy (less hiring, less spending).

Common examples people remember: the **1929** crash leading to the Great Depression, and the **2008** crash tied to banks and mortgages.

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# How does the economy get back to normal after a crash?

Recovery usually needs several things working together:

1. **Automatic stabilizers kick in** — programs like unemployment insurance and pensions immediately give money to people who lost income, which helps them keep buying basics.
2. **Central bank action (monetary policy)** — the central bank (e.g., Bank of Canada) often **cuts interest rates** and provides banks with cash so lending keeps flowing. If rates are already very low, they may use extra tools (quantitative easing).
3. **Government fiscal action** — governments may **spend more or cut taxes** (stimulus), and sometimes rescue key companies or banks so the system doesn't collapse.

Timing varies: sometimes recovery is quick (months), sometimes slow (years). The policies above shorten and soften downturns.

# What role do welfare states play in economic stability?

Welfare systems help stabilise the economy — here's how, simply:

- **Automatic stabilizers:** When people lose income, unemployment insurance and social assistance give them money right away. That keeps **consumer spending** from collapsing and reduces the depth of recessions.
- **Protecting people:** Welfare programs prevent extreme poverty, homelessness and health crises that would make recovery harder.
- **Reducing uncertainty:** Knowing there's a safety net makes households less likely to panic-sell assets or cut all spending.
- **Smoother demand:** By supporting incomes during downturns, governments keep demand steadier, which helps businesses survive and rehire faster.
- **Enables targeted stimulus:** Welfare systems let governments direct help to those who need it most during crises (e.g., extra benefits, top-ups).

Trade-offs: these programs cost money and must be funded (taxes or borrowing), so policy design matters. But overall, welfare systems tend to **make recessions shorter and less painful** for most people.

# When did Canada become a welfare state?

Short answer: **It didn't happen on one day** — Canada became a modern welfare state gradually, mainly **between the 1940s and the 1960s**, as the federal government put in place broad programs like unemployment insurance, family allowances, pensions and public health care.

Key milestones (easy timeline):

- **Early 1900s–1920s:** Provinces and the federal government started small programs (workers' compensation, poor relief, some old-age pensions).
- **1940: Unemployment insurance** (federal) — first big national program to protect people who lose jobs.
- **1944 (mid-1940s): Family Allowances** (the “baby bonus”) — regular payments to families with children.
- **1950s:** Expansion of old-age benefits and wider social programs (Old Age Security-type programs in the early 1950s).
- **1960s:** Big building blocks of the modern system: **Canada Pension Plan (CPP)** (mid-1960s) and **federal support for Medicare** after Saskatchewan introduced public hospital/medical insurance (Saskatchewan: early 1960s; federal Medical Care Act mid-1960s).  
So: the **post-WWII decades** are when Canada really took shape as a modern welfare state.