

REBUILDING OUR ECONOMY: Public Investment and Green Jobs

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The world and Canada are in the deepest economic downturn since the 1930s as the financial crisis has spread with a vengeance into the real economy of production, trade and jobs. Canada's unemployment rate is set to rise to well over 10%, and will only fall when a recovery becomes well-established.

Some economists and the media generally have bought into the "green shoots" theory that a recovery has already begun, driven by the huge Obama stimulus package in the US, massive injections of government and central bank funding into a near-collapsed banking system, and very low interest rates.

There is no doubt that responses to a still unfolding crisis are having some impact. But there is almost zero prospect that we will return to the world which existed before the crisis. Instead, getting out of the mess we are in requires shifting to a new economic model, **one driven by public and environmental or green investments**, rather than by more debt-fuelled consumer spending.

While the talk is of "green shoots" it is far from clear that the global banking system is out of the woods yet. Dealing with a staggering \$4 trillion in mainly unrecognized speculative losses, there is little prospect that the major US or global banks are about to start lending again big time, and every prospect that we will see something like the "zombie banks" of Japan which have staggered on for more than a decade on government life-support.

In the US, house prices are down by about 30%, and are still falling. The average household is deeply in debt and fearful of job loss, and the collapse of house prices and individual retirement savings will prompt working people to save rather than spend. After years of no wage growth and rising debt, there is very little scope for a consumer-led recovery. And growth will not come from new business investment given huge global over capacity in most industries, nor from exports given the massive loss of US industrial capacity over the past decade and more. Last but not least, there are real questions as to whether the US can persuade the world to finance its massive fiscal and trade deficits for much longer.

Canadians cannot count on a significant US recovery, and things are made worse by the fact that we specialize in many products for which US demand is weakest (autos and forest products) and face the prospect of a very high Canadian dollar as the US dollar remains weak. And, Canadian working families are not in much better financial shape than are Americans, given the same long-term pattern of stagnant wages, rising inequality, and growing mortgage and consumer debt. We may see the resource export economy bounce back to a degree thanks to China's recovery package, but that is a small part of the total national picture.

All of this poses the critical question: What will be the key driving force behind a Canadian economic recovery if it is not manufactured exports to the US, not private investment, and not the spending of households? The answer has to be that there must be a public investment led recovery, or no recovery at all – just, at best, bottoming out for a few years of very low growth and very high unemployment.

The labour movement and progressives won a very partial victory in pushing the Harper government to introduce a “stimulus” Budget earlier this year, but a sick economy needs much, much more than a “timely” and “temporary” boost to be unwound as quickly as possible. Now is the time to launch a major medium and long term public investment program to drive job creation, and also to create new investment opportunities for an industrial sector in deep crisis.

The key elements of such a program are well known. We must address the huge and long-standing deficit in investment in basic municipal infrastructure; rebuild urban and inter city transportation systems; invest in energy conservation through retrofits and other means; dramatically expand non carbon based alternative energy; and expand basic public services such as not for profit child care and elder care.

We know that all of these investments – especially those in public services and energy retrofits – are labour intensive and create many more jobs than personal and corporate tax cuts. And they simultaneously promote our environmental, community development and social justice goals.

It is not a matter of public or private investment so much as public investment led growth for the whole economy. Public investment and public support for new energy development can, tied to Made in Canada procurement policies, create major new markets for Canadian industries. There are huge opportunities to replace imports with Canadian production of transportation equipment, medical equipment, and office machinery. And we know that good public infrastructure and good public services are key drivers of private sector productivity.

But how are we going to pay for major new public investments when the deficit is, supposedly, already too high? The fact of the matter is that Canada’s net public debt is now very low by global standards due to many years of cuts and unmet needs, and that governments, especially the federal government, can borrow at very low cost. Rock bottom government long term bond rates – which the Bank of Canada is committed to maintain - make viable a huge raft of potential public and environmental investments which will more than pay for themselves over time, and will also “crowd in” new private investment.

Right-wing fear mongering that government spending “crowds out” business simply ignores the fact that, today, business are not investing and banks are not lending to the private sector. Funds for public sector investment are readily available from pension funds and other investors, and we could be creating new funds by expanding the Canada Pension Plan and by setting up public investment banks to support city spending and new energy sectors.

Down the road, a decade and more of expensive but wasteful tax cuts means that there is ample room to increase government fiscal capacity to slowly balance budgets without cutting spending, and without undermining the living standards of the average working family.

The key point is that return to the old model of growth based on debt fueled consumer spending has run out of gas. We have to think about a new model in which public investment and green job creation lead the way.

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