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## Panel Presentation Ottawa Economics Association Pre-Budget Event

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*(Check Against Delivery)*

Thank you for your kind invitation to appear on this panel.

I always look forward to debating Perrin Beatty on tax measures and economic stimulus.

Although I think today, you might be surprised to see how much we actually agree on the measures needed to deal with this economic crisis.

There is no doubt the global economy is now in its deepest downturn since the 1930s.

The roots lie far deeper than the immediate financial crisis.

Growth over the past twenty-five years in the U.S. and Canada has been fuelled mainly by very rapid growth of household debt - not by high levels of real investment, rising productivity or rising real wages.

In fact, over the last twenty-five years, a period of supposed great prosperity, middle-income workers have seen their wages stagnate.

Between 1980 and 2005 the average wage for middle-income workers, adjusted for inflation went up a pathetic 50 cents an hour.

The middle class basically stayed flat, low-income earners saw their incomes drop by 20% but high income earners saw their incomes rise by well over 16% during that period.

Add to that hundreds of thousands of good-paying jobs that have disappeared over the last five years in our manufacturing and forestry industries.

So yes we have a crisis in capital.

It's a crisis in the stagnating wages of the average worker.

One of the lessons we learned from the Great Depression is rising unemployment levels and the drive to reduce workers' wages contributed to a deeper and more entrenched downturn.

So this federal budget becomes even more important to ensure this recession does not deepen.

The budget provides us with an opportunity to transition to a fairer and more sustainable economy - one in which the financial sector is much more closely monitored and regulated; in which government plays a larger role in making sure that the private sector invests to generate good jobs, and where there is much fairer distribution of income.

We need a major new focus on public investment, on building up stronger industries, and on building a much more secure social safety net.

This crisis is likely to get much worse before it gets better, and to last a long time...

UNLESS governments introduce major stimulus packages in a co-ordinated way.

But enough of the doom and gloom, and more on what I'd like to share with you - some highlights of what we told Jim Flaherty last night when we met with him about his upcoming budget.

After years of neglect by governments at every level, there is an infrastructure deficit.

We know that a major, multi-year public investment program, and not just short-term "shovel-ready" projects, will be more effective at creating jobs, building new industries for the future and promoting environmental goals, than across the board tax cuts.

Of course we're talking about roads, sewers and basic municipal infrastructure as well as badly- needed basic water infrastructure projects for First Nations' communities.

But we're also talking about "green jobs" programs such as energy conservation through building retrofits assistance to retrofit existing manufacturing plants to greener technologies; and renewable energy projects.

The program should be twinned to a Made-in- Canada procurement policy to support good jobs in manufacturing.

For example, we could create 2,000 new jobs by replacing \$694 million imported public transit vehicles with superior Canadian-made products.

Infrastructure investments provide about three times as many jobs per dollars spent as personal income tax cuts.

Borrowing costs for the federal government today are very low - less than 3% for long-term borrowing - which is much less than in previous recessions - and federal government debt is also at a very low level as a share of the economy.

It makes sense to borrow now to finance projects which create jobs in the most effective way, and also yield a positive rate of return in economic, social and environmental terms.

In a recession, even more workers, especially women and the working poor, will fall through the wide cracks of our EI system, or receive inadequate benefits.

Every day I receive emails from desperate people in desperate circumstances - they don't qualify for EI because there are short a few hours, or benefits are taking too long to get, or they aren't lasting long enough.

In the last recession in the early 1990s, EI benefits were over \$600 a week.

15 years later, those most affected by this economic crisis will have to live on EI benefits that not only haven't kept up with inflation, they've been reduced.

Benefits are just over \$400 a week.

Only 4 out of 10 unemployed men qualify for benefits under the current rules.

Only 3 out of 10 unemployed women qualify under current rules.

At a time when it's needed the most, EI won't be there for the majority of people who lose their jobs.

And that's shameful.

Unlike personal income tax cuts, we can be certain that higher EI benefits will be received by those most in need, and will be spent in their communities, on goods and services.

We need a uniform entrance requirement of 360 hours in all regions across the country; benefits based on 60% of earnings over the best 12 weeks; and benefits lasting up to 50 weeks.

Workers and employers have contributed \$54 billion more in premiums than benefits paid out since the early 1990s, and now is the time to make sure that those who paid the premiums get the assistance they need.

We also need to improve access to labour adjustment programs and training so that workers can get the new jobs we want to create.

Pension plans and retirement savings have been hit hard by the economic crisis.

Really, this underlines the need to expand public pensions and to reduce reliance on speculative and sometimes fraudulent financial markets for economic security.

The government should immediately raise Old Age Security and Guaranteed Income Supplement benefits to protect today's and tomorrow's retirees and to

reduce reliance on private pensions and RRSPs.

As with EI, increased benefits would be a more effective stimulus than personal income tax cuts.

Even before the economic crisis had really taken hold, we had lost almost 400,000 family-supporting manufacturing jobs since 2002 because of the high dollar, the large and growing manufacturing trade deficit with Asia, and the lack of innovation and investment in Canadian industry.

Now, many highly-productive companies, including resource industries, are seeing the collapse of their export markets in the U.S. and around the world, and many are unable to access credit at a reasonable cost because of the global financial crisis.

Layoffs and plant closures are accelerating, putting at risk many jobs in suppliers and in spin-off jobs in both private and public services.

The federal government must be prepared to invest directly to save jobs in hard-hit industries such as auto and forest products and to promote changes which create secure and sustainable new jobs.

They must also move to support the developing industries for the new economy like cultural industries, environmental technology, renewable energy and other promising new growth sectors.

In our view, employers, labour, governments and communities must all be involved in the process of industrial renewal and the development of sectoral strategies. Governments should provide targeted support for new investments in plant and equipment, training and other areas, rather than more across the board corporate tax cuts.

Corporate tax breaks do not help struggling companies.

Think back to the last decade of blanket corporate tax cuts.

Corporations promised they would invest in worker training, skills development and new technologies to improve productivity.

They didn't and instead relied on a low Canadian dollar to mask the shortfall.

So we believe targeted tax measures would have greater impact like investment tax credits, fast write-offs for investment in machinery and equipment, and other direct supports for real investment.

The Federal Business Development Bank and the Export Development Corporation should be given major injections of additional capital to help them fill the funding gap.

That's what we told the Finance Minister yesterday - the Budget should focus on public investment in infrastructure, the environment and public services; on support for working families hit by the crisis; and on renewal of our industrial base through carefully thought out sector development strategies.

Thank you.

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