Economic recovery begins with public services

Canada is now in a difficult economic downturn, along with the rest of the world. For the first time in a generation our economic recovery will be driven by the public sector, relying heavily on leadership from elected public officials.

With the other engines of the economy – consumers and businesses – in bad financial shape, it is widely recognized that governments at all levels need to take the lead in pulling the economy ahead. The recession's impacts will increasingly be felt at the local level and will require municipal governments to play a more active role.

The International Monetary Fund, World Bank, and economists around the world have strongly urged all national governments to ramp up their public investment and spending to prevent a long and deep recession, if not depression, from occurring.[i]

Economists agree the focus of this support should be on infrastructure investment, saving jobs, and maintaining social and community supports that protect the most vulnerable. Spending in these areas provides far more economic "bang for the buck" than tax cuts, and directs support to those most in need. Even private bank economists say Canada needs "trickle-up economics" – investment in local communities and support for the vulnerable – and that corporate tax cuts are no solution.[ii]

The recession and the rising unemployment it creates will increase demand for a wide range of public services – many of them municipally-delivered, including affordable housing, emergency food support, social assistance, social services, community health care, child care, and employment and training support. Families forced to cut their spending will rely more on community and recreation programs, public transit and libraries.

A decline in private and charitable funding will further squeeze community organizations, in turn increasing the need for public support in these areas.

Fortunately, governments in Canada and around the world recognize the urgency of acting now by increasing public spending to prevent the economic crisis from deepening.

Targeting support where it is most needed – to help those hurt by the recession – dovetails with the key priority of boosting the economy. Many of the areas needing public spending also provide the largest employment and economic boost.

Cuts no solution

Despite the evidence favouring public spending during a recession, some governments are responding to the economic crisis by cutting jobs and reducing support for public services. Between October 2008 and February 2009, the first four months of the recession, estimates show more than 80,000 public sector jobs were cut – a faster rate of job loss than the private sector.

Cutting public sector jobs and services is a false economy that causes more damage than benefit.

- Estimates show that for every job cut by local government, up to four other jobs would be lost through the cascading impact of lower spending in the local community.[iii]

- Every dollar cut from local public services leads to an estimated $1.14 loss to local community economic output (GDP).

These calculations do not factor in the broader provincial and national impact of such cuts, which is even greater.

Job and wage cuts can lead to a downward spiral of lower spending in the community, greater dependence on public services by the unemployed, and lower tax revenues for government – all of which create new pressure for more cuts to public services and another potential downward cycle.

Laying the foundation for the future

Federal, provincial and local governments must maintain and expand public services to create and save jobs, help those in need, and keep the economy from sinking further.

In particular, the federal government needs to expand access to Employment Insurance (EI) and increase its benefits. This program now provides support for less than half the unemployed in Canada, and for less than a third of the unemployed in most big cities. Provincial governments must also increase social assistance benefits to support those who do not qualify for EI.

Increased investment in infrastructure is vital, but not at the expense of other social, health and community services. Canada needs both types of investment to kick-start the economy, and keep it moving in the long term.

Local governments can save money and boost the local economy by contracting in services and not engaging in more expensive and risky public private partnerships that siphon money out of the local community.

There is very little room to trim municipal budgets and programs. Ultimately, increased funding is needed from federal and provincial governments. Upper levels of government have greater fiscal capacity, the ability and obligation to deficit-finance at this time, and can borrow at lower rates of interest. Federal and provincial transfers to municipal governments are still far below what they were, proportionately and in real dollar terms, 10 years ago.[iv]

We need increased investment from all levels of government to pull us out of this recession and build for the future. Further cuts to transfers and public services will make the downturn worse – and that's something we can't afford.

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i “IMF Spells Out Need for Global Fiscal Stimulus,” IMF Survey magazine, December 2008; Justin Lin (2009) “Fiscal stimulus needs to focus on social protection,” World Bank Chief Economist, 14 January http://www.imf.org/external/pubs/ft/survey/so/2009/NEW011609A.htm

ii Avery Shenfeld (2009) “The Week Ahead,” CIBC World Markets, 23 January http://research.cibcwm.com/economic_public/download/jan23_09.pdf

iii “Review of Ottawa City Budget: Local Impacts due to Service Reductions,” Paper prepared by Informetrica Ltd for CUPE Local 503, December 2007.

iv “Transfers to Municipalities Fell Billions Short,” CUPE Economic Brief, November 2007. http://cupe.ca/updir/Municipal_Transfer_Shortfall.pdf