

We're going to need a Marshall Plan to rebuild after COVID-19 ^[1]

This is war, and it will take a public-led reconstruction plan to rebuild our economy and create opportunities. The debt will soar, but it must.

Author: Stanford, Jim

Source: Policy Options

Format: Article

Publication Date: 2 Apr 2020

AVAILABILITY

Access article online ^[2]

EXCERPTS

Economic policy-makers have been understandably focused on addressing the immediate economic shocks from the COVID-19 pandemic: developing new income supports for the millions who will need them, stabilizing the credit system and channelling emergency aid to hundreds of thousands of firms that will otherwise collapse in coming months.

At the same time, however, we must start thinking about what comes next. Yes, job one is providing a financial bridge so businesses, workers and households can survive the coming frightening months. But job two is getting ready to kick-start production once the immediate health crisis has passed — and we're finally allowed to leave home again and go back to work.

It is already clear that the unprecedented speed and depth of this downturn will require equally unprecedented measures to get the economy back on its feet. In essence, we are fighting a war: a war against disease and its effects on our society and economy. Under government's powerful leadership, we are rightly throwing every possible resource into that war — including invoking direct tools of command and control that fell out of favour during the last generation of market-worshipping policy.

Get ready for a double-digit decline in GDP this year (the steepest contraction ever), the collapse of thousands of firms and even entire industries, and unemployment spiking above 20 percent. There is no possibility that this kind of shutdown could be fixed through the normal, gradualist dynamics of a "typical" recovery, led by an incremental rebound of confidence, investment and spending. And the traditional tools of countercyclical monetary and fiscal policy won't be capable of leading the recovery. Monetary policy, indeed, has already lost most of its effectiveness: with interest rates near zero, and borrowers fearful of what lies ahead, interest rate cuts will have virtually no impact on real economic activity in the coming year or longer. Fiscal interventions, too, must go far beyond countercyclical "pump priming" and instead take on responsibility for directly leading recovery, investment and growth.

In short, fighting this coronavirus is like fighting a war. And to recover after that war, we will need to study the lessons of previous post-war reconstructions.

Think of post-pandemic rebuilding like a modern Marshall Plan (replicating the enormous, government-funded effort to rebuild Western Europe after the Second World War). We'll need a similar commitment to all-round reconstruction. We will need equally massive fiscal injections. And we will need a similar willingness to use tools of direct economic management and regulation — including public service, public ownership and planning — to make it all happen.

For many years to come, Canada's economy will rely on public service, public investment and public entrepreneurship as the main drivers of growth. They will lead us in recovering from the immediate downturn, preparing for future health and environmental crises and addressing the desperate conditions in our communities. The chronic weakness of private business capital spending in recent years was already indicating a growing need for public investment to lead the way. After COVID-19, it is impossible to imagine that private capital spending could somehow lead the reconstruction of a shattered national economy.

What form will this public-led reconstruction plan take? There are many priorities for public resources and economic leadership. Any and all of them would create needed jobs, provide essential services and rebuild our capacity to work, produce and spend:

- **Healthcare services and facilities.** Canada's public health infrastructure has responded courageously to the demands of COVID-19, but the crisis highlights long-standing weaknesses in our health system. We will need to invest tens of billions in repairing and improving health facilities (including related services like aged care and community health), training and employing more healthcare workers — and being better prepared for the next pandemic.
- **Transportation.** Airlines and other public transportation providers have been among the hardest hit by the pandemic. They will need injections of public capital and other direct measures to recover and rebuild.
- **Public infrastructure.** Underinvestment in public infrastructure since the 1980s has badly undermined Canadian productivity and well-being. This is the time to commit to a sustained public investment program: increasing public capital spending by at least half

(from under 4 percent of GDP today to 6 percent or higher).

- **Other public services.** All attention is on healthcare services at present, for good reason. But other public services are also in need of investment and expansion: including aged care, early childhood education, disability services and vocational training. As the post-pandemic economy works off an enormous overhang of underutilized labour, expanded public services will be an engine of growth, not just a “cost.”
- **Energy and climate transitions.** With the price of Western Canada Select oil falling to close to zero (and no reason to expect any sustained rebound to levels that would justify new investment), it is clear that fossil fuel developments will never lead Canadian growth again. Politicians and their “war rooms” can rage at this state of affairs, but they can’t change it: they might as well pray for a revival in prices for beaver pelts or other bygone Canadian staple exports. However, the other side of this gloomy coin is the enormous investment and employment opportunity associated with building out renewable energy systems and networks (which are now the cheapest energy option anyway). This effort must be led by forceful, consistent government policy, including direct regulation and public investment (in addition to carbon pricing). Another big job creator, already identified by Ottawa and Alberta, will be investment in remediation of former petroleum and mining sites.

In short, there’s no shortage of urgent rebuilding tasks in our economy and our communities. The case for mobilizing resources to meet those needs, under the leadership of governments and other public institutions, is compelling. We can put people to work, repair the damage of this crisis (and better prepare for the next one) and deliver essential and valuable services. All we need is a different model of organizing and leading economic activity — and some modern-day C.D. Howes – to help us imagine and implement that vision.

Some policy-makers and politicians will dust off standard arguments about the dangers of big government. They are silent for now: I don’t hear anyone calling for “small government” or “low taxes,” when society is suddenly and clearly dependent on government’s capacity to act for our very survival. But once the immediate emergency passes, traditional fear-mongering about deficits and debt, red tape and market distortions will get louder. Those arguments should be rejected.

Yes, deficits will be huge in the coming years. Expect federal deficits of \$150 billion or more this year and next, with more red ink at the provincial level. Public debt will soar past 100 percent of GDP within a couple of years. Indeed, anything less than that would be a sign that government is literally not doing its job to protect Canadians from this crisis.

Far from worrying about that debt, we should in fact celebrate it. And we should be ready to issue more of it to finance post-pandemic reconstruction — just as we did after the Second World War. In the context of a shattered economy, public debt is just the flip side of public investment. And we will need lots of that.

Interest rates, already at rock bottom before the crisis, have plunged below 1 percent (even for 30-year bonds). That is negative in real terms — and hence, quite literally, government saves money by borrowing (paying back less in real terms than it borrowed). And once the dust settles on the immediate crisis, we can invoke alternative strategies to manage that debt, including deferrals, refinancing and monetizing (through quantitative easing and similar tools).

Great crises are frightening and dangerous. But a crisis can also be an opportunity. The capacity of Canadians to work, produce and care for each other will survive this pandemic. All we need is leadership and purchasing power to put those capacities to full use. Investing in public service, infrastructure and reconstruction will make our economy stronger and more resilient: creating jobs and incomes, providing needed care and services, generating taxes. And building a healthier, safer, sustainable world.

Related link:

Region: Canada ^[3]

Tags: economics ^[4]

Source URL (modified on 8 Apr 2020): <https://childcarecanada.org/documents/research-policy-practice/20/04/were-going-need-marshall-plan-rebuild-after-covid-19>

Links

[1] <https://childcarecanada.org/documents/research-policy-practice/20/04/were-going-need-marshall-plan-rebuild-after-covid-19> ^[2]

<https://policyoptions.irpp.org/magazines/april-2020/were-going-to-need-a-marshall-plan-to-rebuild-after-covid-19/> ^[3]

<https://childcarecanada.org/taxonomy/term/7864> ^[4] <https://childcarecanada.org/category/tags/economics>