

# Trades shortage threatens stimulus plan

## Expert warns talent pool too small for Tories' infrastructure package

BY ERIC BEAUCHESNE, CANWEST NEWS SERVICE JANUARY 9, 2009 4:06 AM

A shortage of skilled workers threatens to blunt the effectiveness of any fiscal economic stimulus package that relies heavily on spending on infrastructure, a construction industry economist is warning.

"Infrastructure projects are frequently mentioned as a way of offsetting the slowdown," John Clinkard noted in an analysis published by construction industry research firm Reed Construction Data.

"However, given the relatively small pool of underutilized workers in general -- and of construction workers in particular -- there is a significant risk that efforts to provide short-term stimulus to the economy will face challenges in the form of skilled labour shortages."

Prime Minister Stephen Harper has indicated that the Jan. 27 budget could contain about \$30 billion worth of fiscal stimulus and that much of that would go to upgrading national infrastructure, which could include refurbishing schools, roads, rail lines, public transit, sewers bridges and so on.

Other analysts, however, have also warned about a variety of risks in using a massive infrastructure spending program to pull the economy out of recession.

Dale Orr, chief economist at Global Insight, warned that such spending could result in shortages of materials, as well as labour, or run into other problems that would reduce the efficiency of any stimulus package.

"A serious risk of designing new forms of spending, or of accelerating spending for fiscal stimulus, is that the spending action will be ill-designed and that potential cost efficiencies will be missed," Mr. Orr said.

For example, a flood of infrastructure spending, if rushed, could come into conflict with environmental or other regulations, Mr. Orr noted in a recent analysis.

Finance Minister Jim Flaherty has said the government is also looking at using tax cuts to put more spending money into people's pockets.

But Mr. Clinkard warns that temporary tax cuts won't be effective, either.

Temporary tax cuts would have little impact on spending, Mr. Clinkard said, echoing a concern raised by other analysts that because of economic uncertainty, temporary income tax cuts will be used by households to pay down debt rather than spend and that temporary sales tax cuts would merely prompt consumers to spend sooner, not more.

Yet, Mr. Flaherty has insisted that any stimulus package will have to be temporary to avoid leaving the government with a structural or chronic deficit.

Mr. Clinkard, however, expressed skepticism about the need for a massive stimulus package.

"With a federal budget just weeks away and everybody saying that the economy needs a huge dose of 'fiscal stimulus' ... it might be useful to put the state of Canada's economic health in perspective," he said.

While the unemployment rate in November was at a two-year high of 6.3 per cent, Mr. Clinkard noted that was also only half a percentage point above the 5.8 per cent 30-year low reached at the start of last year.

"This moderate increase in the unemployment rate is largely due to the fact that a near record 63.3 per cent of the working age population is employed," he said, adding that there are more people than ever before working in the construction industry.

Mr. Clinkard, however, suggests that instead of infrastructure spending, the government instead should focus

on the long-term and on permanent tax cuts, which he argues will not only boost spending but will increase Canada's lagging productivity.

A major business think-tank, however, yesterday urged the federal government to go \$40 billion into the red to support new spending and tax cuts.

"Canada's 2009 federal budget can accommodate \$26 billion in initiatives, over the next four years, to promote recovery," the C.D. Howe Institute said.

"Accelerated infrastructure spending, temporary EI liberalization, relief for retirement savers and a time-limited national investment tax credit are among measures offering a short-term economic boost at controllable cost," it said.

"Spending and tax initiatives driving deficits totalling \$40 billion over the next four years could be consistent with fiscal sustainability, provided the spending is matched by offsetting surpluses in the subsequent four years."

The need for fiscal stimulus was underscored by Bank of Canada deputy governor Pierre Duguay, who in a speech reiterated that the "economy has deteriorated significantly" and "is entering a recession" and by a Scotiabank analysis warning of further steep drops in auto sales.