

# Investment: Why Should Labour Care?

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Both my academic training and my experience as a trade union economist have convinced me that winning new investment must be one of our top economic priorities. And I believe strongly that labour has at least as much at stake as business does, in trying to obtain enough investment to support the jobs, the technology, and the productivity that our economy badly needs.

By investment, I am thinking broadly to include not just physical capital assets, but also investments in technology, skills and training, public infrastructure, and our community or “social capital.” And I believe that we need stronger investment effort on the part of all our major stakeholders, not just private companies – including Crown corporations, government, educational and health institutions, and non-profit and community agencies.

Economically, however, it is clear that business non-residential capital spending presently accounts for the bulk of investment spending in our economy. And business investment plays a crucial, leading role in starting the whole process of production and income-generation that eventually explains (for most of us) why we are employed.

The CAW has done some unusual, extraordinary things in order to secure major new investments in the facilities where our members work. We have restructured work practices. We have sent our leaders on international missions, to speak with executives about investment opportunities in Ontario. We have worked hard to bring government to the investment table – as has occurred so positively in recent months in the auto industry.

We have even tried to *bargain* new investment at the collective bargaining table. For example, winning new Canadian auto investments was the main theme of our 2002 round of bargaining with the Big Three automakers. We had earlier recognized that Canada’s auto industry was facing growing challenges to maintain its share of the global market – given developments like the shifting market share of competing automakers, the use of subsidies in other jurisdictions (like the U.S. south) to attract investment, and the imminent rise of China as a low-cost auto powerhouse. So we put new investment at the top of our bargaining agenda that year. Not all our efforts have paid off. But we have helped to cement a number of major investments that will keep our plants on the cutting edge of their respective industries.

Our members feel in their guts that winning new investment in their facilities is crucial to their job security and future prosperity. Their employers know it, too – which is why they often try to use the prospect of new investment as a powerful chip in bargaining with us.

And the historical evidence is clear that where workers have enjoyed rapid, widespread improvement in their living standards, rapid investment spending was a crucial ingredient in that success. In Canada, business investment was much stronger in the 1960s and 1970s, when real wages were growing by as much as 3 percent per year. That's fast enough to double the standard of living of workers in a generation. Today, investment spending is much weaker – despite all-time record business profits and substantial business tax cuts, I might add – and real wages are barely holding their own.

Across sectors in Canada, the evidence is also clear that more investment (resulting in larger amounts of capital used in production) also produces higher productivity and higher wages. On average, industries with 10 percent more capital intensity (measured by the capital-labour ratio) tend to demonstrate 3 percent higher productivity, and pay 1.5 percent higher wages. No wonder that working in a modern, technology-intensive manufacturing facility tends to offer much better jobs (measured by productivity and income, anyway) than working at the corner coffee shop.

I can think of three broad reasons why investment spending is so important to labour:

1. *Demand growth and job-creation:* Investment spending is the most important category of GDP in explaining economic growth. The process of job-creation begins when a company decides to invest in a new or expanded facility.
2. *Productivity and technological change:* The use of new physical capital is an essential step in realizing the potential productivity gains of new ideas. And shifting resources (including labour) from old industries into new ones requires rapid investment spending to facilitate the movement.
3. *Bargaining power:* When employers have invested heavily in new facilities and equipment, then workers are better able to leverage a larger slice of the resulting productivity gains.

Ultimately, business investment is too important to be left up to business alone. The benefits that other stakeholders – notably including labour – attain when investment spending is stronger, exceed the private economic benefits that are captured by the investing firms. That gives us all a reason to care about stimulating more investment. The CAW will continue to do its bit, in this regard, by ensuring that our facilities are productive and embody modern work practices. Government has a huge role to play, too, with an effective, pro-investment policy mix (including interest and exchange rate policies, tax policies, sector-specific investment strategies, and adequate investments in infrastructure and education). Our educational institutions must be there, too.

At the end of the day, however, business has to step up to the plate. Business profits are currently at their highest level as a share of GDP in Canadian history – reinforced further by substantial business tax cuts at the provincial and the federal levels. Yet the investment effort of business at present is, at best, lacklustre: well below its long-term average.

Can we imagine a set of policies (including both carrots and sticks) that would enlist all stakeholders to play a role in winning more investment for Ontario? We all have a stake in making it happen.