

Bargaining Real Wage Increases in the Current Economy

Alberta Union Agreement Conference
Red Deer, Alberta
6 February, 2009



SHARES WORTHLESS

Emergency loans

Downturn

CAPITAL INVESTMENT

Interest rates

Profits down

endorses stimulus package

Financial crisis

risk Global trends

assets

Economic disaster looming

Crash!

Stocks tumble

Presentation

1. Economic Crisis and Causes
2. Impacts and Responses
3. Outlook for GDP, Employment, Inflation
4. Targeting real wage gains
5. Impact on public services and workers



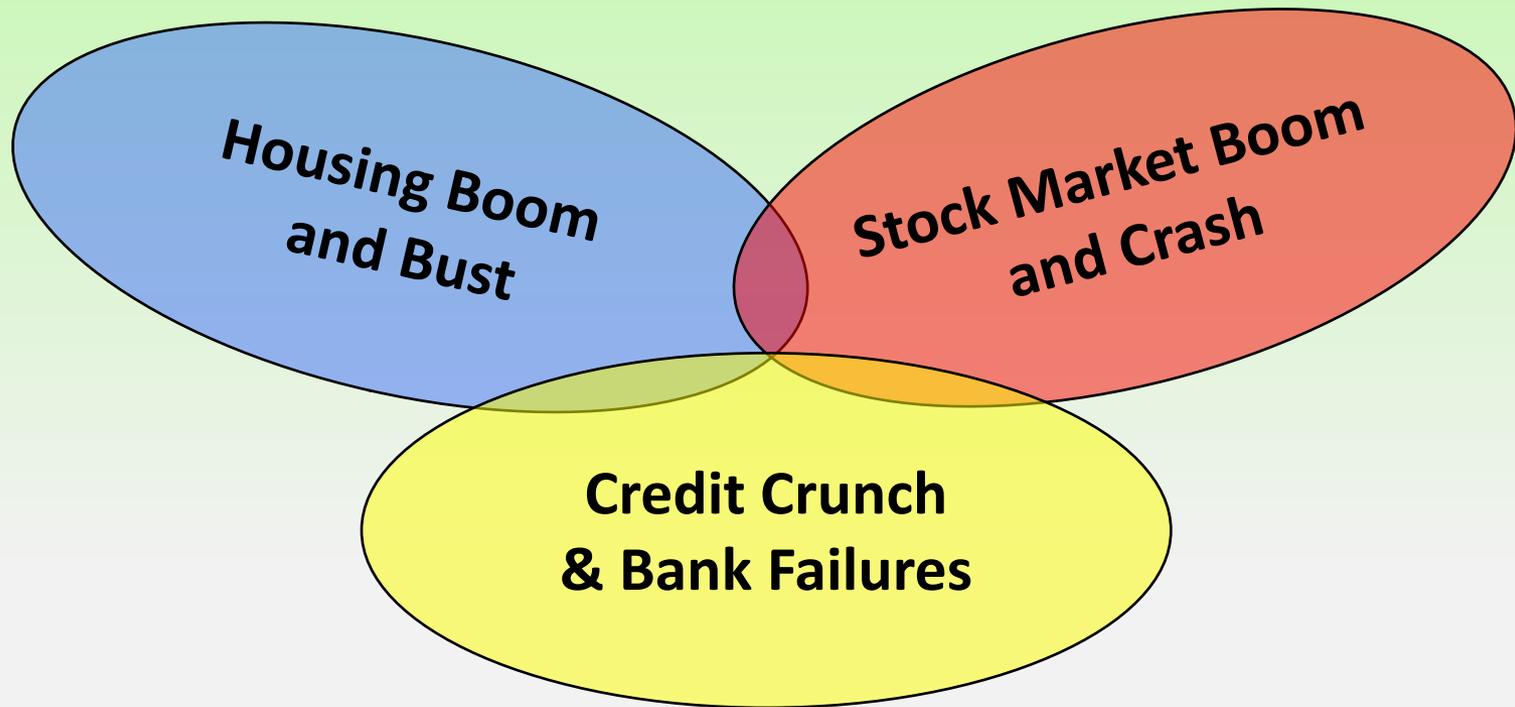
WARNING

This presentation may not be suitable for adults.
Contains graphic descriptions of financial abuse, economic bloodletting and frightening forecasts. Recommended for consumption with prozac or alcohol.

Viewer discretion is advised.



We're in a global triple economic bust...



In Canada, combined with on-going manufacturing crisis and resource sector boom turned bust

caused by systemic economic policies...

- *"I found a flaw"* (in the ideology I had followed for 40 years)
 - Alan Greenspan, former head of U.S. federal reserve, 23 October 2008
- *We are facing a systemic failure. This global crisis ...was created by the system itself; by the system which we created; and by a toxic combination of unethical behavior by companies and a faulty regulation and supervision of their activities.*
 - OECD Secretary General, 22 January 2009
- *"There's no question the Washington Consensus is dead"*
 - Senior World Bank official, 10 October 2008



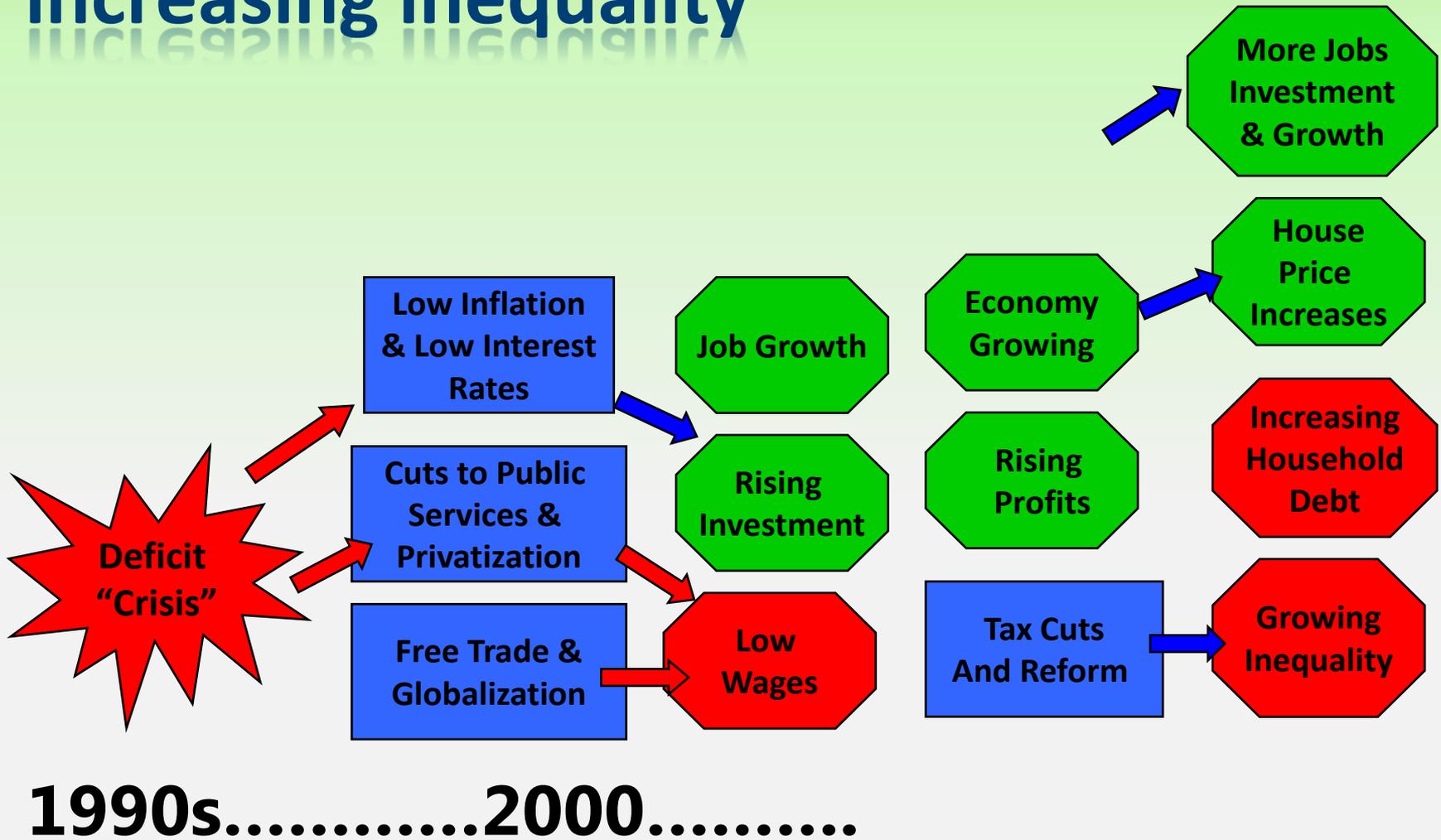
that were put in place decades ago...

- In late 1980s and early 1990s, countries put in place a set of economic policies called :

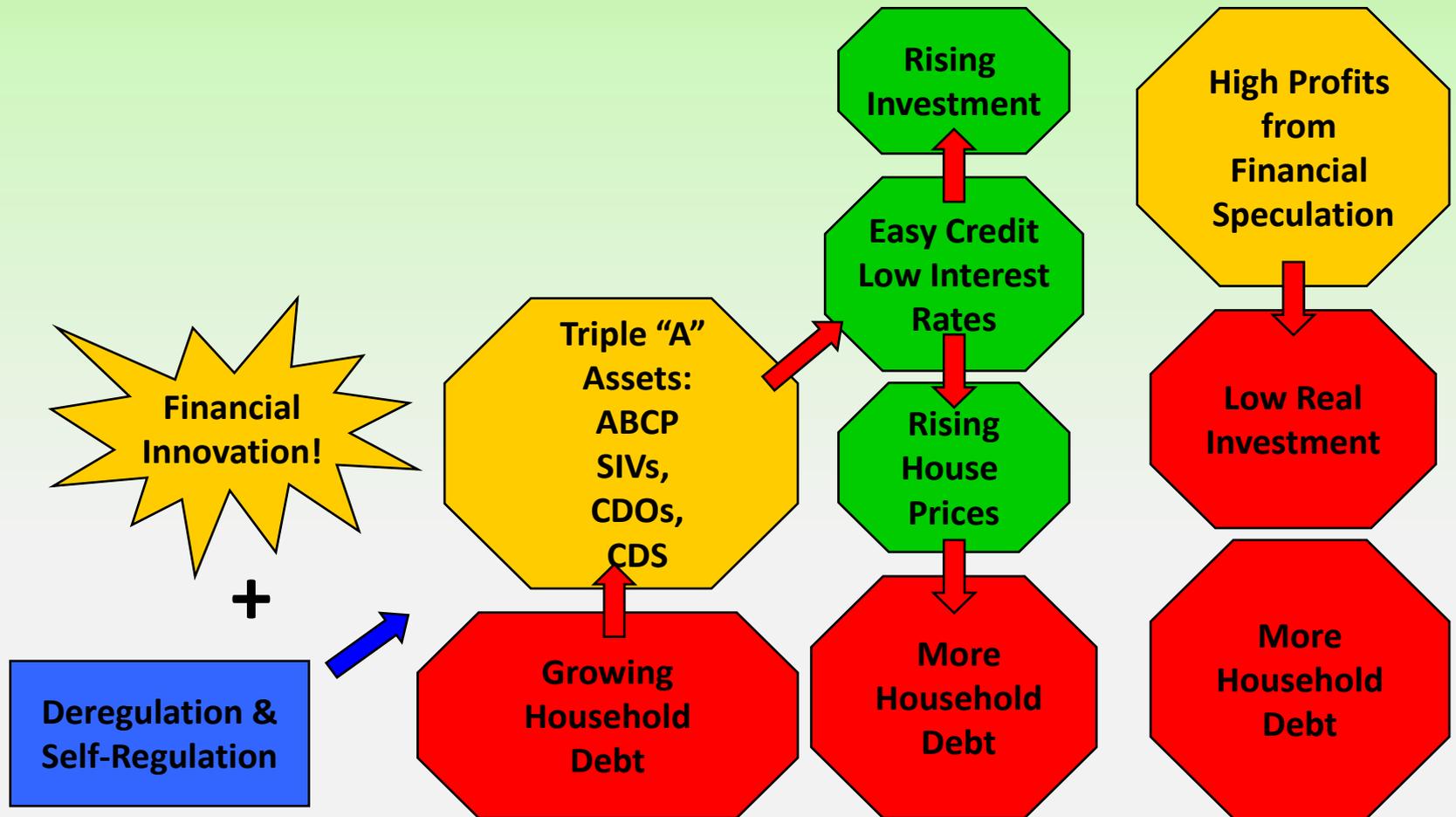
The Washington Consensus

- Cut public spending and reduce deficits
- Reduce inflation
- Privatize public services and government enterprises
- Cut taxes for high income and business
- Free trade, investment & globalization
- Deregulate industry, economy and society

Policies lead to growth at first but with increasing inequality

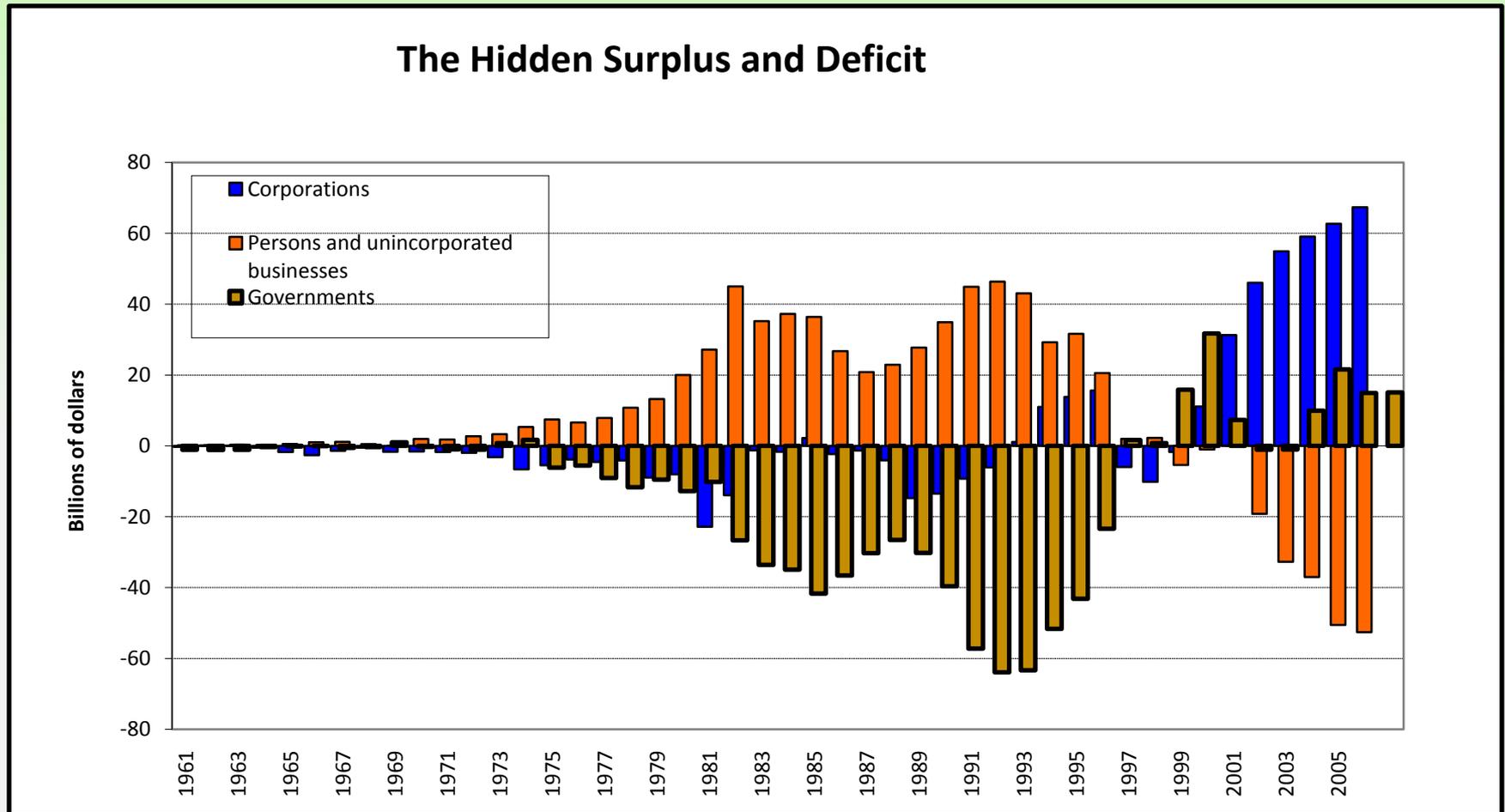


Then a paper boom economy

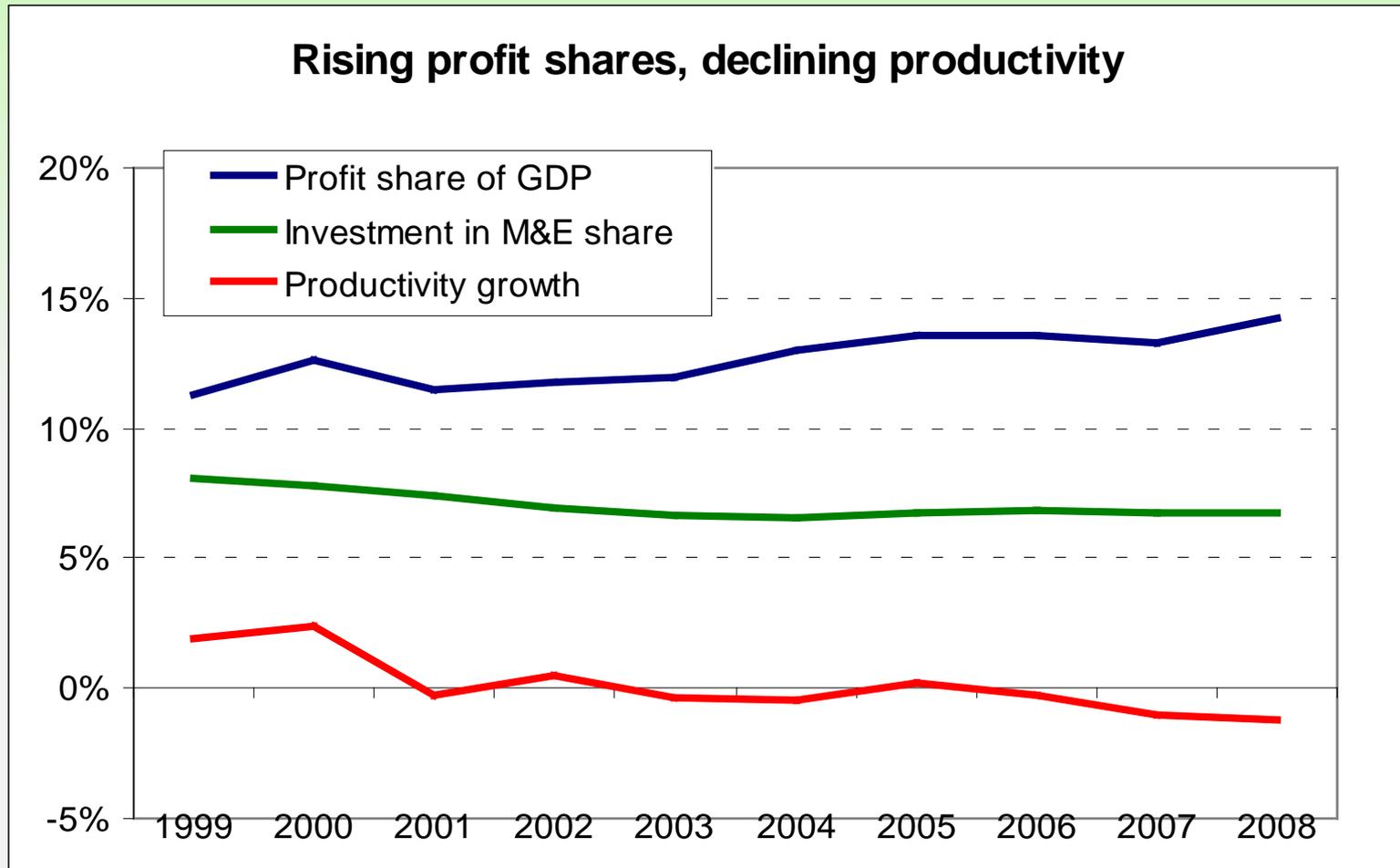


2000.....

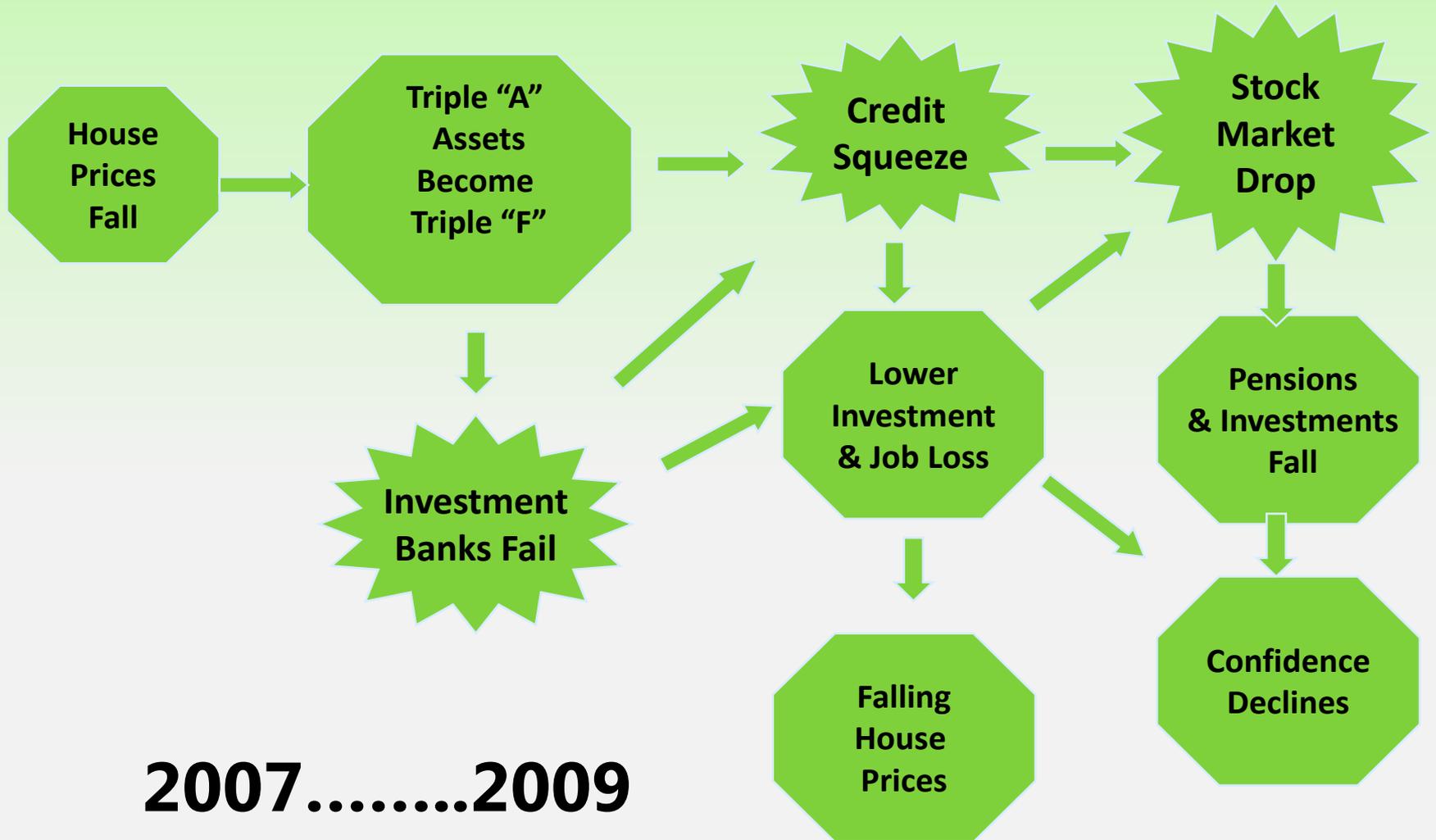
Record household deficits and corporate surpluses...



Low real investment led to stagnant productivity growth



and then a multiple crash...



2007.....2009

Canada also affected...

- TSX down 45% since June, massive pension losses
- Business and consumer confidence at record lows
- Bank of Canada interest rate at record low, but investment declining
- Over \$100 billion in support to banks, but business credit squeezed
- Over 230,000 jobs lost in last three months
- Alberta house prices down ~8%; housing starts down 48%
- Possible vicious cycle of decline



Economic downturn will be prolonged...

- Survey of recessions with house price busts and financial crises found:

1 - 2 years for GDP to reach bottom

2 – 5 years for stock prices to bottom out

4 – 6 years for housing prices to reach bottom

3 – 6 years for unemployment to peak

Depends on what actions governments take....



Neo-con economic policies don't work...

- Monetary policy (interest rates) “pushing on a string” with credit crunch
- Household debt at record levels
- Consumer and business confidence shattered

Need for government to step in to:

- Revive the economy with direct stimulus
- Provide Relief and support for the vulnerable and to protect workers jobs
- Rebuild confidence in the economy and financial system



Even mainstream economists are now talking sense...

- *IMF call for countries to introduce economic stimulus measures equivalent to 2% of GDP with emphasis on public spending.*
 - Oliver Blanchard IMF chief economist, 29 December
- *Fiscal stimulus needs to focus on social protection.*
 - Justin Lin, World Bank chief economist, 14 January
- *“The recipe has to be trickle-up economics...cuts in the corporate tax rate can’t help much...”*
 - Avery Shenfeld, CIBC economist, 23 January
- *“Cuts in hourly wages and salaries (and).. salary freezes (can lead to a) wage price deflationary spiral (that) is very difficult to stop...”*
 - Sherry Cooper, BMO chief economist 23 January



Federal budget took some steps forward...

Short-term stimulus over two years....

- \$10 billion for infrastructure
- \$2.4 billion for social housing
- \$3.9 billion for EI benefits, training, job creation
- \$3.6 billion for industry sectors
- \$10 billion in tax cuts

Extraordinary access to credit and financing for business

- Direct lending and loan guarantees

National securities regulation



But was weak and took steps back, too

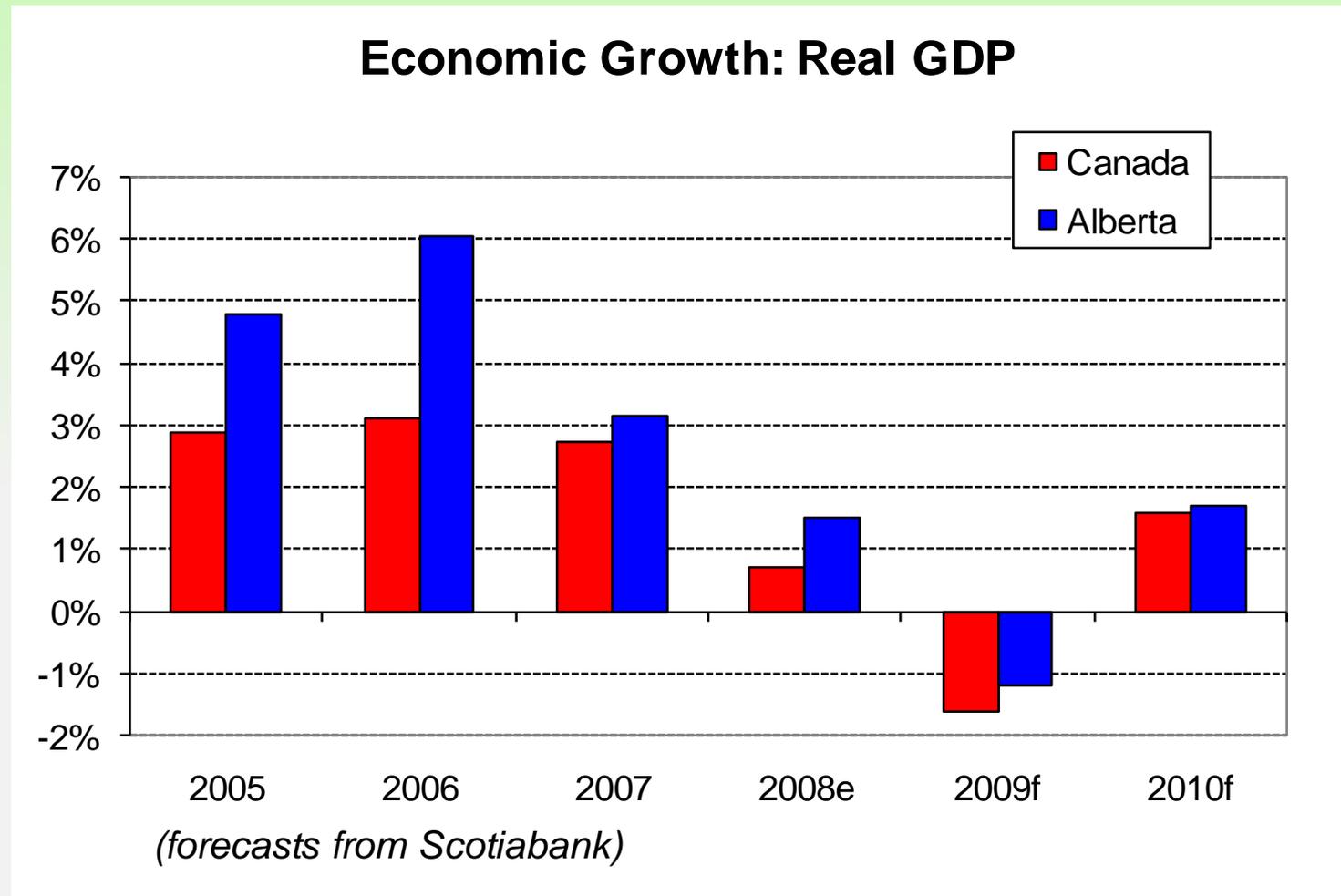
- Much of the spending politically-motivated
- Net direct stimulus only 1% of GDP
- Cuts to Equalization = \$7 billion over 2 years
- Privatization and spending cuts = \$10 billion
- No increase to EI access or benefit levels
- No protection for pensions, social transfers
- Cuts to child care funding
- No strategic plan for industry
- Continued with policies of deregulation, self-regulation, tax cuts, and cuts to public spending



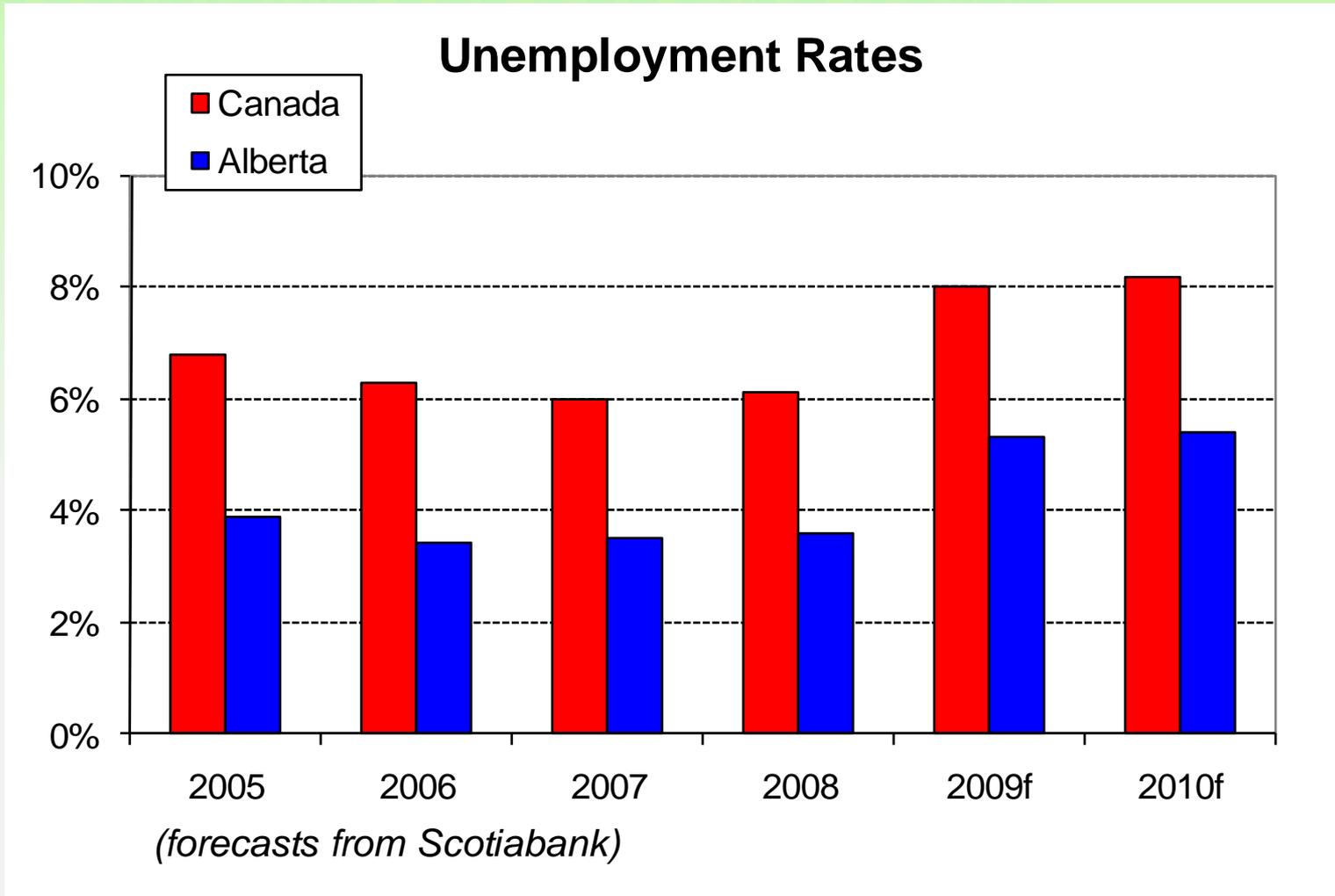
Social spending has strongest stimulus

<i>\$1 billion spending or cut in:</i>	<i>Output (\$billion)</i>	<i>Jobs</i>
Early learning and child care		35,000
Health care	2.0	18,000
Infrastructure	2.8	16,000
Education	1.9	12,000
EI Rate cut	1.8	8,000
Income tax cut	1.3	6,000

Economic growth heading south...



Unemployment heading north...



But these forecasts still too optimistic

- Unprecedented crisis: no bottom in sight, feedback effects from job losses, investment decline still to be felt
- No sign that the Canadian governments dealing with deeper problems in economy and financial sector
- Short-term stimulus to have positive impact, but could lead to a recession

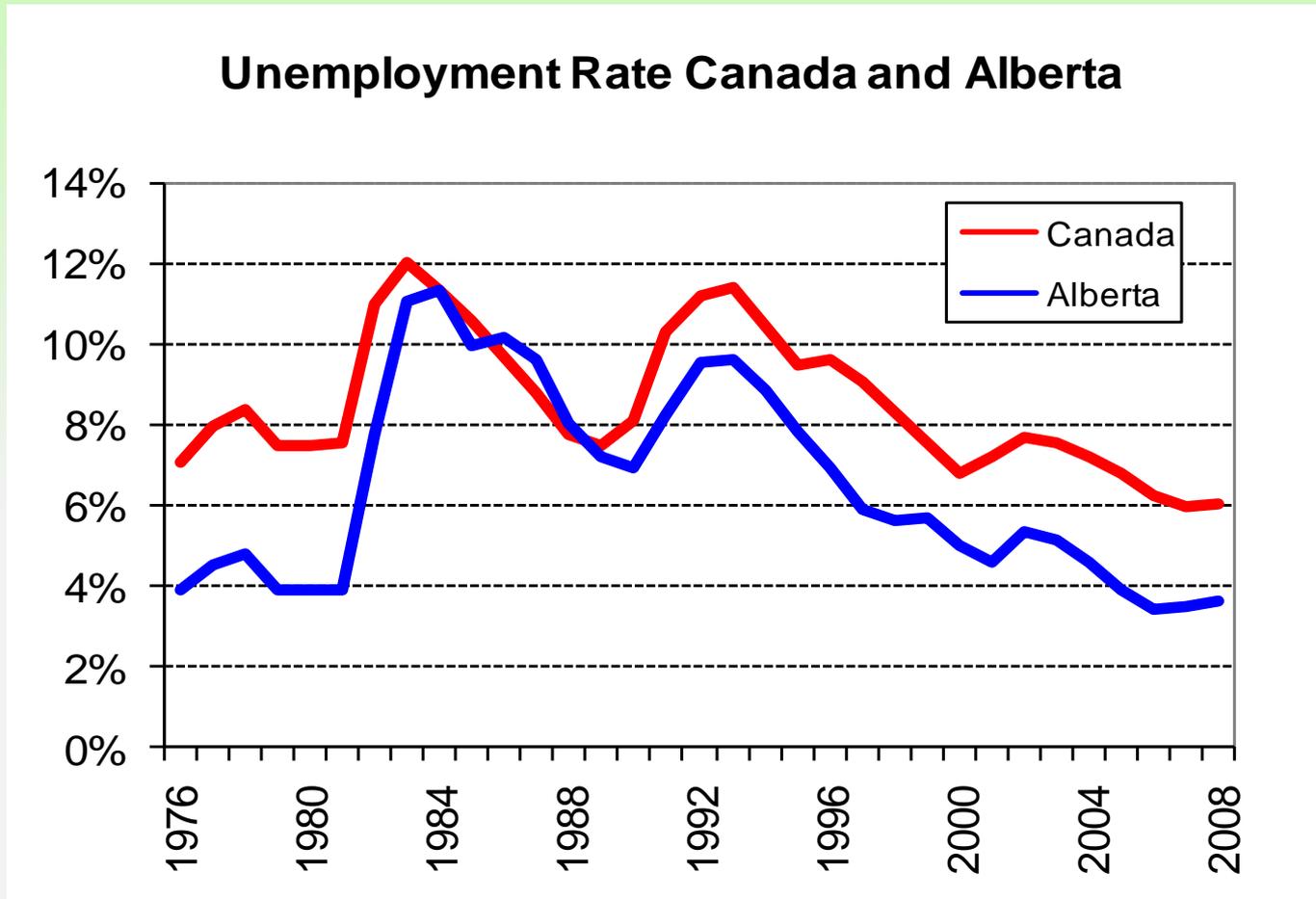


Provinces must do their part...

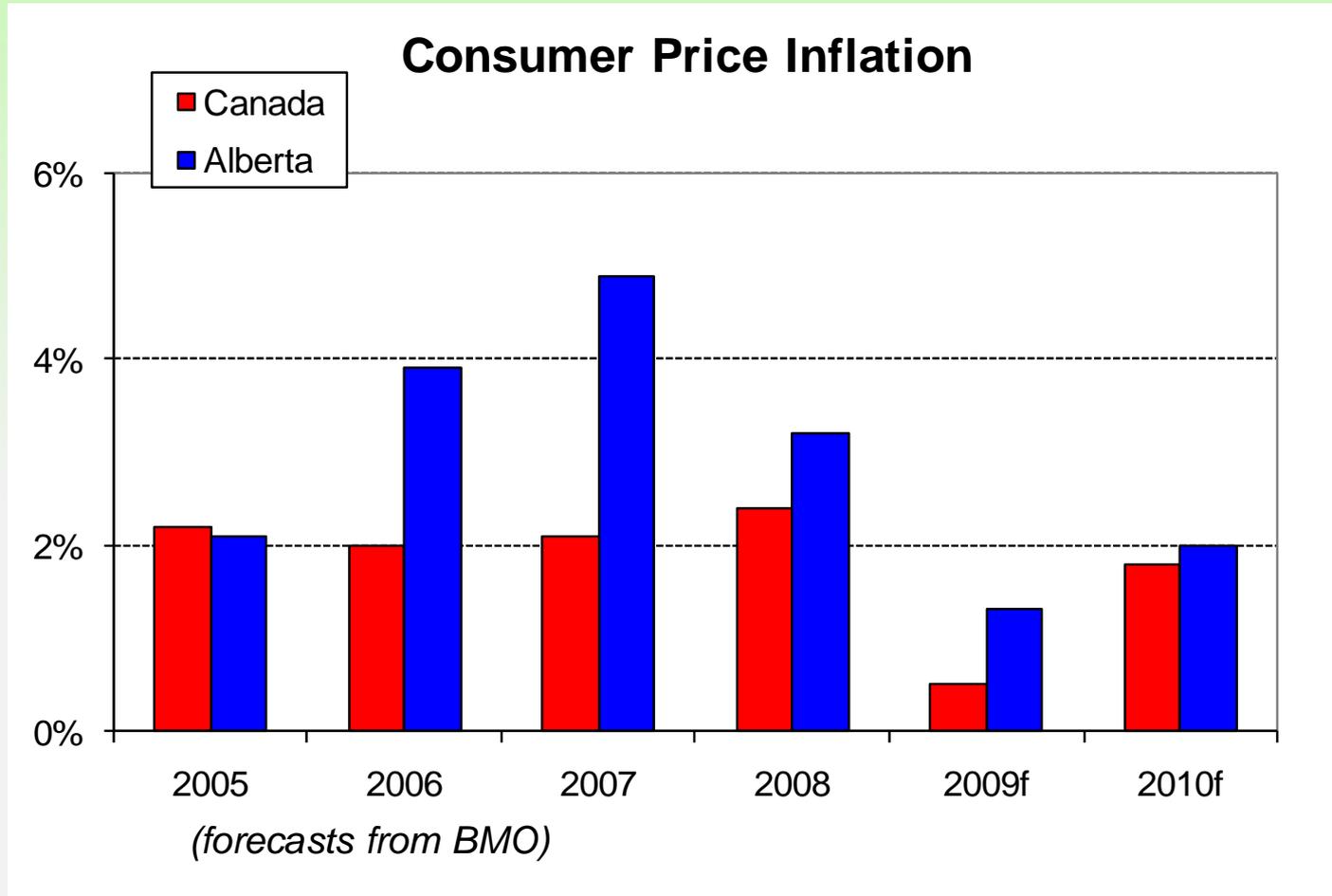
- Federal government half measures
- Local governments can't do debt
- Alberta's economic policies pro-cyclical, counter-productive and short-sighted
- Oil at US\$40/bbl, gas at \$5/GJ means \$9 billion drop in revenues from forecast for 2009/10
- Ideal time to redirect economy with long-term investments and pro-active policies
- Alberta stimulus should be at least \$3 billion



Alberta has seen tough economic times...

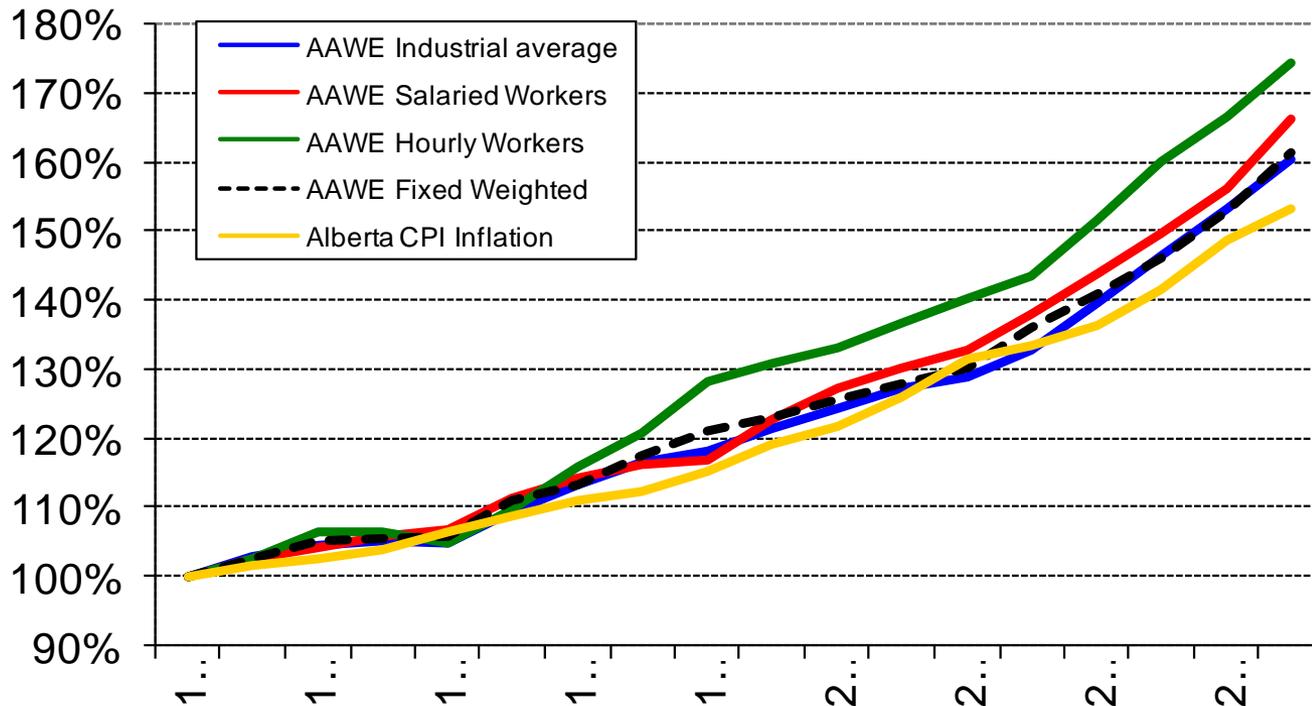


Upside to the downside: lower inflation



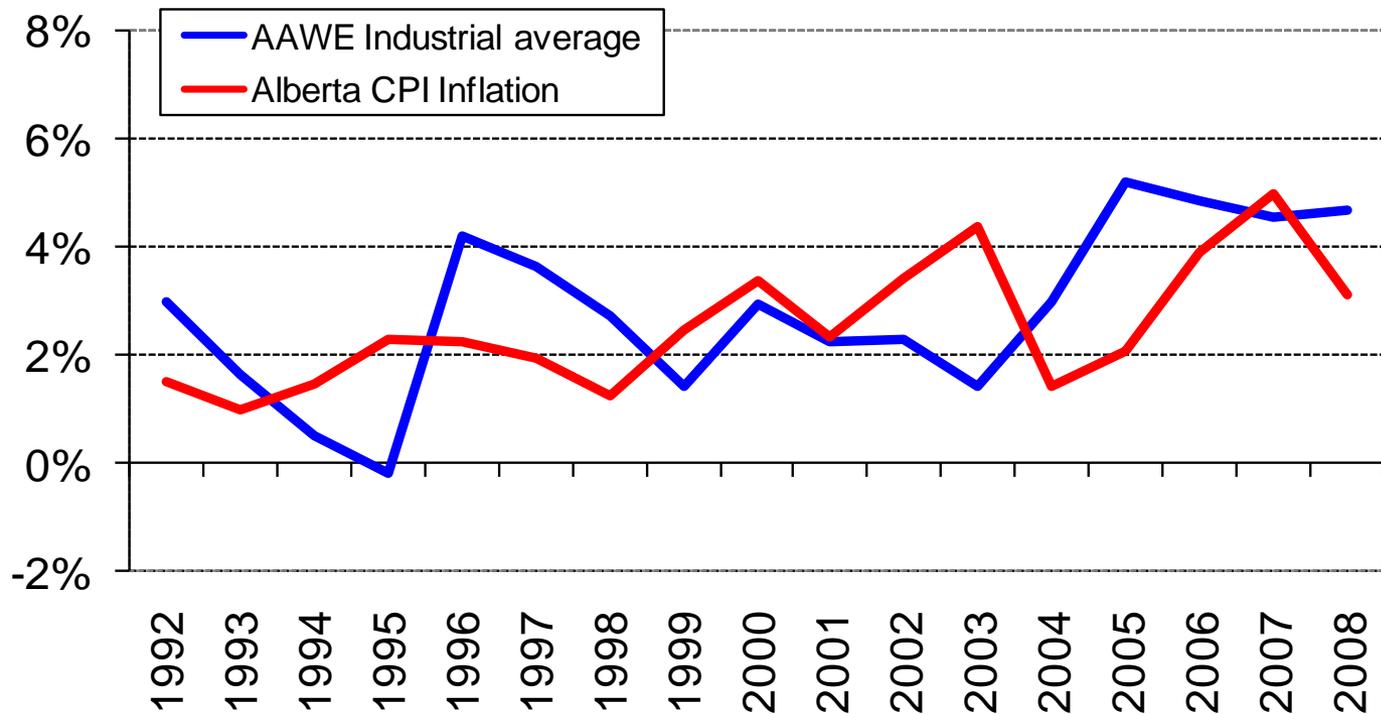
AB weekly earnings outpaced inflation...

Alberta Average Weekly Earnings and Inflation
1991 = 100%



...but are also more variable

Alberta Average Weekly Earnings and Inflation Annual Change



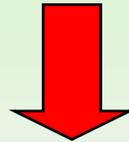
Considerations for wage targets

- AAWE likely to grow faster than CPI for next few years:
 - Delayed adjustments to lower inflation
 - Multi-year contracts in place
 - Structural shift back to higher paid jobs
- May be more risky: could go negative or inflation may re-ignite
- Politically defensible for public service wages: same increase as MLAs and industry average



Impacts: public service equations

Lower revenues for government + lower wages
+ rising unemployment
= pressure for cuts to public spending



Public Services



Rising unemployment
= more need for public services

Impacts: public service workers

- Declines in revenues
- Tougher bargaining for wages and benefits
- Possible job losses, especially with BPS employers
- Pension losses & need to fund pension deficits
- Controls on wages, attacks on labour rights
- Increased demand for public services

- Limited increases to public spending and public investments



Summary

- Recession expected to be longer and deeper than usual: bottom not yet in sight
- Unemployment and fiscal impact prolonged
- Canadian government response relatively weak and short-term
- Inflation expected to be $<2\%$ for next two years
- Investments in public services strong boost to economy
- Pressure on public services to increase
- ...but expanding public services is the only way we can get out of this crisis – and improve our quality of life in a sustainable and equitable way.

