



The Road Ahead: Bargaining and Economic Climate

Presentation for
Ontario School Board Coordinating Committee
2010 Conference, Ottawa
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14 April 2010

CUPE·SCFP

Who best identified cause of economic crisis?

Contestant #1



Stephen Harper
Prime Minister
of Canada

Contestant #2



“Maestro”
Alan Greenspan
former Chairman
U.S. Federal
Reserve Board

Contestant #3



Angel Gurría
Secretary-General
OECD

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Financial crisis was caused by “people over-leveraging” “mismanagement” by housing lenders Freddie Mac and Fannie Mae and “over- deregulation”

Stephen Harper Interview with Bloomberg News 28 September 2008

Who best identified cause of economic crisis?

According to Contestant #2



“Maestro”
Alan Greenspan
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“I made a mistake... I found a flaw in the model... that defines how the world works.”

Alan Greenspan, 23 October 2008

“The roots of the crisis reach back, as best I can judge, to the aftermath of the Cold War [and to] the economic ruin produced by the Soviet bloc’s economic system.”

“The Crisis” Alan Greenspan, 9 March 2010

“Fannie Mae and Freddie Mac... purchased an estimated 40% of all private-label subprime mortgage securities..”

Greenspan Testimony Financial Crisis Inquiry,
7 April, 2010

Who best identified cause of economic crisis?

According to Contestant #3



“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 Angel Gurría,
22 January 2009

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But who best *predicted* the crisis?



Ann Pettifor
economist, exec
director Advocacy
International

“The reckless financial policies of leading western powers in the last two decades make it likely that the next seismic debt crisis will be in America, not Argentina. It can be avoided . . . only by serious efforts to bring regulation and balance to the international economy...”

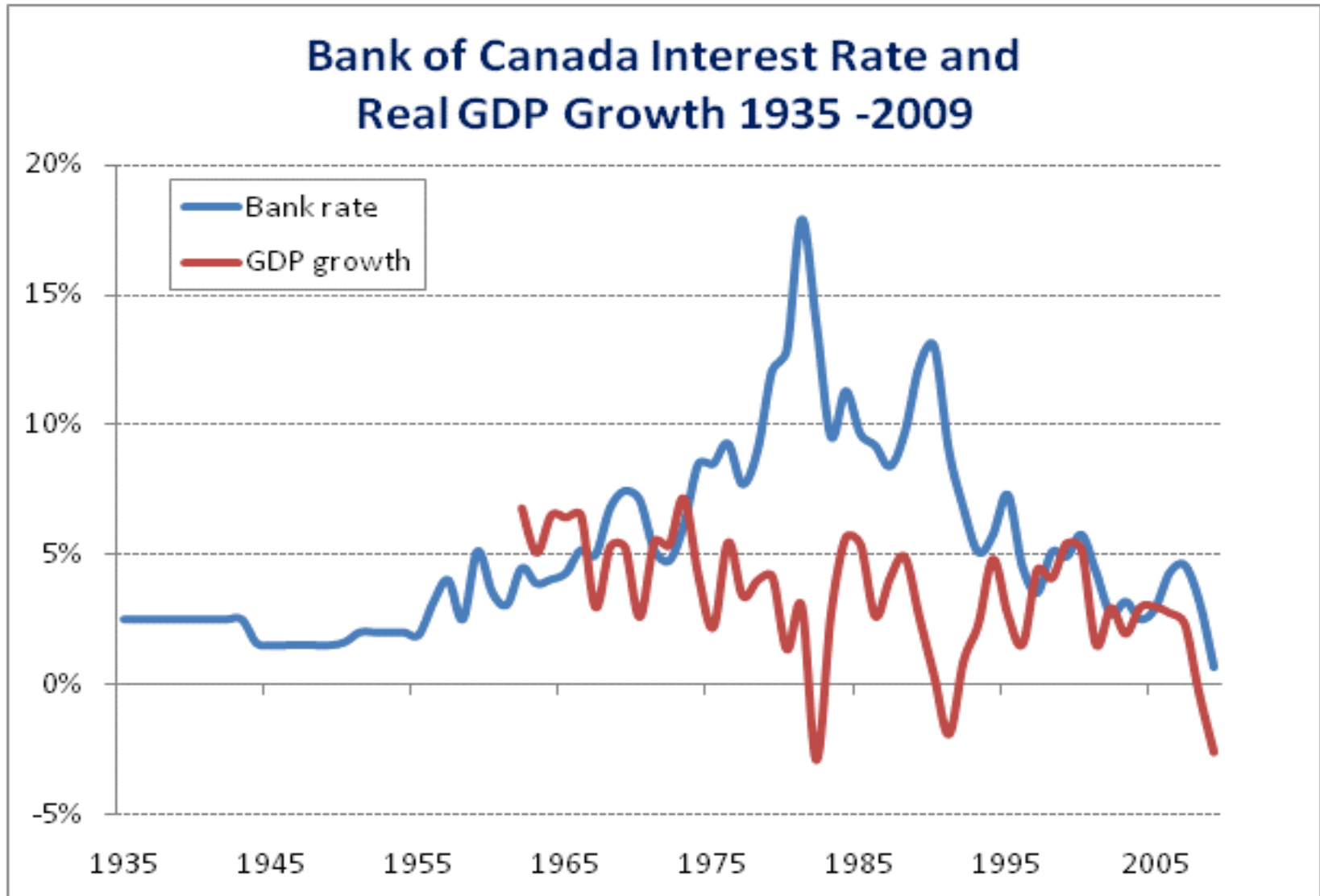
There will be a collapse in the credit system in the rich world, led by the United States.”

Ann Pettifor in “Real World Economic Outlook”, New Economics Foundation 2003

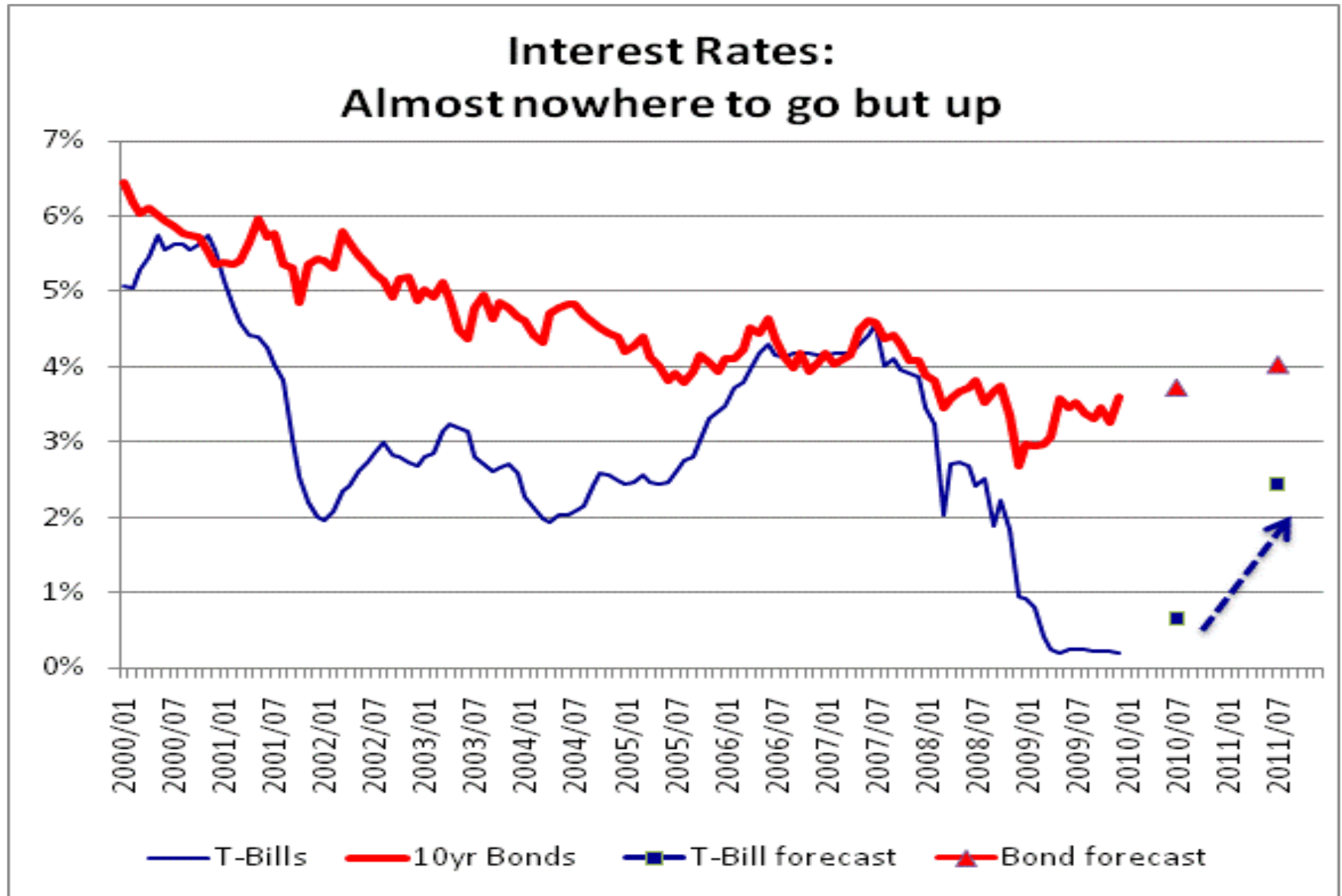
Why was this economic crisis different?

- First global economic downturn since the 30s
- All regions of Canada suffered.
- Not intentionally caused by government to slow down the economy.

Previous post-war recessions caused by interest rate hikes



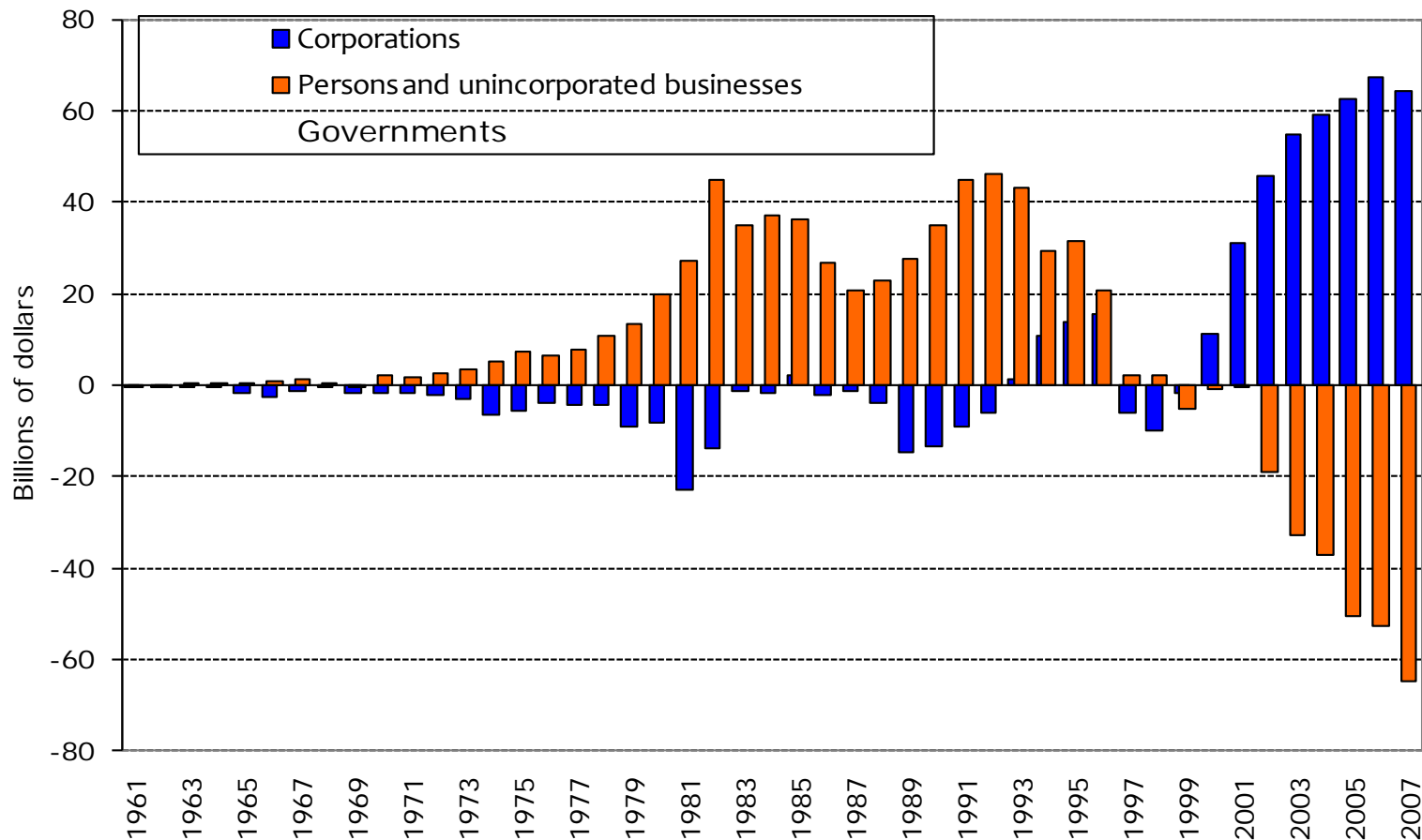
Interest rates moving up



Record household deficits—and corporate surpluses—developed

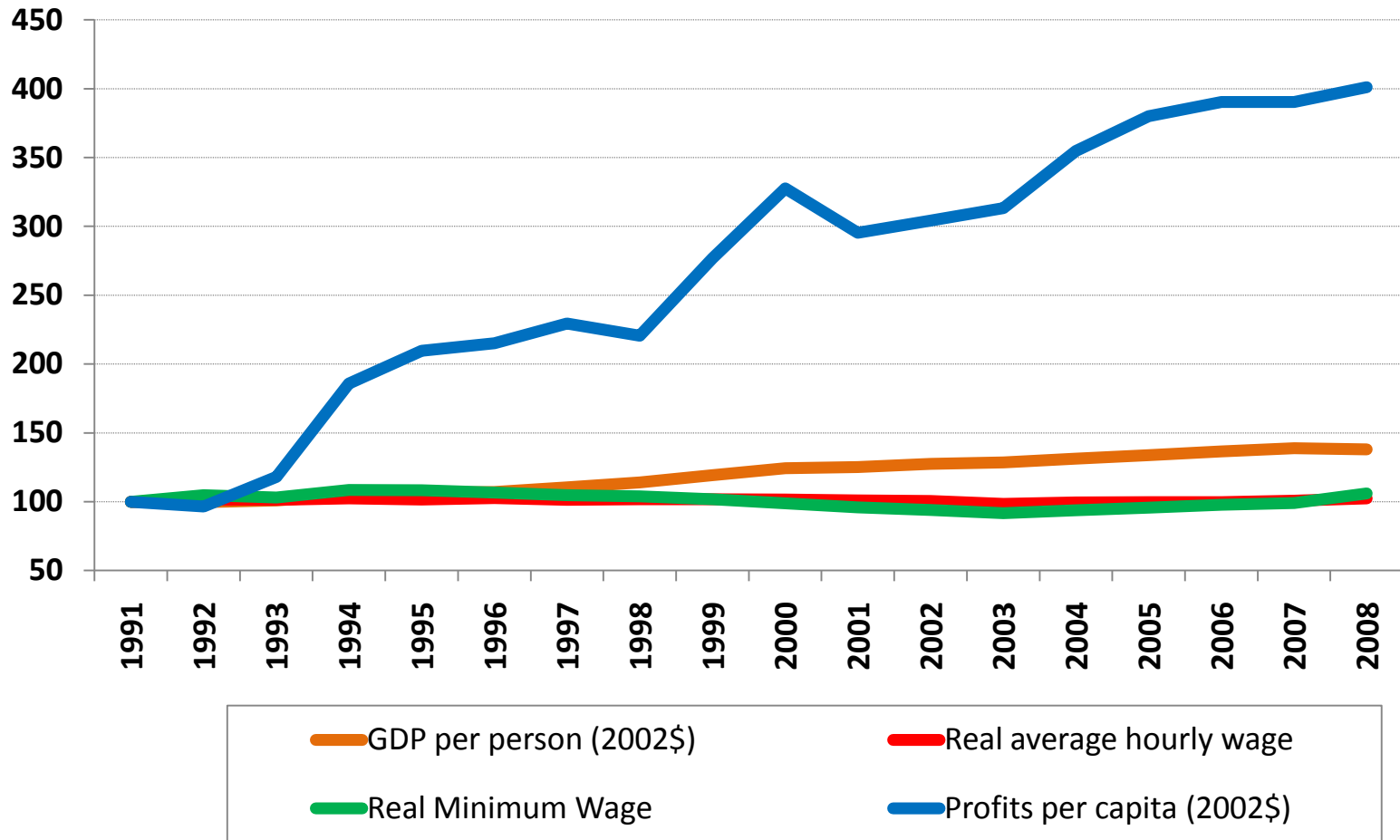
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Record Household Deficits -- and Corporate Surpluses

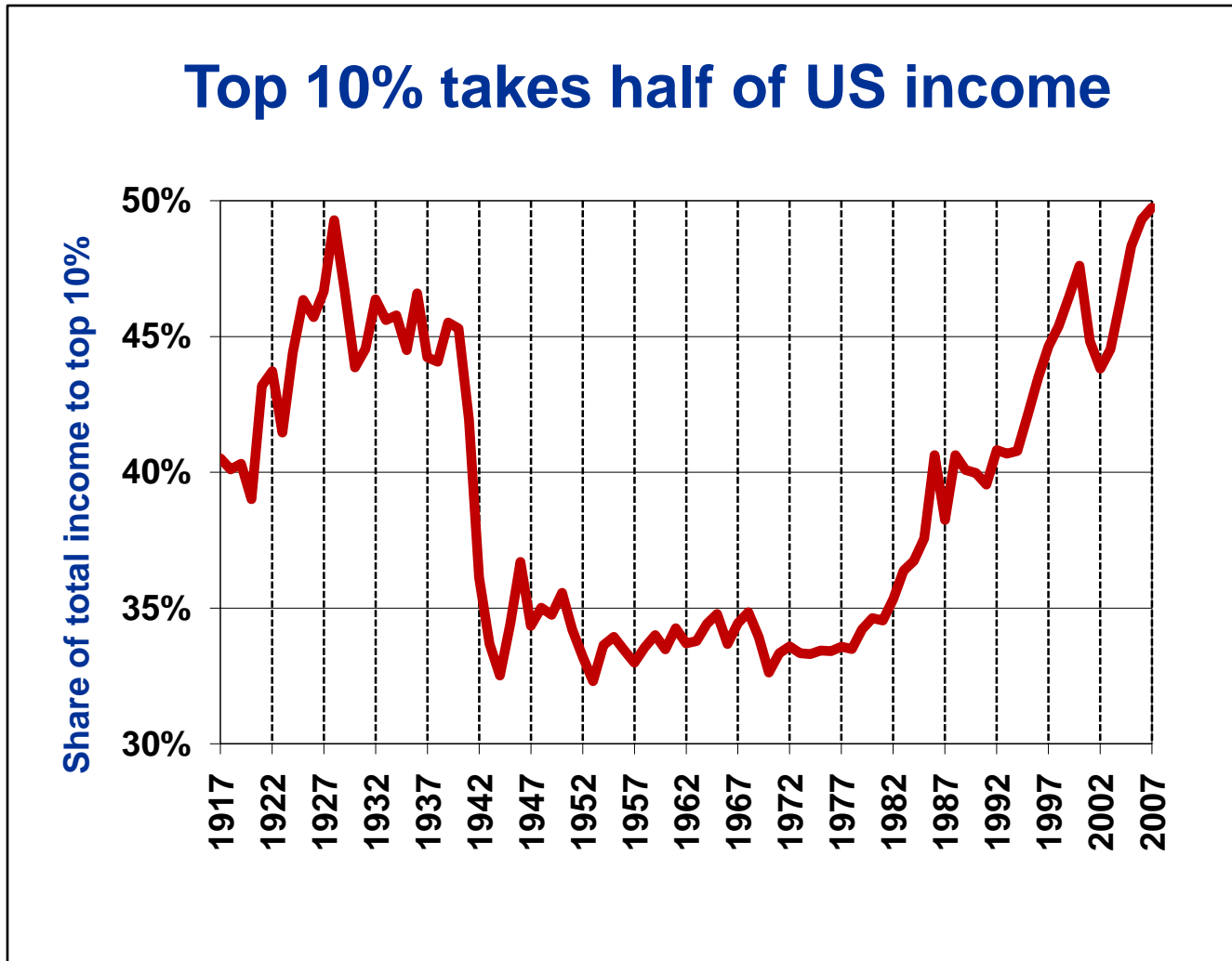


Who benefited from the boom?

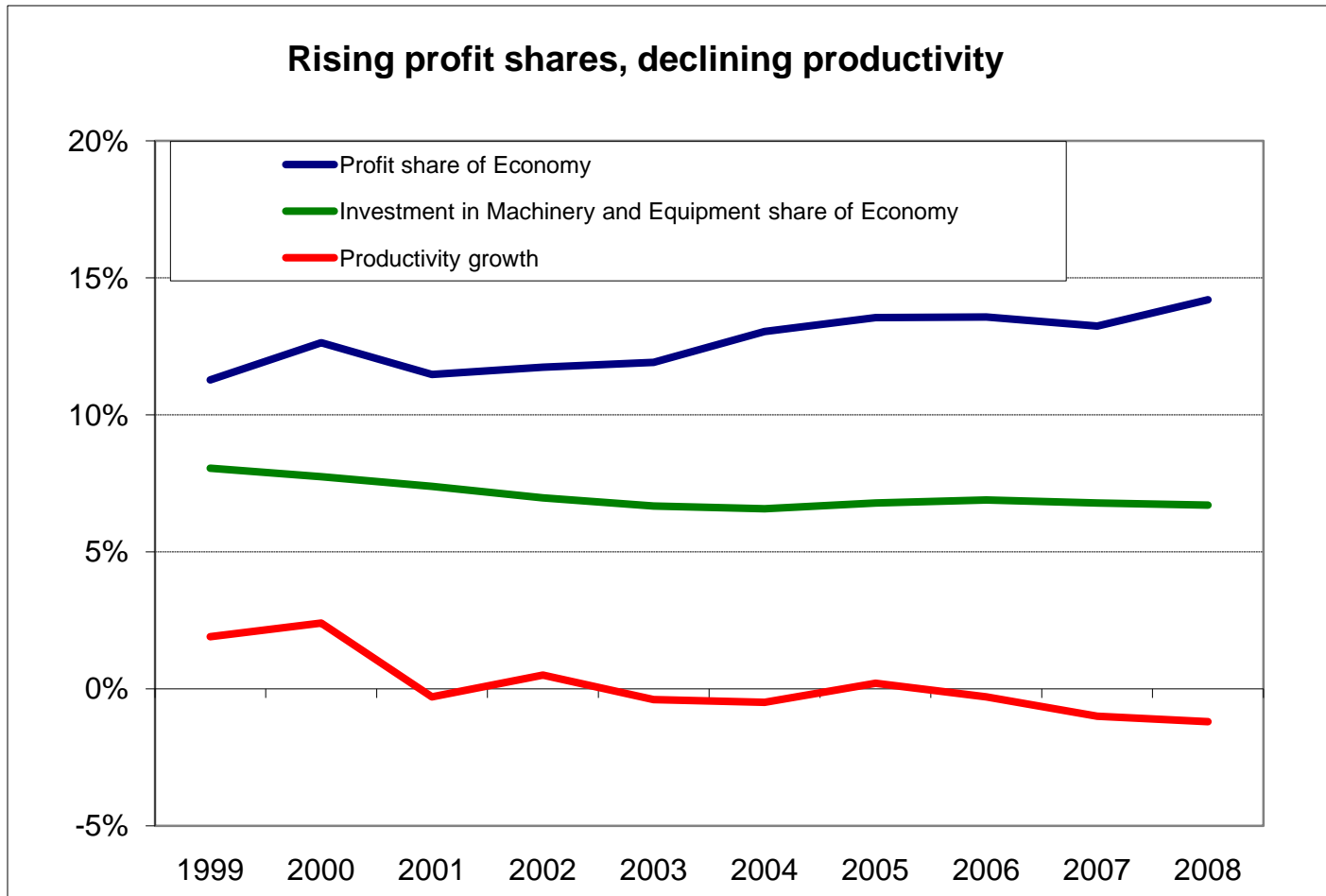
Economic growth and wages since 1991=100



Economic growth, spoils to the richest



Record corporate profits but stagnant productivity growth

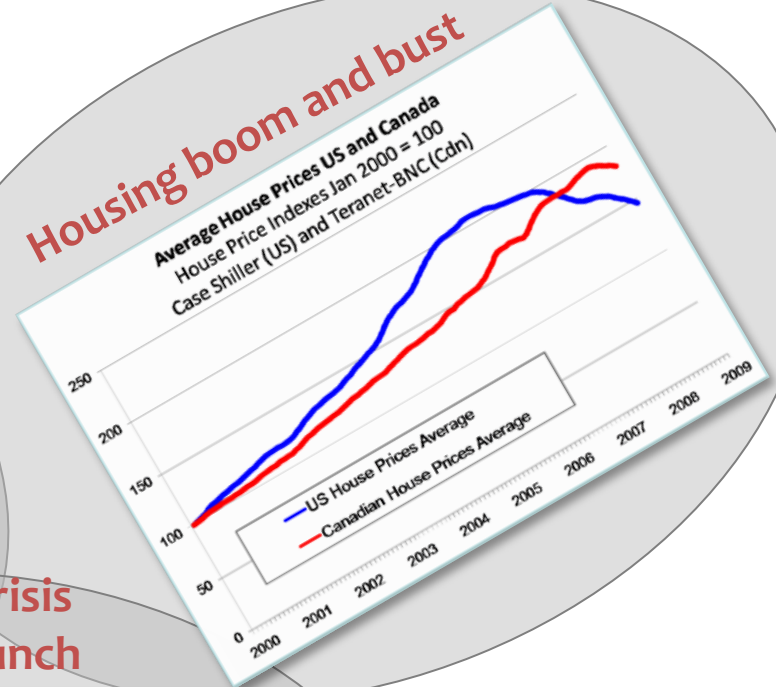


We had a global triple economic bust...

Stock market crash

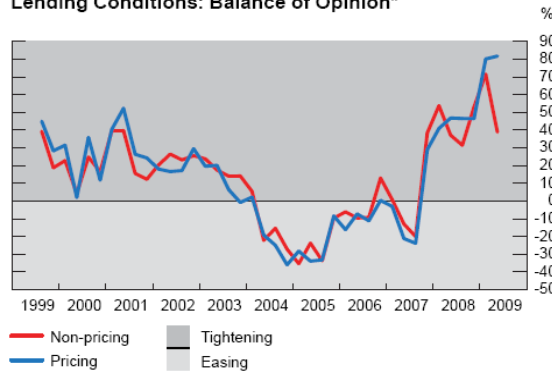


Housing boom and bust



Financial crisis & credit crunch

Chart 2: Pricing and Non-Pricing Lending Conditions: Balance of Opinion*

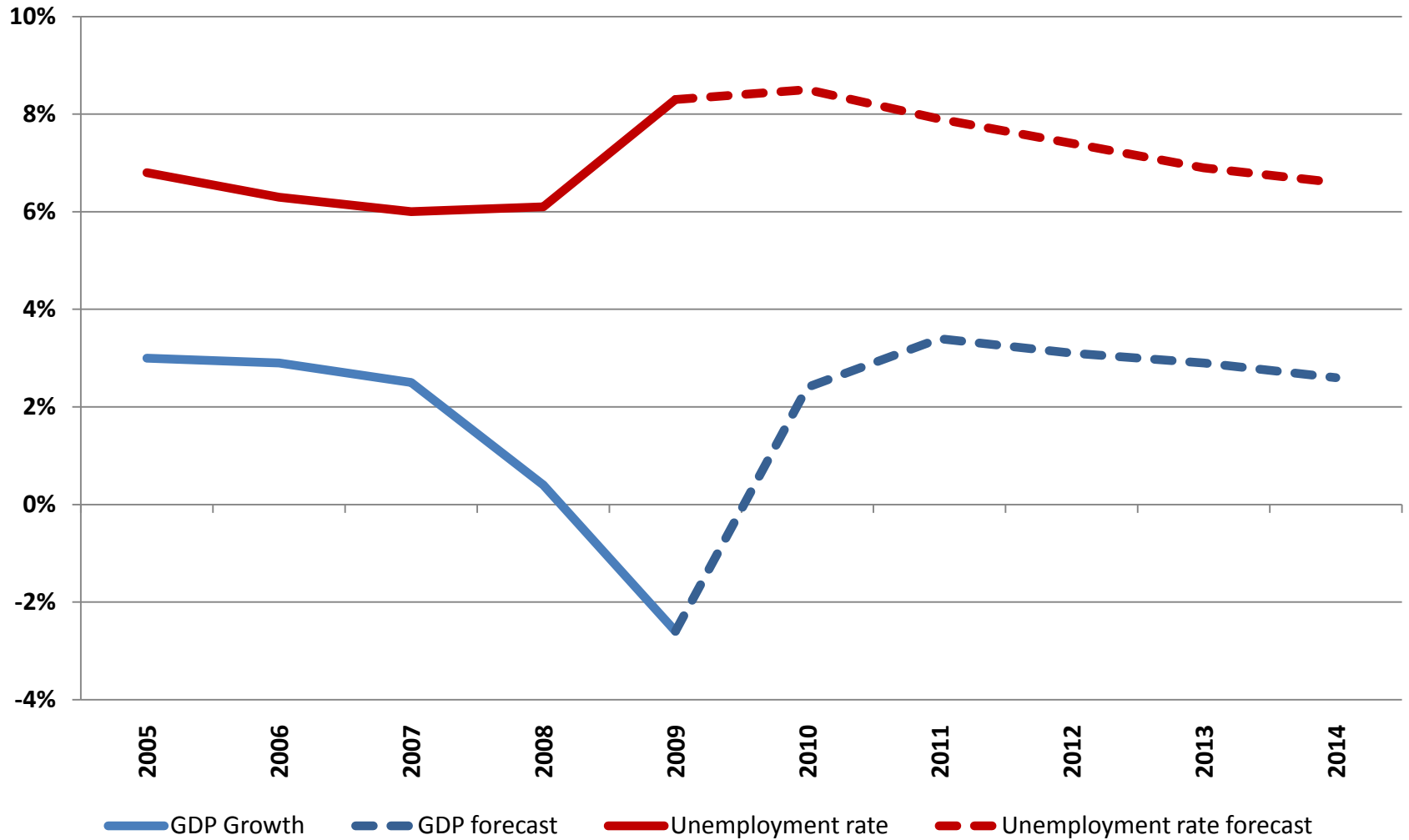


In Canada, combined with on-going manufacturing crisis and resource sector boom turned bust

Types of Recessions

- **L** don't want to go there...
- **U** longer bottom
- **V** short and sharp
- **W** double-dip

Sharp "V" Recession for Canada

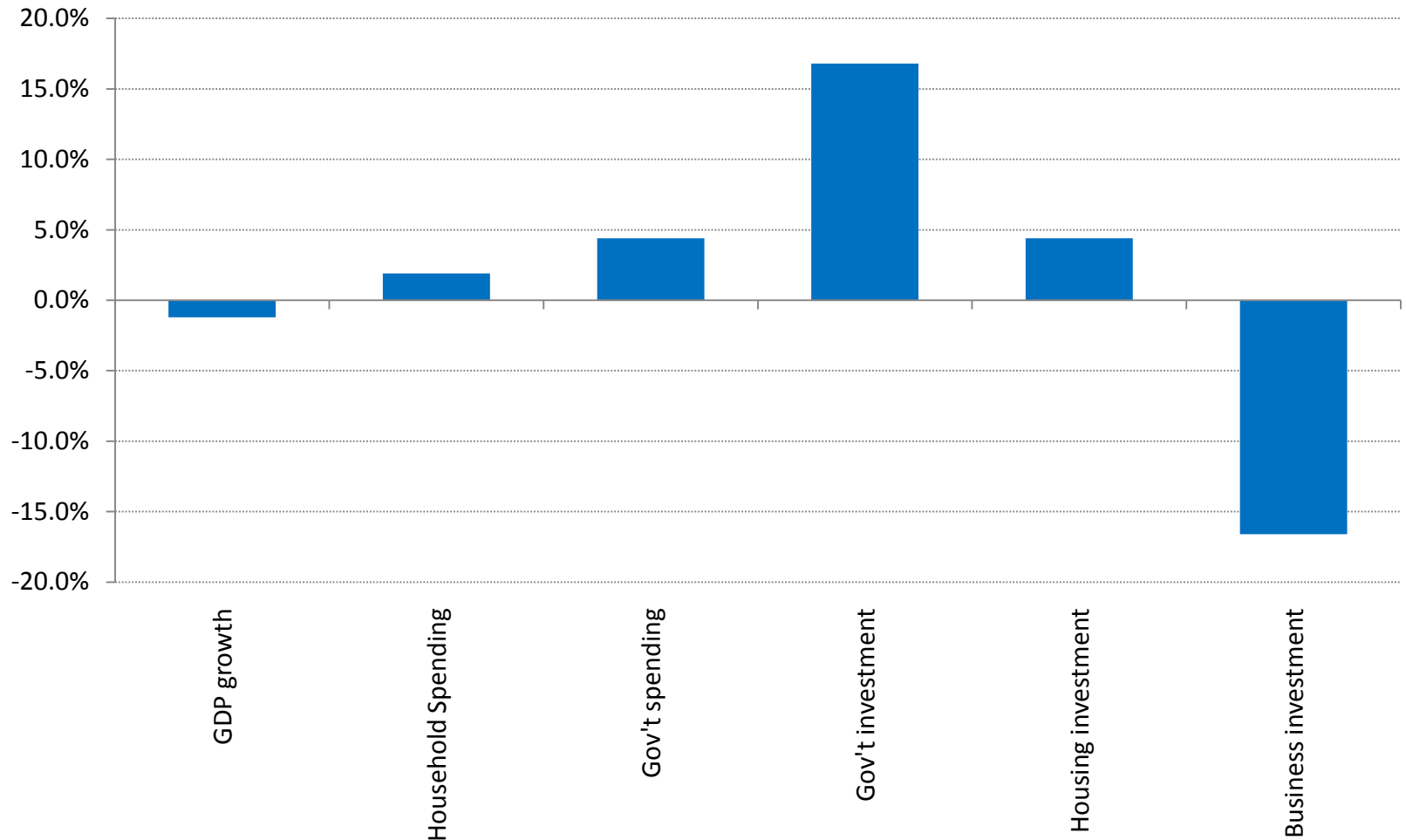


Same for Ontario, but a deeper "V"



Where is the growth coming from?

Components of Economic Growth
% increase 2008Q4 to 2009Q4



So what do our governments do?

With:

- Households spending but at record debt levels...
- Corporations with record surpluses, but not investing...

They:

- Freeze public sector salaries
- Increase sales taxes (HST)
- Cut corporate and business taxes even further
- No new stimulus
- Plan to sell off public assets and privatize

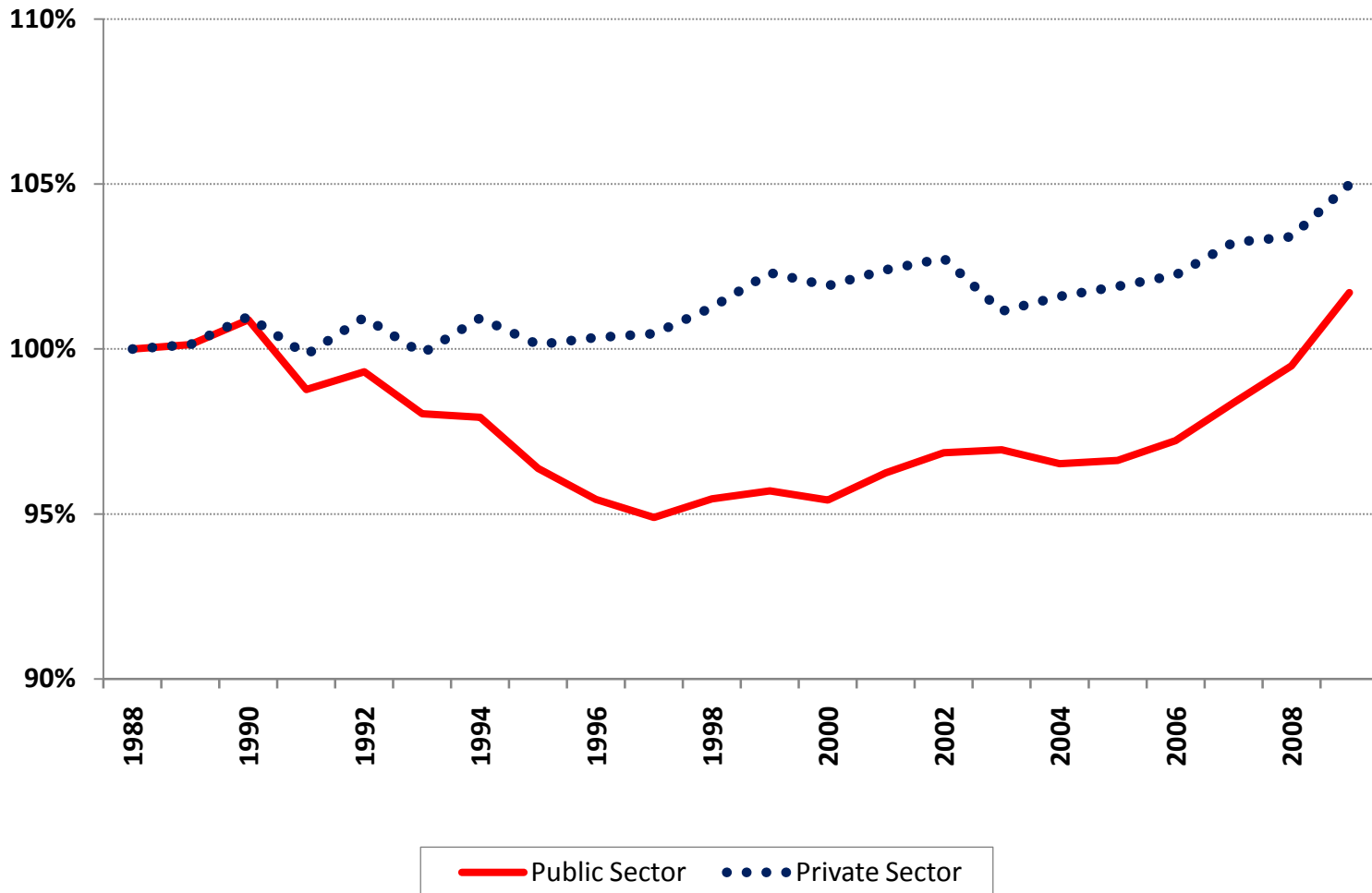
WTF?!?

Not just in Ontario

- Federal:** Legislated wage increases, freeze departmental spending.
- BC:** Two year freeze bargaining mandate; net zero increase in overall wages.
- Manitoba:** Two year wage freeze public employees.
- Quebec:** Offering 7% over five years.
- N.B** Policy for two-year wage freeze.

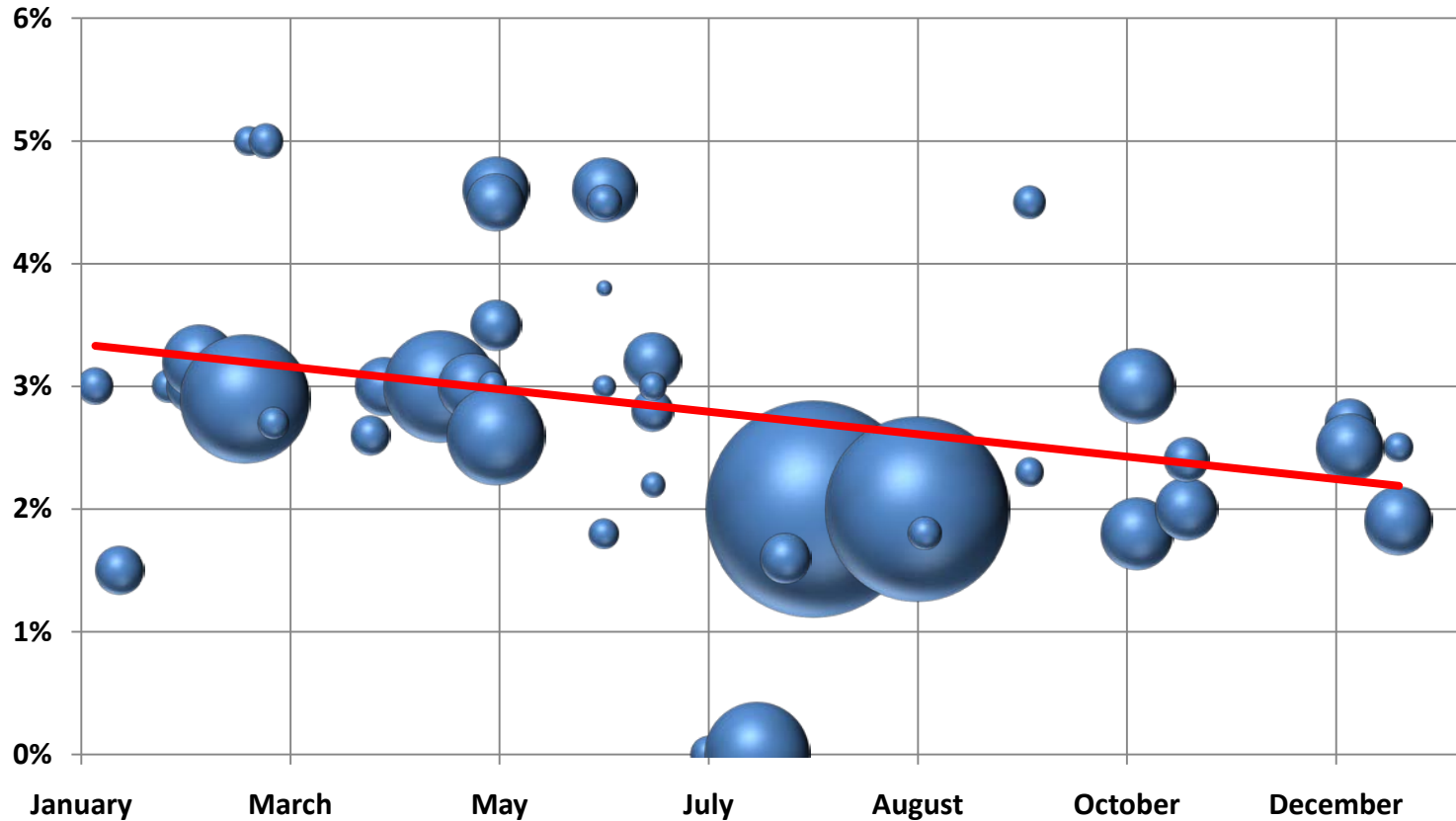
Public sector wages only just recovered

Public and Private Sector Real Wages
Major Agreements, Adjusted for Inflation 1988 = 100%



Wage Settlements Trending Down

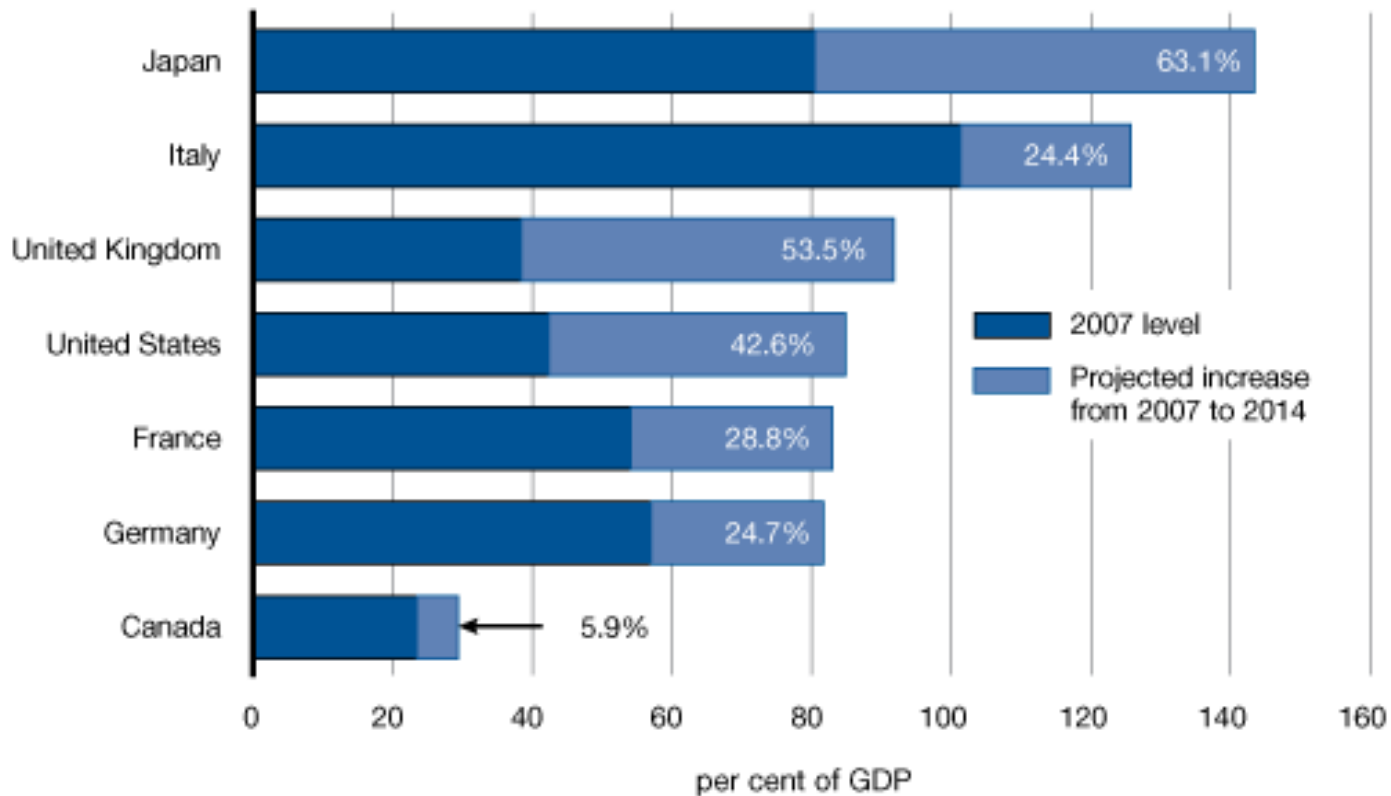
CUPE Major Settlements 2009



● average annual increase general wage increase — Linear (average annual increase general wage increase)

Does Canada have a debt/deficit problem?

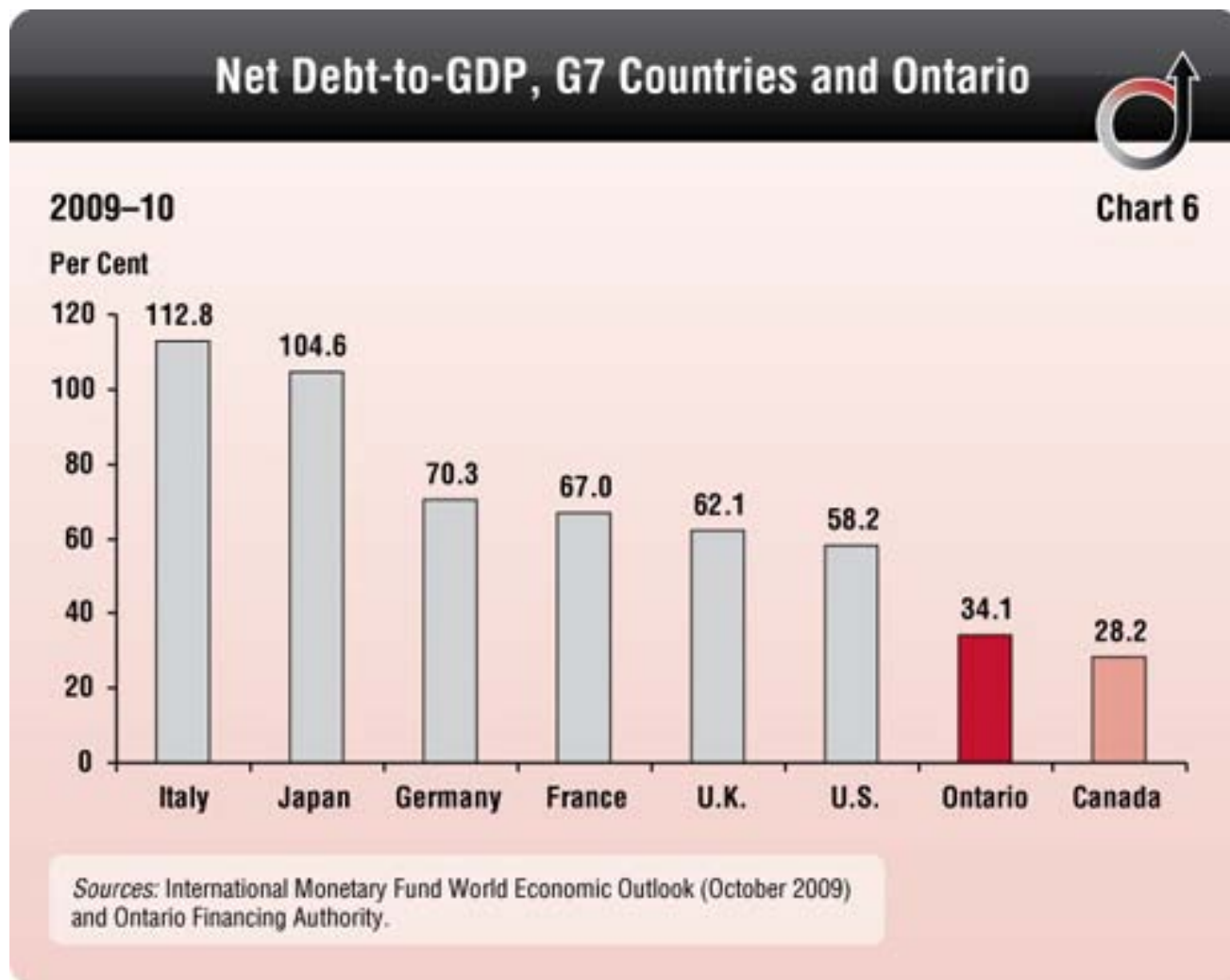
Chart 4.1.1
Total Government Net Debt, G7 Countries



Source: IMF, *World Economic Outlook* (October 2009).

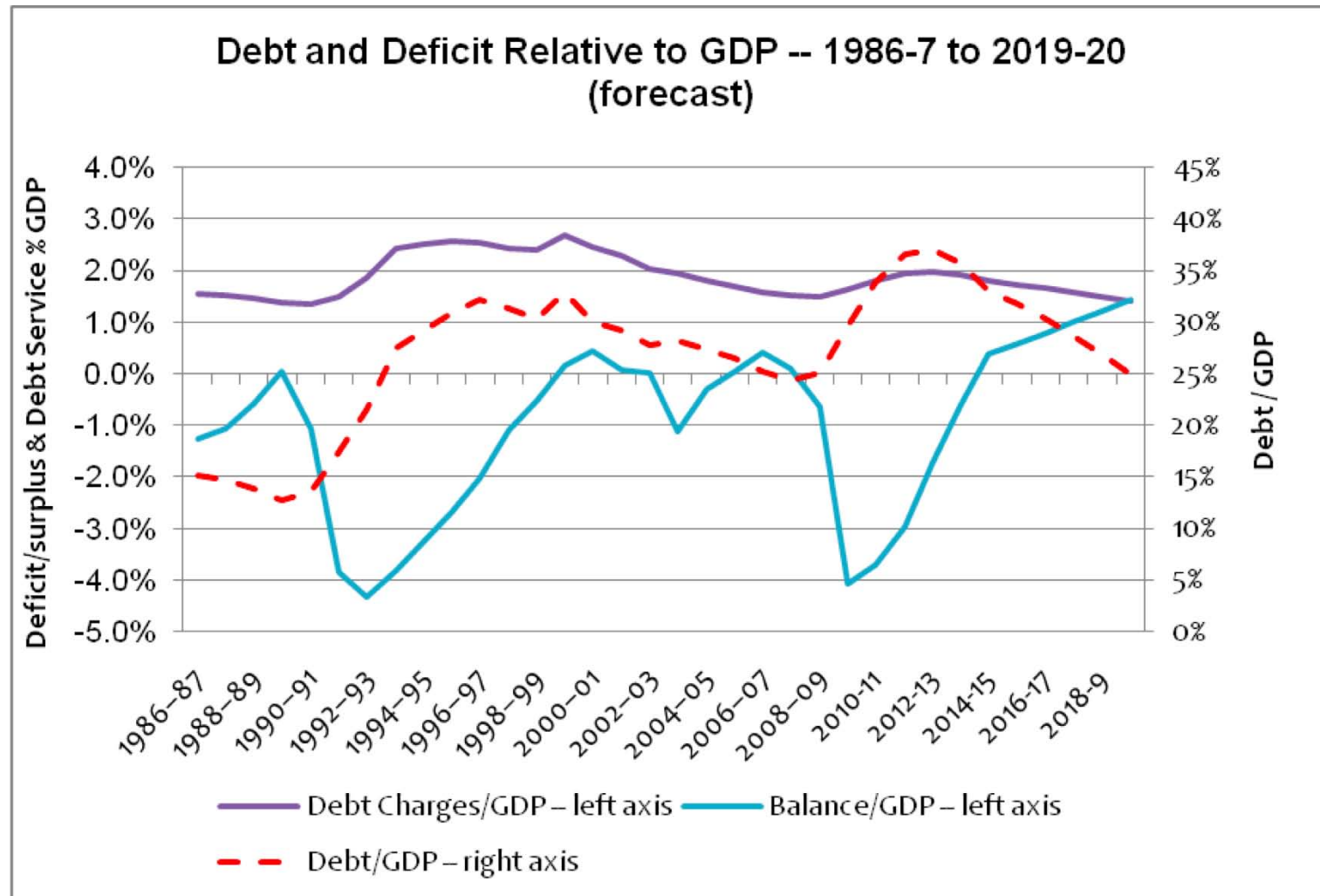
Source: *Federal 2010 Budget*, page 154

Does Ontario have a debt problem?



Source: Ontario 2010 Budget, page 188

Ontario could soon eliminate deficit and reduce debt/GDP without severe actions



Source: Hugh Mackenzie, *Ontario Budget 2010: Deficit mania in perspective*

Corporate taxes: further cuts and revenue losses paid, partly for, by public sector wage freezes

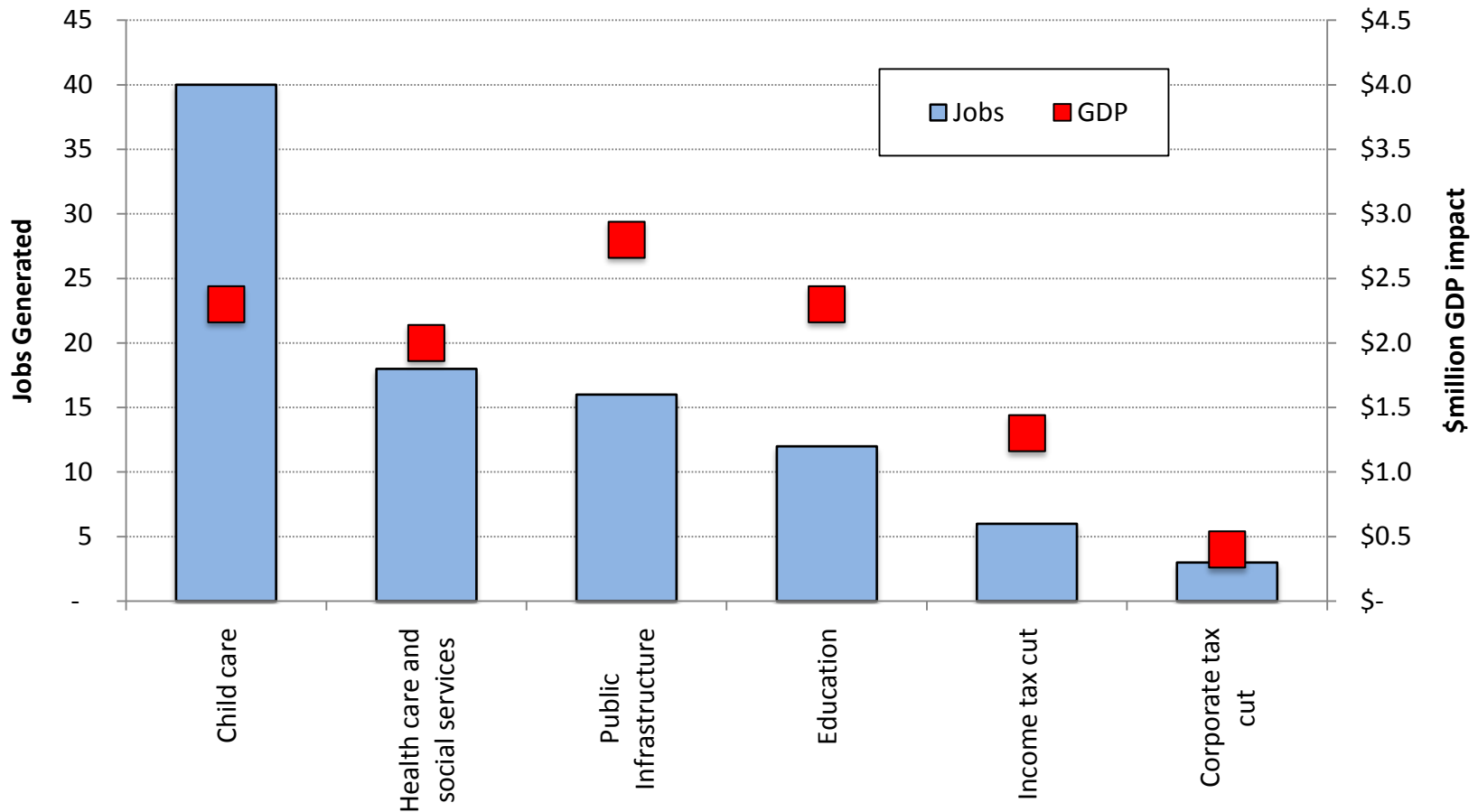
| | Ontario | Ontario | Federal | Federal |
|------|---------|-----------------|---------|---------------|
| | Rate | Loss (billions) | Rate | Lo (billions) |
| 2009 | 14% | | 19% | |
| 2010 | 12% | -\$1 b | 18% | -\$0.6 b |
| 2011 | 11.5% | -\$1.5 b | 16.5% | -\$2.8 b |
| 2012 | 11% | -\$1.9 b | 15% | -\$5.2 b |
| 2013 | 10% | -\$2.? b | 15% | -\$5.8 b |

Meanwhile....

- Public sector wage freeze to save Ontario \$375 million a year
- Department spending freeze to save Ottawa \$1.8 billion a year

What yields the strongest economic impact?

Public Investment Yields Strongest Economic Impact
(per \$1 Million invested or spent)



Source: Center for Spatial Economics, Informetrica, Federal 2010 Budget (p. 281)

Economic crises can lead to positive reforms

1873 Panic and Long Depression led to “Progressive Era” of early 1900s

- Regulation of business, finance, health & safety
- Democratic reforms
- Income taxes and expansion of public services
- First minimum wage legislation, labour rights

Great Depression led to New Deal economic policies and Golden Age of 1950s to 1970s:

- Unemployment insurance, social security
- Deficit spending, public investment, job creation
- Regulation of business, finance, labour rights
- International financial reform
- Expansion of public service

Thank you!

For more information:

CUPE Economic Climate for Bargaining, TableTalk

<http://cupe.ca/economics>

Progressive Economics Forum blog:

<http://www.progressive-economics.ca/relentless/>

Economics for Everyone, Jim Stanford

<http://www.economicsforeveryone.ca/>

Work and Labour in Canada, Andrew Jackson