

TRENDS **GROWTH**

Greater equality needed to boost economy

For decades, many conventional economists and politicians believed greater equality would only come at the expense of economic growth. They claimed that the only way all would benefit would be by increasing the size of the total pie, so everyone's slice would get bigger.

It's been a long time coming, but the accepted wisdom is finally changing.

Standard and Poors, the influential credit rating agency that holds judgment over government and corporate finances, recently issued a report unequivocally stating that high rates of income inequality and poverty are harming economic growth, joining a growing number of prominent

economists, the

International Monetary

Fund and even a number of billionaire investors in this assessment.

The question is what to do about it.

S&P focuses on the benefits of improving education, including the benefits of a high quality universal pre-school program. They suggest progressive tax reform to close loopholes for the rich, inheritance taxes and increased investments in health care, education and infrastructure, which benefit

the poor, create jobs and increase incomes of the middle class.

That's right: Wall Street's most influential arbiter of public finance is now telling governments that to increase economic growth they should reduce poverty, reduce inequality, close tax loopholes for the rich and spend more on public services!

But there's more that must be done. As the World Bank, OECD and the International Labour Organization have also just emphasized, to re-ignite economic growth we need stronger job creation and wage growth.

Instead of policies we've had that weaken wage growth, we need to improve income growth for working Canadians, reduce inequality and create good jobs with decent workplace and social benefits. CUPE has outlined measures that would help in our submission for the federal budget.

Read our submission for the federal budget at cupe.ca/economy

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ECONOMIC BRIEFS

HIGHLIGHTING RECENT ECONOMIC STUDIES AND DEVELOPMENTS



INFLUENCE CEOs tell finance minister to cut taxes and buy off First Nations

Canada's new finance minister, Joe Oliver, continued the tradition of his predecessor by hosting a select group of mostly bankers and CEOs at a spa outside Ottawa for his summer policy retreat. They reportedly told him to increase tax cuts (that will primarily benefit the rich) through income splitting and expanded tax-free savings accounts, and create a multi-billion dollar fund for First Nations and communities along the proposed Northern Gateway route to help win approval for that pipeline.

WAGES CEOs making deep sacrifices to benefit workers

Actually, umm, that's not true at all. Instead, the *Globe and Mail* reports that "Major CEO pay increases are in the cards again" but at this point is anyone surprised? Average CEO compensation increased by 11 per cent in 2013. Canada's top-paid CEO, Gerry Schwartz of Onex Corp, gained \$129 million, with almost half in the form

of stock options on which he'll pay half the rate of tax that the rest of us pay. Plus, ten of those CEOs have pensions already worth over \$20 million each, with the \$60 million pension of 50-year old Bradley Shaw, CEO of Shaw Communications topping the charts. Kind of puts things in perspective when bargaining for your next contract—or paying your next cable bill.

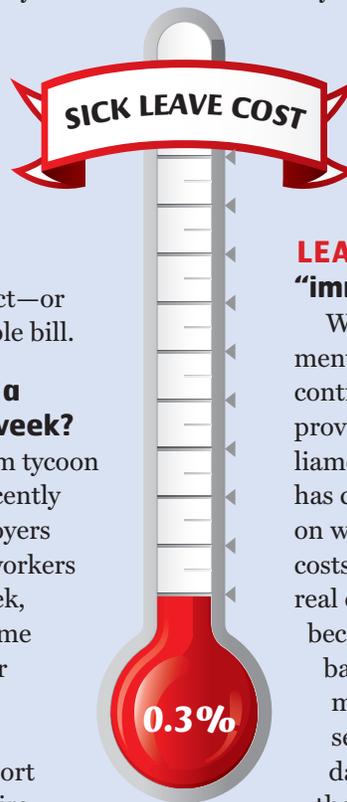
HOURS Time for a three-day workweek?

Billionaire telecom tycoon Carlos Slim Helu recently proposed that employers start offering their workers a three-day workweek, so they have more time with their families or for personal enrichment. His proposal also gained the support of his fellow billionaire Richard Branson, of Virgin Records and Virgin Airlines. But there's a tradeoff: the

workday would be longer and people would have to work up to age 75. As journalist Todd Humber notes, "It's kind of like cashing in some of your retirement chips while you're still young and healthy enough to enjoy them..." Sound appealing? Maybe if it came with a decent pay increase and a share of some of those billions.

LEAVE Costs of sick leave "immaterial"

While the federal government and other employers continue to attack sick leave provisions, the federal Parliamentary Budget Officer has crunched the numbers on what sick leave actually costs. They've found that the real costs are insignificant because employers often don't backfill. Even for departments like correctional services, where use of sick days is relatively higher, the actual cost incurred was less than 0.3 per cent of the department's budget and only 0.5 per cent of their wage bill.



Economy at Work is published four times a year by the Canadian Union of Public Employees to provide workers and their representatives with accessible information and analysis of relevant economic developments and to assist in bargaining. It replaces CUPE's previous *Economic Climate for Bargaining* publication.

Find *Economy at Work* online at cupe.ca/economyatwork with links to relevant materials.

An email edition of *Economy at Work* is available. Subscribe at cupe.ca/subscribe.

All content written by Toby Sanger unless otherwise indicated. Edited by Wes Payne and Philippe Gagnon. Layout by Marnie Thorp. Please email tsanger@cupe.ca with corrections, questions, suggestions, or contributions.

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More money, better revenue sources needed for municipalities

Municipal governments are responsible for operating, maintaining and rebuilding almost 50 per cent of Canada's public infrastructure, yet they only directly receive eight cents of every tax dollar collected in Canada. Making matters worse, the tax revenues Canadian municipalities are allowed to collect—mostly property taxes and user fees—are regressive, taking proportionately more from middle- and lower-income residents. Meanwhile local governments in other countries have access to a much broader range of revenue sources, including income and sales taxes.

This problem has made municipalities more dependent on upper levels of government for transfers. But transfers are uncertain, usually

restricted to capital projects, and now come with federal pressure to use public-private partnerships.

A significant fiscal imbalance remains: the municipal infrastructure deficit is at over \$100 billion, while the federal government will soon be going into surplus.

To provide better information and education on the subject, CUPE has produced a research report, *Funding a better future*, and a toolkit, *Building better communities*. Both provide a strong emphasis on how municipalities can gain more progressive revenue sources that enhance equality in their communities.

Municipal finance can be complicated but these resources help make



it simpler. If your local community is facing budget pressures, these tools can be an essential resource to get a discussion started with local councillors and activists.

Find online versions and order full-colour print copies at cupe.ca/municipalities

CUPE GOVERNMENT POLICY

What we want in the 2015 federal budget

This will be a pivotal year for the future of working families and labour rights in Canada, with a federal election to be called within a year.

The next federal budget will be a big part of that, as it is likely to lay out the Harper government's priorities for the election and future years. And for the first time since 2007 the federal government will have a surplus, projected to be close to \$10 billion next year and above that in future years.

Despite these coming surpluses, they are still planning to reduce spending on health care and slash another 9,000 jobs, in part to provide additional revenue for election tax cuts like income splitting and tax-free savings accounts that predominantly benefit top incomes. We can also

expect further reductions in labour rights and efforts to keep wages down if they gain another majority.

That's why this federal budget—and the election that follows—will be so critical.

CUPE has outlined what we think the next federal budget should include. We'll be urging the federal government and politicians to:

- Create more and better quality jobs, including through public investment in affordable housing, public transit, and renewable energy.
- Support wage and income growth through improvements to the EI program, reforms of the temporary foreign workers program, and more.

- Ensure decent retirement incomes for all Canadians by expanding the Canada Pension Plan and restoring the age of eligibility for OAS/GIS.
- Support working families by establishing a quality public child care program.
- Improve and expand our public health care system.
- Increase tax fairness by restoring corporate tax rates to 22 per cent, closing regressive tax loopholes, restoring the top rate on high incomes to 35 per cent, and more.

Encourage your MP to support measures that will help working families.

Find CUPE's submission to the federal finance committee at cupe.ca/economy

Wage increases diverging again

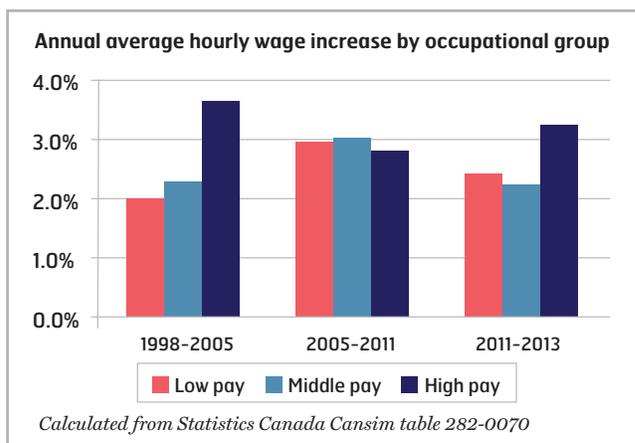
Average base-rate wage increases for public sector workers remained low at 1.5 per cent in major collective agreements settled in the first six months of 2014.

This increase is below the rate of inflation, and is lower than anticipated inflation during the average four-year life of these agreements. If inflation averages two per cent annually, workers with these base wage increases would experience about a two per cent loss in the value of their real wages over the life of the agreements.

These averages were driven down by a one-year wage freeze in BC and a number of modest increases across the Ontario public sector.

Private sector agreements have fared a little better, but not much, with an average 2.2 per cent base-rate wage increase for major agreements settled in the first half of this year. That's just slightly above the rate of inflation. In most provinces, agreements for private sector workers have struggled to keep pace with inflation and rising prices.

These base-rate wage increases reported by Labour Canada reflect



increases that apply to the lowest-rated classification in the collective agreement.

Wages for managers and higher paid professional occupations significantly outpaced middle and lower paid occupations up to 2005, which resulted in increasing inequality. From 2005 to 2011, average earnings for these different groups grew at roughly the same pace, as middle and lower paid workers initially benefited from tighter labour markets before minimum wage hikes raised incomes of the lowest paid. Since 2011 we're seeing wage gains diverge again, with higher paid occupations once again gaining higher wage increases than middle and lower paid workers.

This divergence should be a major concern. There's also increasing pressure for workers to accept two-tier pensions and benefits, which will further exacerbate inequality and slow down economic growth.

There's a significant relationship between unemployment rates and wage increases, with lower unemployment rates leading to higher wages (called the "Phillips curve" in economics). However, following recessions it generally takes longer for wages to recover.

This problem has created a bit of a quandary: we need stronger economic and job growth for wages to increase. But we also need stronger wage growth for the economy to improve. One thing is certain: government policies to keep wage increases low and reduce benefits aren't doing the economy any good.

To achieve decent wage increases and sustainable wage-led economic growth, we can't just wait for the economy to strengthen on its own, or expect wage-led growth to lead the way. We need both stronger job creation led by public investment, and measures to strengthen the bargaining power of workers, including measures that benefit lower paid workers like increases in minimum wage. If not, we'll be waiting a long time for a recovery that never comes.

Wages, inflation and unemployment rates by province

	Canada	NL	PEI	NS	NB	QC	ON	MB	SK	AB	BC
Average wage increases (settled January to June 2014)											
Public sector	1.5%	-	1.4%	2.5%	-	1.6%	1.4%	2.1%	1.8%	2.1%	1.3%
Private sector	2.2%	-	-	-	1.7%	-	2.1%	1.9%	1.9%	-	2.6%
Consumer price inflation											
2014 (Jan to July)	1.9%	2.2%	2.3%	1.9%	1.7%	1.2%	2.2%	2.2%	2.5%	2.7%	0.9%
Forecast 2015	2.0%	1.9%	1.9%	1.9%	1.8%	1.9%	2.0%	2.0%	2.2%	2.3%	1.8%
Unemployment rates											
2014 (Jan to July)	7.0%	12.2%	11.1%	9.0%	10.0%	7.8%	7.4%	5.5%	3.8%	4.7%	6.1%
Forecast 2015	6.7%	11.7%	11.4%	8.6%	9.8%	7.5%	7.0%	5.2%	4.0%	4.2%	6.0%

Sources: Labour Canada collective bargaining wage settlements; Statistics Canada Consumer Price Index and Labour Force Survey (Cansim tables 326-0020 and 282-0087) and provincial forecasts from major banks (TD, RBC, CIBC, BMO).