

Ontario's proposed public sector compensation freeze: Economic analysis and response

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Ontario government's rationale for a public sector wage freeze I

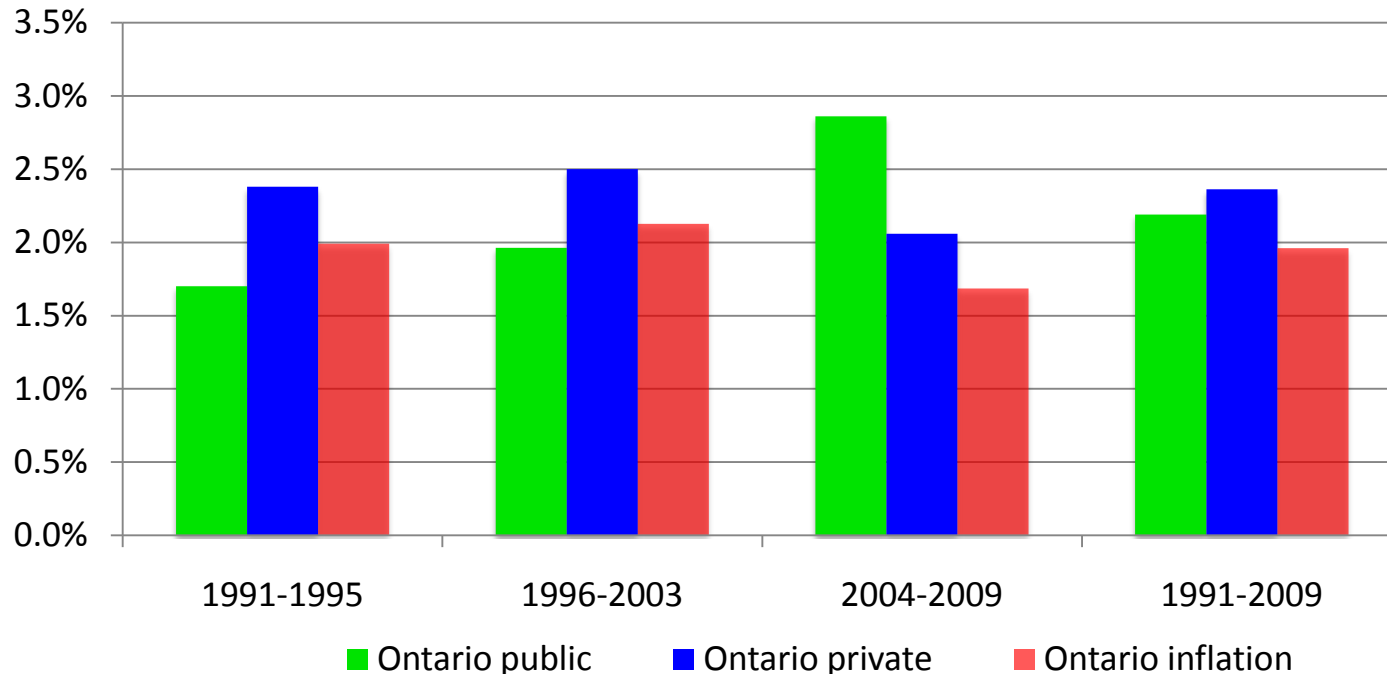
- Public sector has made real wage gains in recent years, higher than private sector
- Ontario was hit hard by recession; must now return to balanced budgets and eliminate deficit
- Economic growth alone will not restore balanced budgets
- Interest spending on debt crowding out public spending on other programs

Ontario government's rationale for a public sector wage freeze II

- Province has a realistic and balanced plan
- Corporate tax rates “need to be competitive to promote investment and job creation”
- Program expenses are growing at unsustainable rates and must be restrained
- Other provinces and jurisdictions are constraining public sector wages
- Must freeze wages to maintain public services

Public sector wage increases lagged private sector since 1990 and only recently increased faster

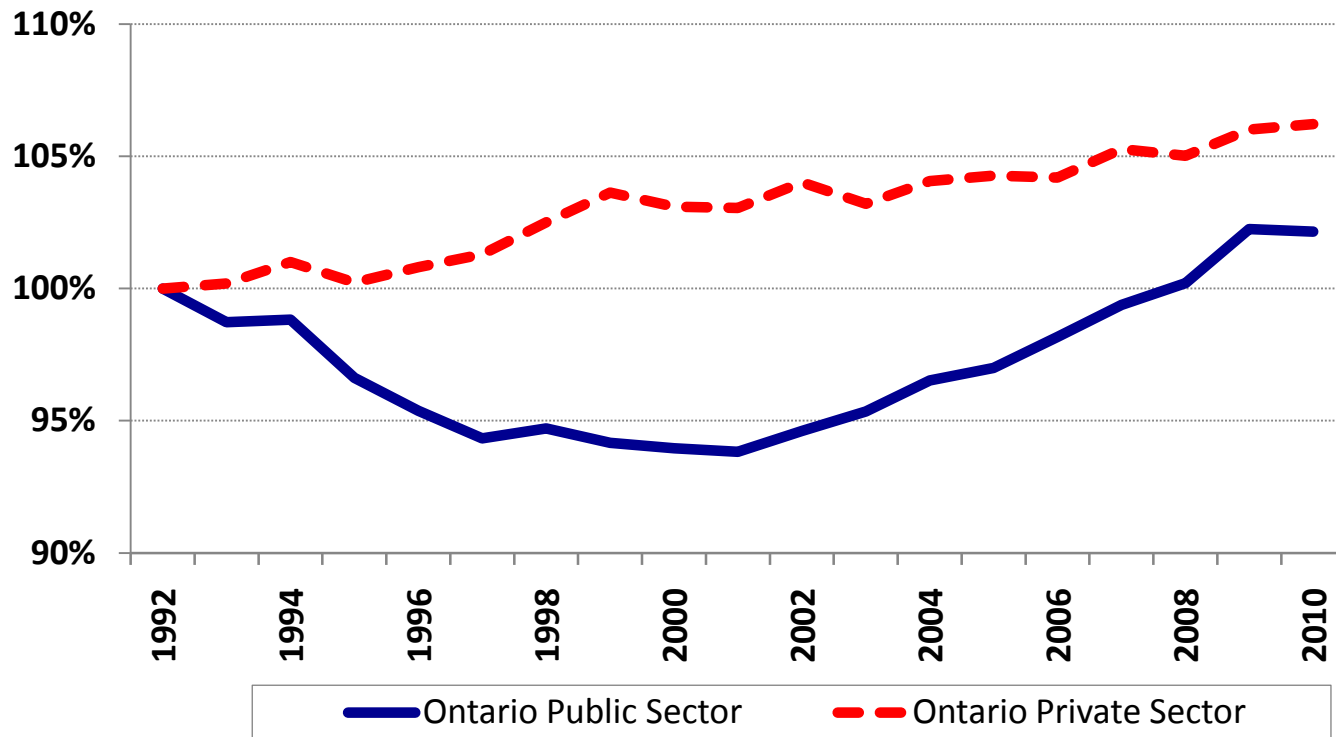
Ontario Public and Private Wage Settlements and Inflation



Source: Ontario Ministry of Labour wage settlements and Statistics Canada for Ontario CPI inflation rates.

Public sector real wages only recently recovered from cuts of 1990s

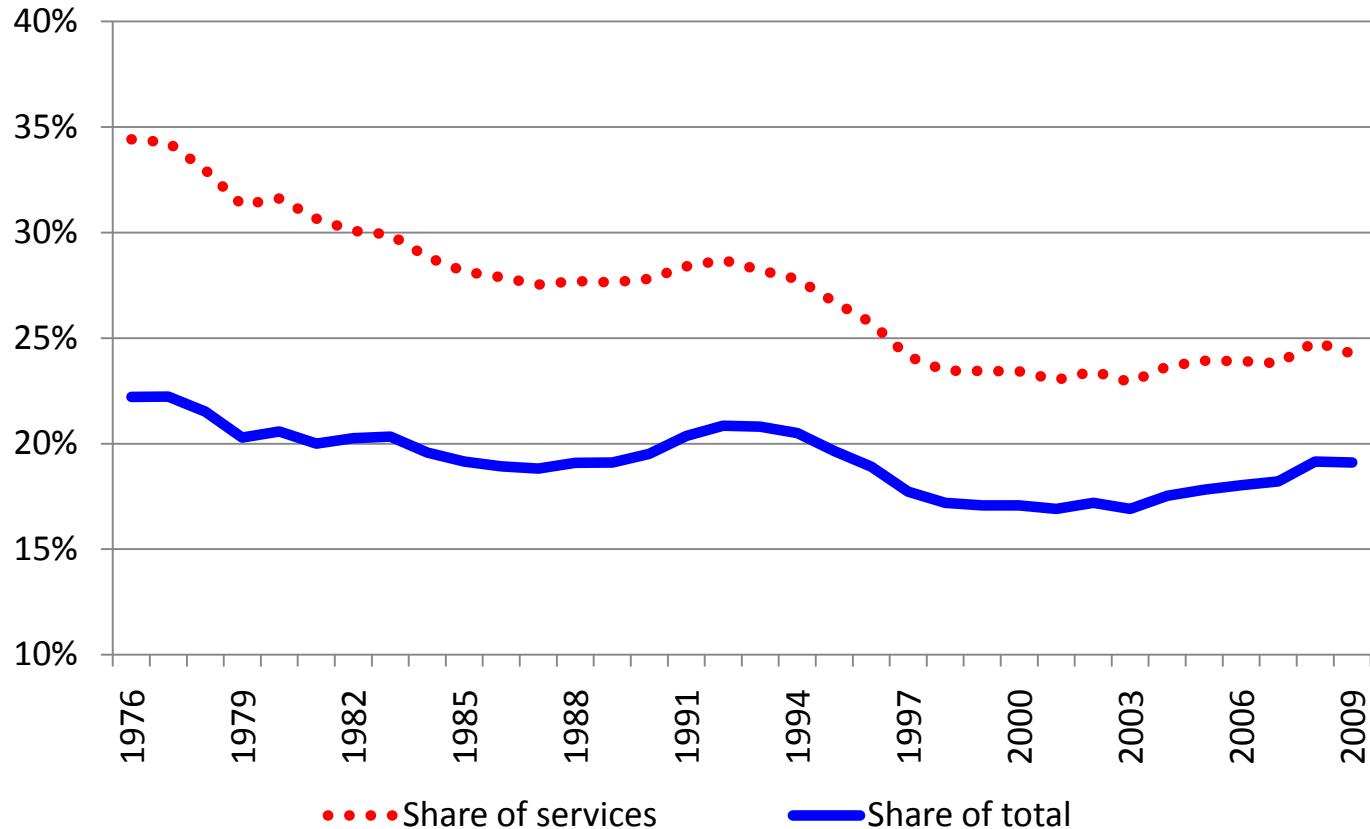
Ontario Public and Private Sector Real Wages
(adjusted for inflation 1992 = 100%)



Real wages calculated using Ontario Ministry of Labour annual base wage increases from collective agreements for Ontario, adjusted for inflation using

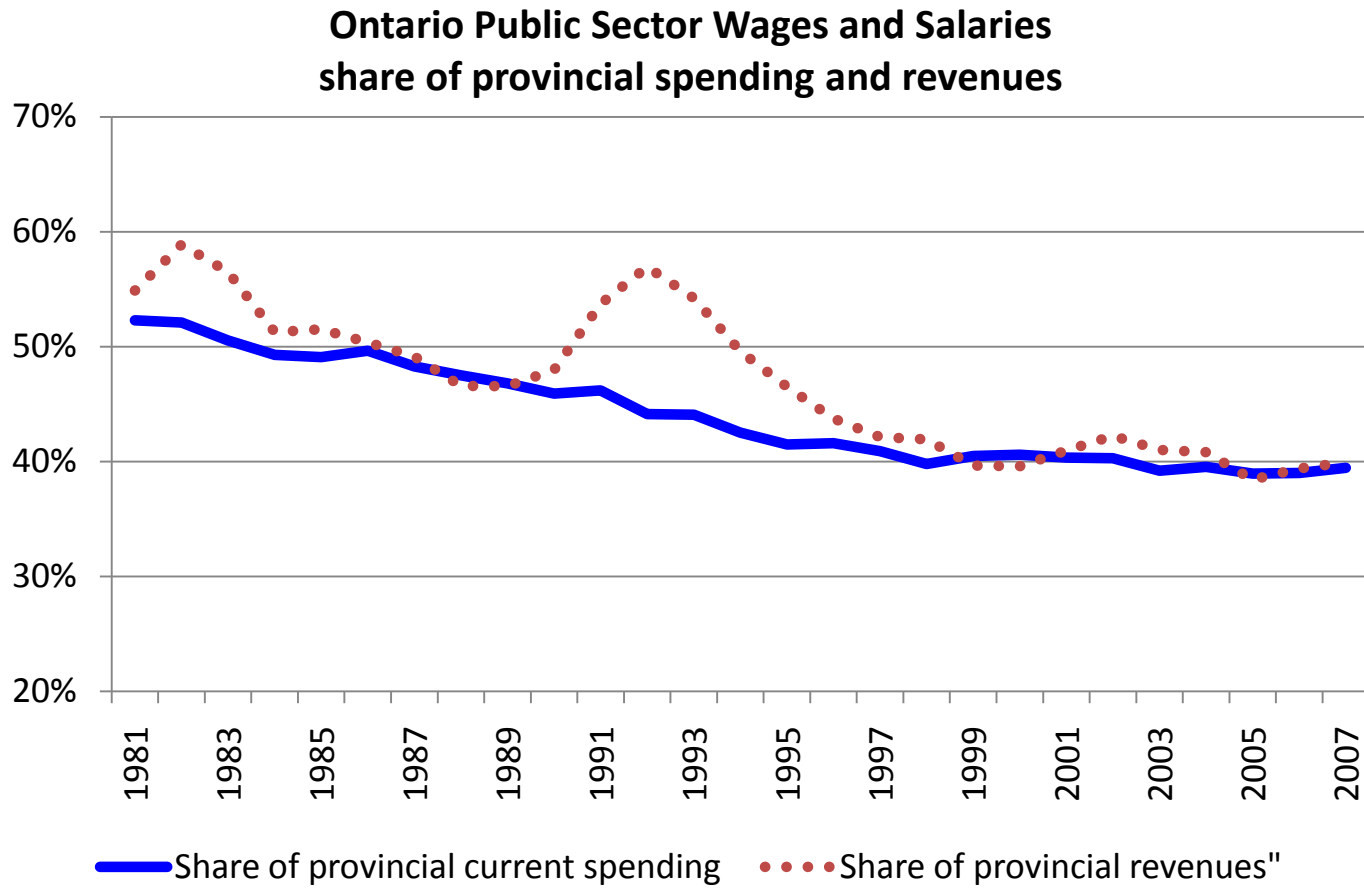
Public sector declining share of total employment in Ontario

Ontario public sector share of total employment



Source: *Labour Force Survey Historical Review*

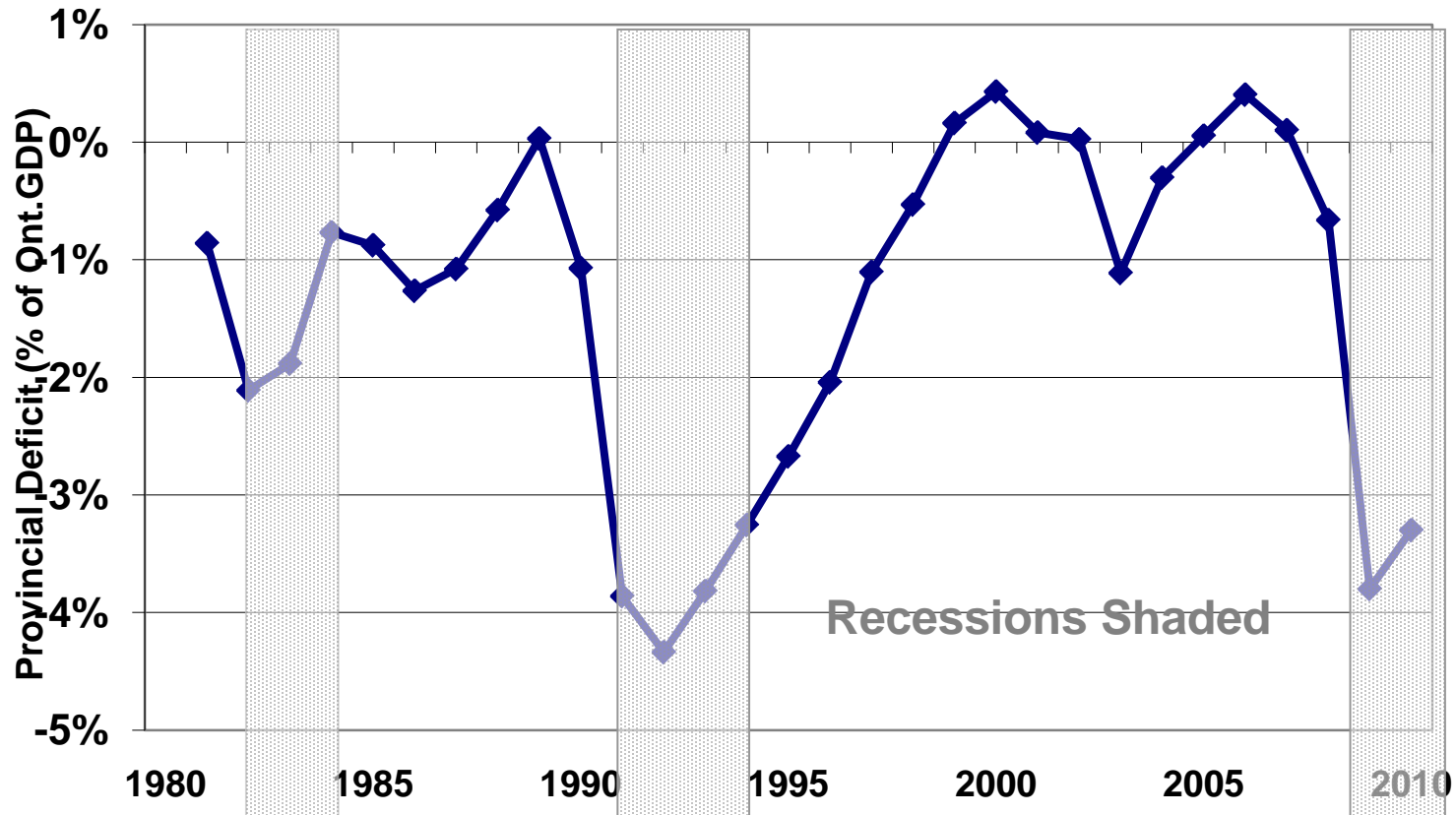
Public sector wages declining share of provincial public spending



Sources: Statistics Canada Survey of Employment, Earnings and Hours and Provincial Economic Accounts

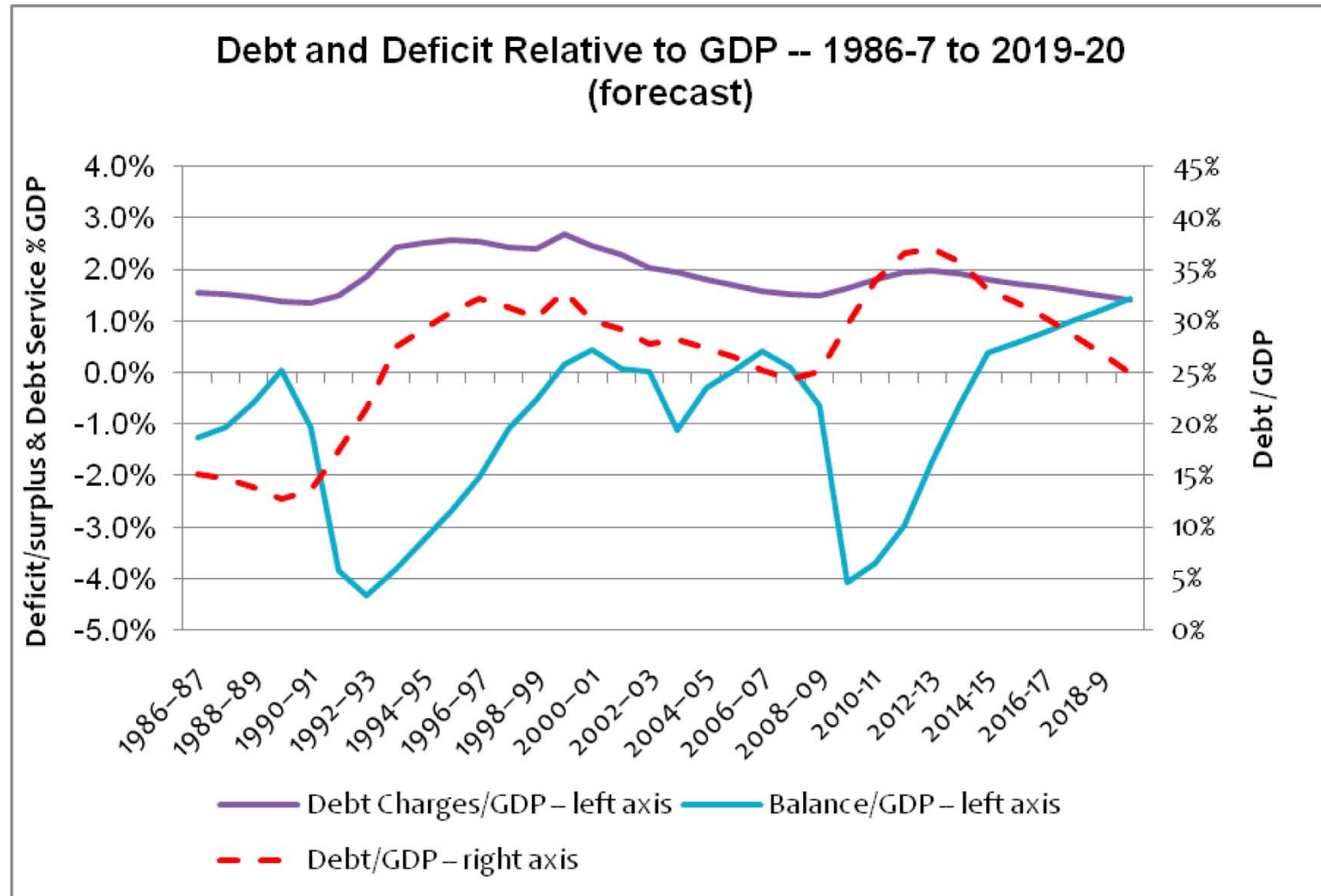
Deficits expected and appropriate outcome of recessions

The Budget Roller-Coaster



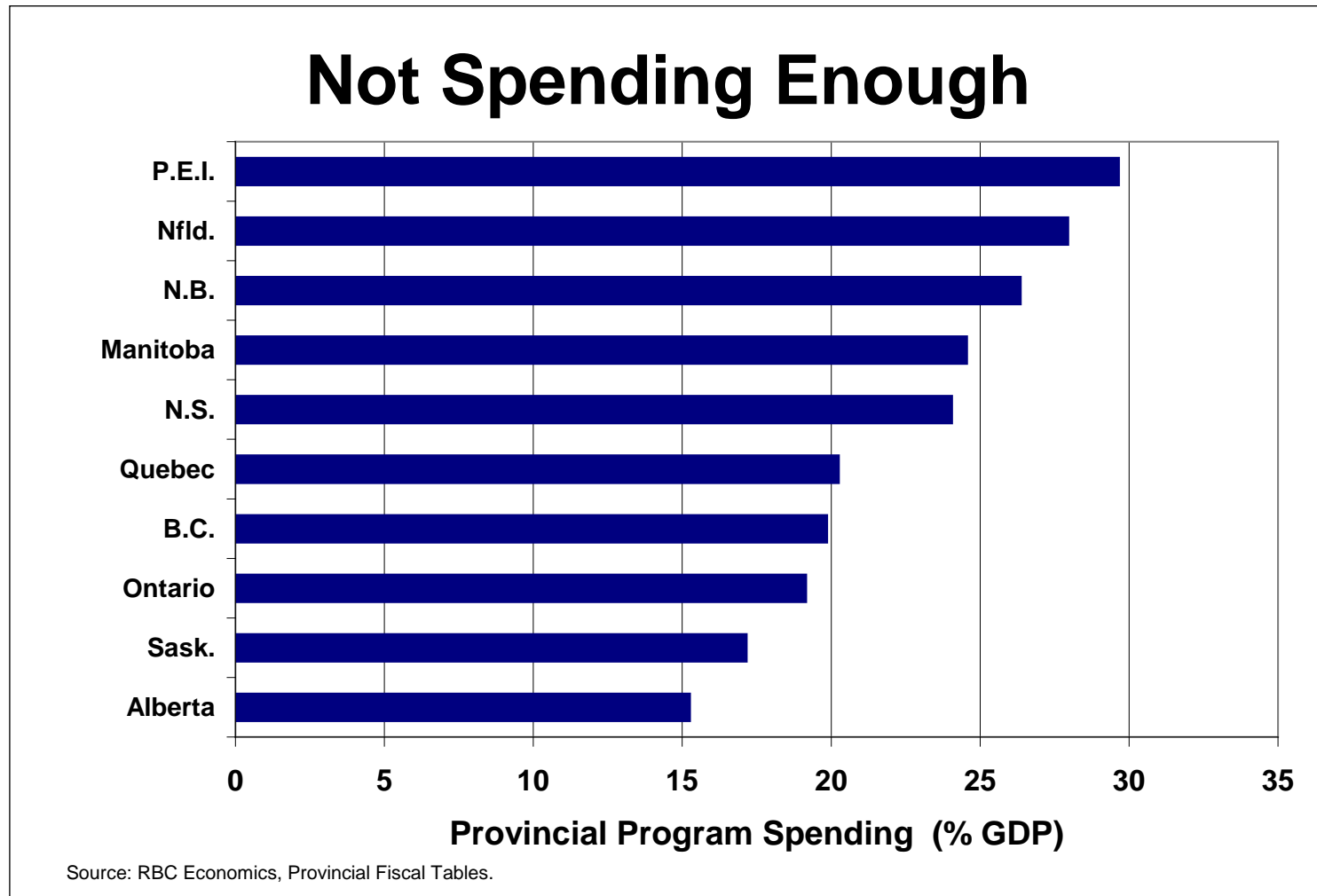
Source: Provincial Economic Accounts (to 1985); Finance Canada Reference Tables; CANSIM Table 384-0002;

Ontario could soon eliminate deficit without severe actions

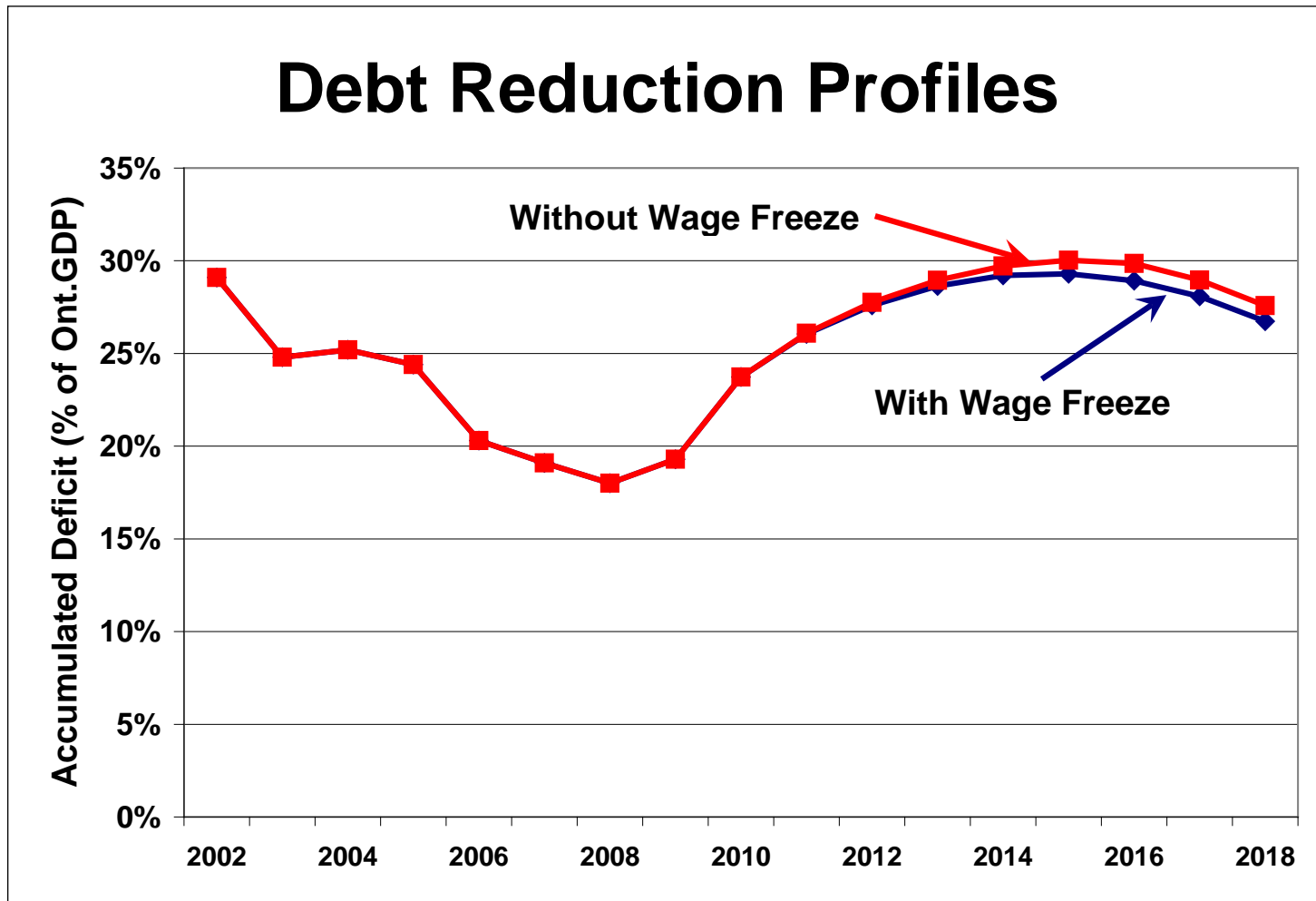


Source: Hugh Mackenzie, *Ontario Budget 2010: Deficit mania in perspective*

Ontario program spending low compared to other provinces

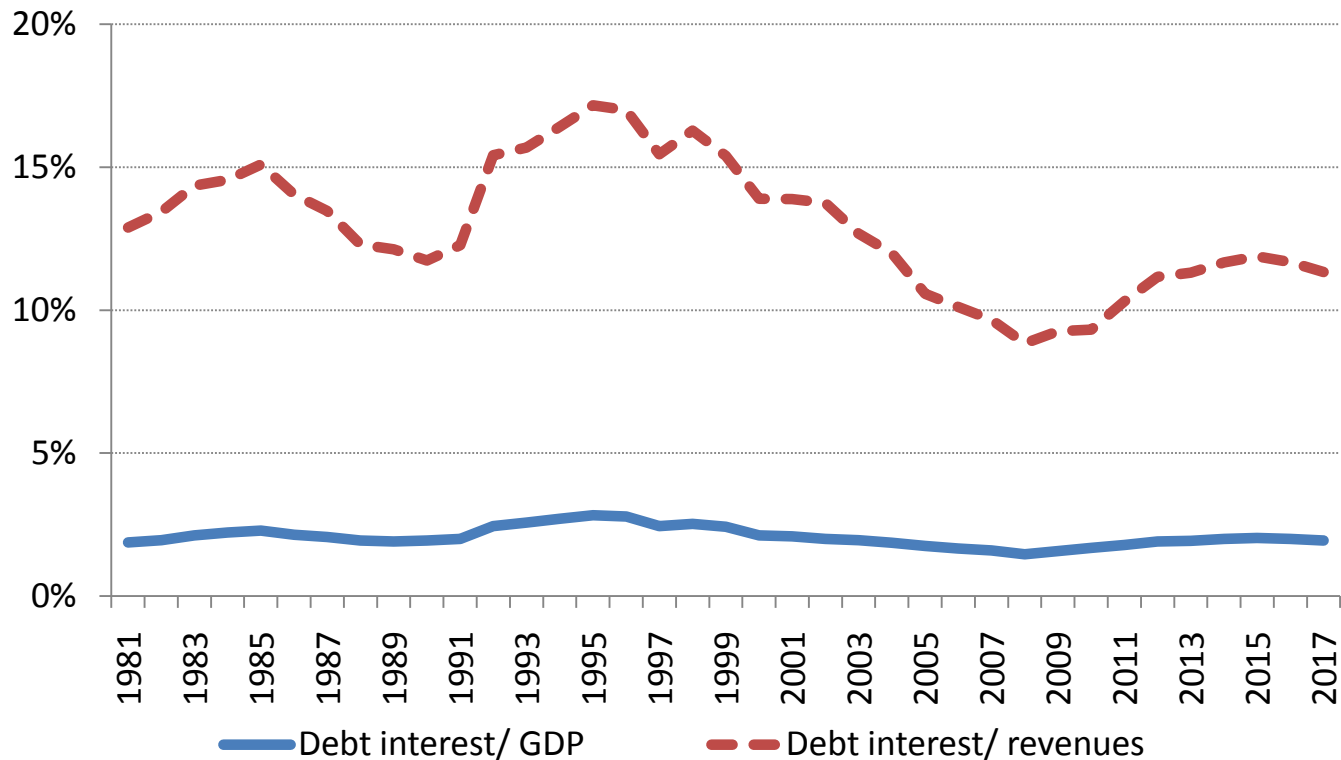


Wage freeze will make very little difference to deficit and debt reduction



The sky is not falling– but Ontario's debt interest burden will soon

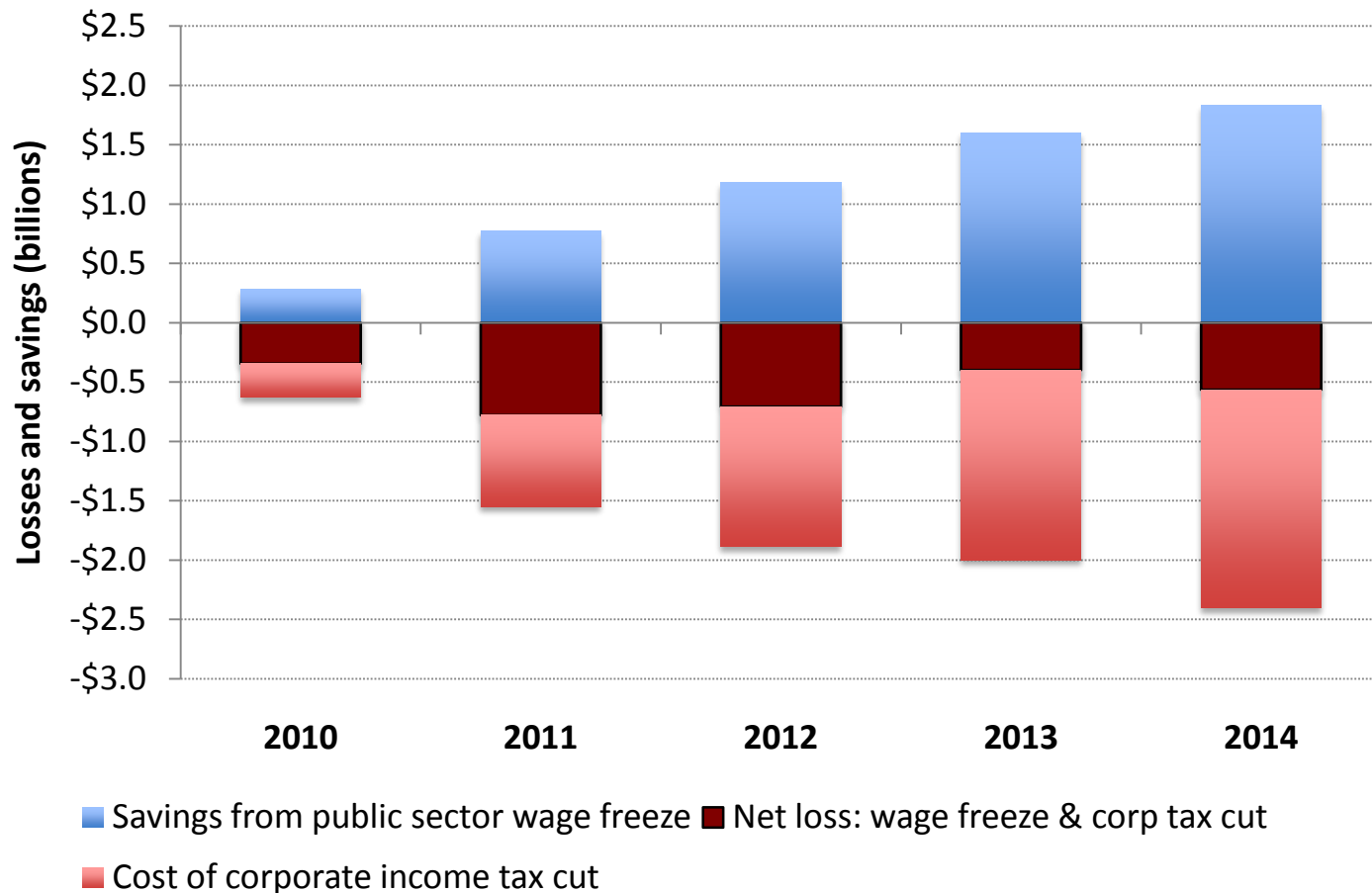
Ontario debt interest payments as a share of provincial revenues and GDP



Sources: Statistics Canada (to 2007), 2010 Ontario Budget (2008 - 2017)

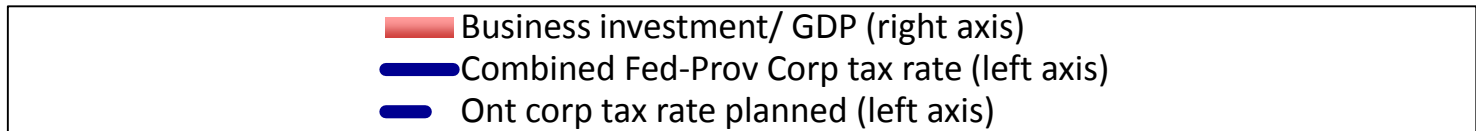
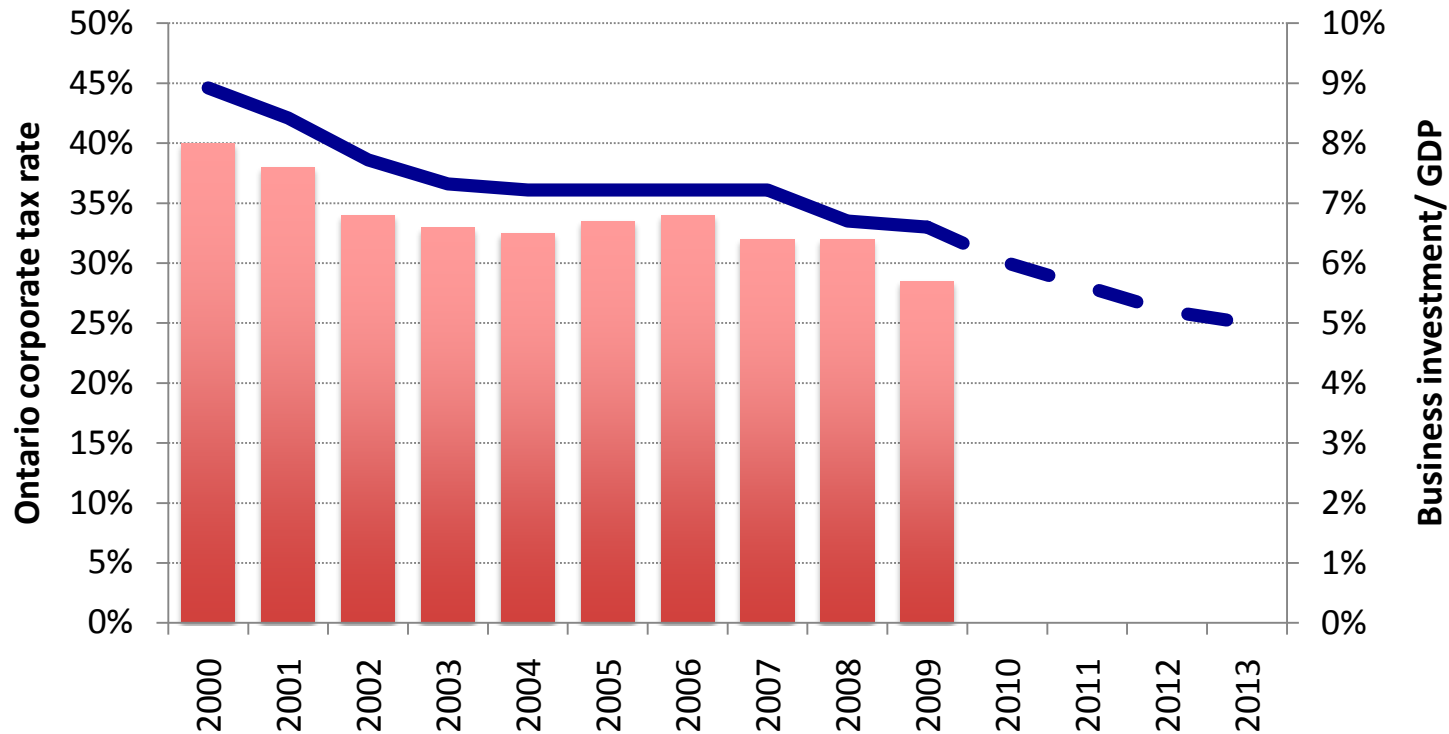
Cost of corporate income tax cuts exceeds savings from wage freeze

Annual costs of corporate tax cuts and savings from proposed wage freeze



Corporate tax cuts not boosting investment

Ontario combined federal-provincial corporate tax rates and business investment in machinery and equipment



Ontario harsher than a number of other provinces

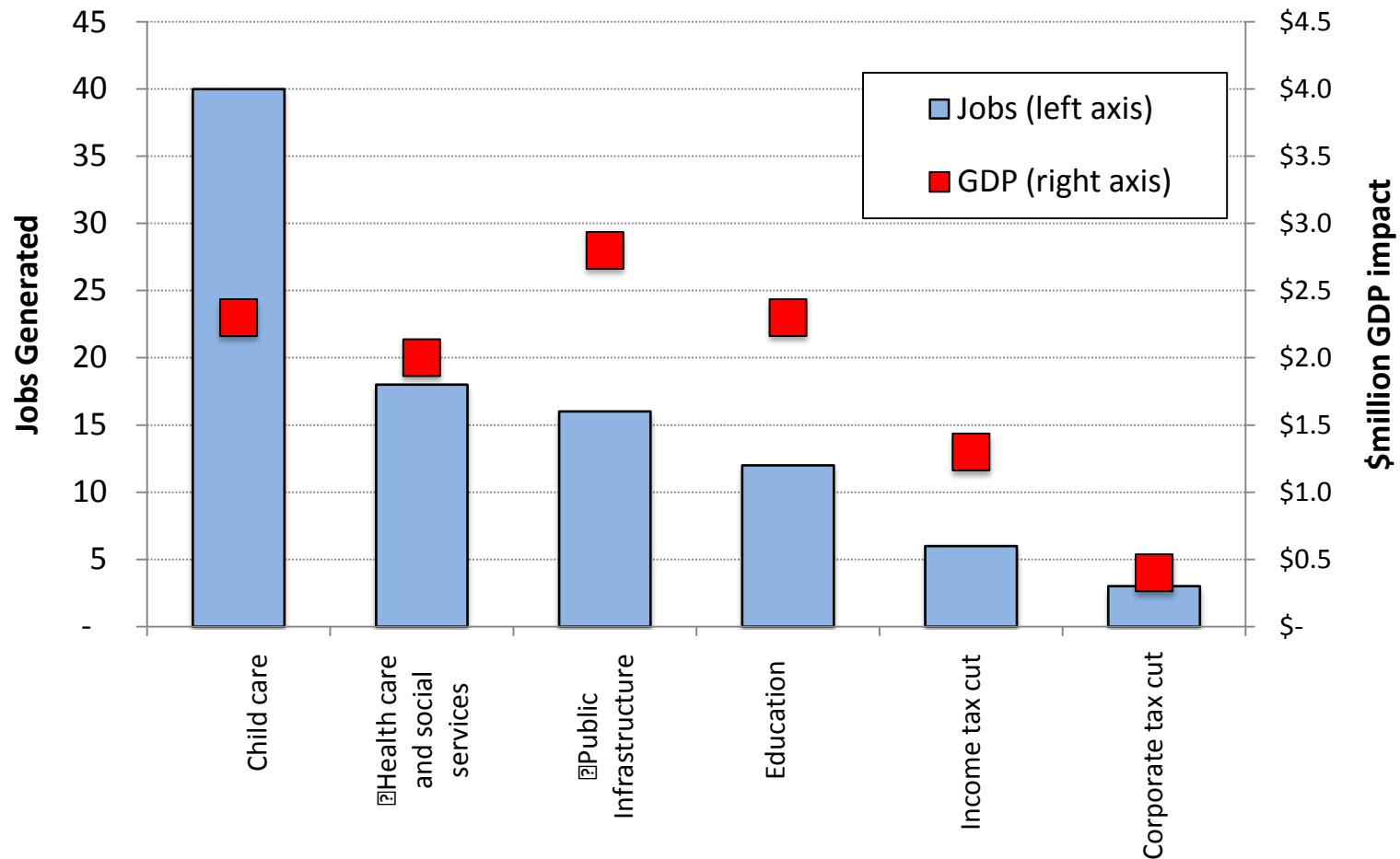
- Québec Common Front agreement: 6% to 10.5% over five years
 - 3.5% dependent on GDP growth
- New Brunswick announced freeze, but recent settlements with 10% over four years
- Federal government respecting wage increases but freezing departmental spending
- B.C. two years of net-zeros, but some improvements to benefits

Other better fiscal options

- Public sector wage freeze to save ~\$1.8 billion when fully implemented
- *Cancel corporate tax cuts* Ontario's corporate income tax cuts to cost \$2.4 billion a year, on top of \$1.5 billion in capital tax cuts and HST tax shift
- *New taxes on banks and financial institutions:* transactions tax or FAT (financial activities tax)
- *High income earner taxes:* new top bracket for \$130K plus
- *Don't cut wages or increase taxes:* let economy recover

Cutting public spending to fund corporate tax cuts will hurt the economy

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



Compensation freeze is a political, not economic or fiscal issue

- No deficit/debt crisis in Ontario
- Budget will balance with growth in economy
- Public sector spending and wage growth modest
- Wage freeze will not accelerate balancing budget
- Freezing wages will slow economy (slightly)
- Real concern should be household debt
- Could easily save more by cancelling corporate tax cuts and fair tax alternatives
- Workers didn't cause economic crisis and deficit, but governments want to show sacrifice