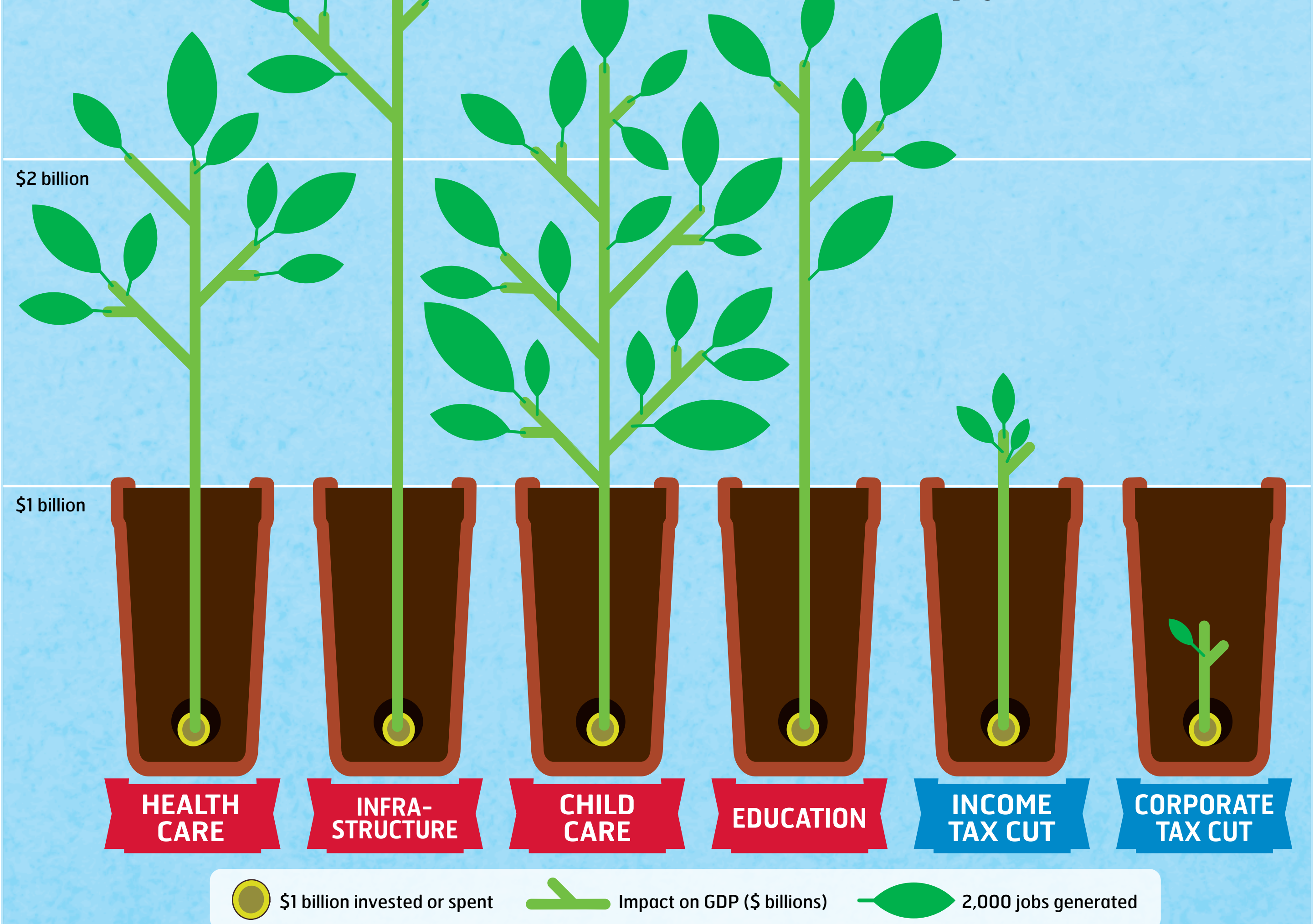
ECONOMY AT WORK

Where should we invest?

Public investment yields more

See back page for more information



INSIDE

ECONOMIC BRIEFS

HIGHLIGHTING RECENT ECONOMIC STUDIES AND DEVELOPMENTS

P3S Quebec could save up to $4 billion by buying back hospitals

Analysis by a Montreal think-tank has calculated that the Quebec government could save up to $4 billion by buying back two hospitals and health centres it initiated as public-private partnerships (P3s). The McGill University Health Centre received the Gold award for “innovative financing” from the Canadian Council for Public-Private Partnerships in 2010. Just two years later we found out how innovative this financing was when Quebec’s anti-corruption police charged the hospital’s CEO, Arthur Porter, and the former CEO of SNC-Lavalin, Pierre Duhaime, with fraud, corruption and money laundering. L’Institut de recherche et d’informations socio-économiques is urging the Quebec government to follow the lead of France, which saved hundreds of millions by terminating a P3 contract to manage one of its hospitals.

JOBS Scotiabank posts record profits, lays off 1,500

Just two months after reporting record profits of $2.35 billion for its latest quarter, Scotiabank announced it will lay off 1,500 workers, mostly in branches across Canada. Scotiabank, whose TV ads feature the tagline “you’re richer than you think” paid its CEO $11.2 million in 2013, more than 400 times what they pay bank tellers. The bank also recently settled a class action suit representing 5,000 employees who hadn’t been paid overtime.

TAX HAVENS The 1% are even richer than we thought

Recent research shows the super-rich are even richer than we thought, because the true extent of wealth hidden in tax havens hasn’t been accurately captured in data collection. Gabriel Zucman of the London School of Economics calculates a minimum $7.6 trillion, or eight per cent of the world’s personal financial wealth, is hidden in offshore tax havens. Shares held offshore by the wealthy of Russia and developing countries are even higher. The tax revenue losses to governments around the world amount to over $190 billion. Zucman estimates Canada’s super-rich have at least $300 billion hidden offshore, costing our governments $6 billion annually in lower tax revenues.

YOUNG WORKERS Bank of Canada Governor tells young people to work for free

The recently appointed Governor of the Bank of Canada, Stephen Poloz, told reporters and MPs he thought unemployed young people should work for free to gain experience and avoid the longer-term “wage scarring” that comes from being unemployed. Poloz, who is paid over $435,000 a year, was widely criticized, including by some of the estimated 100,000 young Canadians who work for free as unpaid “interns,” and by labour lawyers who pointed out that unpaid internships are illegal in most provinces unless they clearly involve defined formal training.

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.

COPE491

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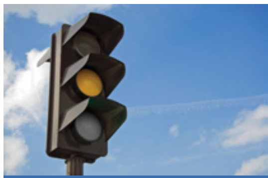
All content written by Toby Sanger unless otherwise indicated. Edited by Wes Payne and Philippe Gagnon. Layout by Marnie Thorp. Please email **tsanger@cupe.ca** with corrections, questions, suggestions, or contributions.

CUPE Canadian Union of Public Employees



ECONOMIC DIRECTIONS
Latest economic trends at a glance

Economic Growth	It seems like every year we're told stronger economic growth is just around the corner. The economy was supposed to grow by 2.5 per cent in 2014, but so far it's averaged just 2.3 per cent, with a slight increase to 2.5 per cent expected in the next two years.
Employment	Canada's job situation finally showed some life with a reported 117,000 jobs created in September and October, but the unemployment rate is expected to average seven per cent in 2014 and only decline to 6.8 per cent in 2015.
Inflation	Consumer price inflation clocked in above two per cent from April to September, but with the drop in oil prices it will likely decline a bit, averaging 1.9 per cent for 2014 with a similar rate in 2015.
Wages	Major public sector collective agreements settled in the first nine months of 2014 provided average base wage increases of 1.5 per cent over the life of the agreements. It's a different story for private sector workers, where wage increases averaged 2.3 per cent.
Interest Rates	The Bank of Canada is expected to keep its target interest rate steady at 1.0 per cent until late 2015, but if the economy strengthens, longer-term bond and mortgage rates may rise before then.

SPOTLIGHT:
Pay increases in 2015

EMPLOYERS EXPECT FASTER REVENUE GROWTH IN 2015, BUT DON'T PLAN TO PASS MUCH ON VIA WAGE INCREASES

While Canadian employers are fairly optimistic about their own revenue and budget increases in the coming year, they don't plan to pass on much to their employees. Surveys conducted by human resource firms Mercer, Morneau Shepell and World of Work indicate that Canadian employers plan to increase salaries by an average of close to three per cent in 2015, similar to 2014.

The highest wage increases are expected in mining and oil and gas industries, with hikes averaging 3.4 or 3.7 per cent, down slightly from 2014. At the other end, employers in retail trade are planning to increase their workers' wages by about 2.5 per cent in 2015. The average base pay increase is similar to what employers expected to provide in 2014, but down slightly from 2012 and 2013.

Once again, employers in Alberta and Saskatchewan expect to provide higher than average pay increases, at 3.2 and 3.1 per cent respectively, while employers in Atlantic Canada and Quebec expect to provide the lowest average pay increases at 2.8 per cent. However, these differentials between regions have narrowed.

Employers plan to give executives and managers higher than average pay increases, similar to last year, but these differentials are also narrowing slightly.

According to the Morneau Shepell survey, one-third of employers with defined benefit pension plans will be reviewing their pension plan design or level of employee cost-sharing, with one-quarter looking at whether they should convert to defined contribution plans.

Minimum wage rates in Canada

MYTHBUSTER **MINIMUM WAGE**

Does increasing minimum wage affect employment?

The main argument against increasing minimum wage is that it will lead to job losses, especially for those who it is intended to help: those working for low wages. But is this really true? The answer is no. Increases in the minimum wage can actually increase employment both in the short-term when they boost consumer spending and in the long-term when they spur productivity growth.

The argument that minimum wage hikes kill jobs held sway with economists and politicians for decades, which led to steep declines in the real value of minimum wages through the 80s and early 90s. But then ground-breaking and detailed analysis by economists David Card and Alan Krueger found that employment actually increased slightly among minimum wage employers following wage hikes because increased spending by minimum wage workers exceeded job losses from the increased costs.

Since then this issue has been studied extensively, with some finding stronger job creation following minimum wage hikes, some finding job losses, and others no impact. Now a detailed study by Unifor economists Jordan Brennan and Jim Stanford has found very little evidence that minimum wage changes on their own significantly affect employment levels. In 90 per cent of 70 tests they found minimum wage changes had no significant impact, and in the other 10 per cent the results were mixed, both positive and negative.

Instead, employment levels are more strongly affected by the general state of the economy represented by GDP growth, with this relationship stronger in larger provinces.

WAGES
FEDERAL MINIMUM

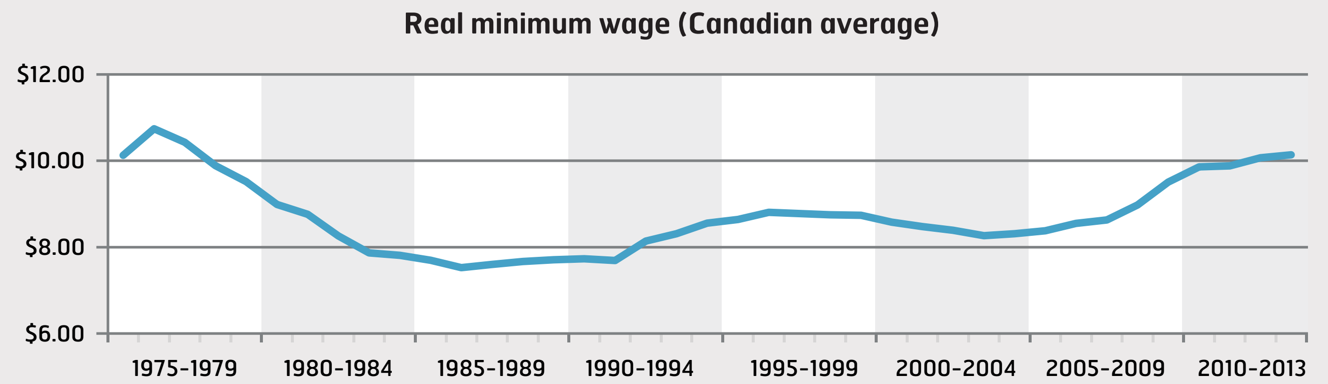
NDP proposes $15 minimum wage nationally

The federal NDP is pushing for the federal government to re-instate its minimum wage at $12/hour and to increase it to $15/hour within four years.

Canada hasn't had a federal minimum wage since 1996 when it was eliminated by the Liberal government of Jean Chretien. Since then, federally regulated workers in the transportation, financial, telecommunications and broadcasting sectors have been subject to whatever minimum wage legislation applies in the province they are employed in. This shift has meant the federal government no longer plays a role in increasing living standards by raising minimum wages. The average minimum wage across Canada is now lower in real dollar terms than it was in 1975—forty years ago!

The NDP's proposal would bring back federal leadership in raising wages through the minimum wage. The motion to increase the minimum wage was put forward by the federal NDP Labour critic and former CUPE communications representative Alexandre Boulerice.

Increasing minimum wages will make life better for low-paid workers and reduce inequality, but it also needs to be combined with measures to strengthen the economy and create jobs, such as increasing public investment and expanding public services.



The real minimum wage for Canada is the average of the minimum wages of the provinces, weighted by the number of employees in each province, and expressed in constant 2013 dollars.

WAGE TRENDS **PUBLIC SECTOR**

Public sector wages help reduce inequality

A new study has found that public sector workers don't necessarily get paid more—they just get paid more fairly. When similar occupations are compared, wages in the public sector are not only similar to the private sector, but they are much more equitable, especially for women, racialized and Aboriginal workers.

Narrowing the Gap, published by the Canadian Centre for Policy Alternatives (CCPA), uses the most detailed data available: annual wage information from 2.5 million Canadians with 520 different specific occupations identified in the 2011 National Household Survey (NHS). Study authors Kate McInturff and Paul Tulloch build on CUPE's *Battle of the Wages* study, comparing the wages of full-time public and private sector workers, and including information on Aboriginal and racialized worker status, along with educational level.

It finds that significant gaps persist in all areas for a number of reasons but those gaps are bigger in the private sector in every instance.

- University-educated Aboriginal workers make 44 per cent less than their non-Aboriginal peers in the private sector. In the public sector, the wage gap is 14 per cent.
- University-educated women working in the private sector earn 27 per cent less than men in the private sector. The wage gap in the public sector is 18 per cent.
- University-educated racialized workers take home 20 per cent less than their peers in the private sector. In the public sector, the wage gap is 12 per cent.

According to McInturff, "Salaries are higher in the public sector precisely for those groups of people who experience the greatest discrimination in the private sector—because the public sector goes further in correcting those discriminatory practices. The result is not higher wages but rather a more equitable system of pay." Higher rates of unionization, pay equity legislation, and better access to family benefits all help reduce wage discrimination in the public sector.

On average, when similar occupations are compared in both sectors, full-time wages in the public sector were 2.3 per cent higher in 2010, the time period covered by the 2011 National Household Survey.

McInturff concludes: "Public sector wages are actually lower for some of the highest paid workers in our economy. The difference in public and private sector wages results from higher levels of discrimination in the private sector and a more equitable system of pay in the public sector."

The CCPA study uses wage levels for 2010 because that's the latest year for detailed data available through the NHS and Census. Since then wage increases in the public sector have lagged considerably behind the private sector. Data on wage settlements compiled by Labour Canada show that public sector agreements have provided average increases of 5.9 per cent over four years since 2010, while private sector agreements have provided increases of 8.1 per cent over the same period. The 2.2 per cent gap suggests that the overall difference registered in 2010 has since been eliminated by slower wage growth in the public sector.

What should we do with the federal surplus?

The federal government has announced that after seven years of deficits adding $144 billion to the federal debt, they expect to run a surplus in 2015-16.

What they haven't admitted is that if taxes had been maintained at the same share of the economy, the deficit would have been eliminated long ago without having to cut public spending.

Regardless, the big question now is what we should do with the surplus?

The Harper government's income splitting tax plan benefits the rich

The Harper government has made what they believe in clear: more tax cuts, including some that particularly benefit those with high incomes. In October they announced they would introduce income splitting for tax purposes as part of their "family tax plan."

According to the government's own calculations, the income splitting tax cut will cost the federal government $2.4 billion a year. That's a lot of money that could do a lot of good.

Instead, most of the benefits of income splitting will go to Canadians who need it the least. As analysis by the C.D. Howe Institute has shown, 86 per cent of Canadian households—individuals, single parents, families with no children or older children, those with low and middle incomes, and couples with incomes in the same tax bracket—get nothing from income splitting. Meanwhile a small share of families making over $100,000 will gain 70 per cent of the total benefits, as Queen's University Law Professor Kathleen Lahey has demonstrated.

Other elements of Harper's plan would provide little net benefit to working families with children: a little more than a dollar a day per child, or the equivalent of as little as 10 minutes of child care per day.

However, Harper's plan does conveniently mean issuing cheques to a select group of families just a few months before the election. There has to be a better, fairer and more effective way of helping working families.

The NDP's plan for affordable child care

The NDP plan for affordable child care would provide quality accessible child care to Canadian families for no more than $15/day. The plan creates a savings for some of at least $35/day per child or $10,000 per year.

The plan would also create over 500,000 additional child care spaces by 2018-19 and support one million spaces by 2020. The plan would cost the federal government $5 billion annually, but the actual net cost to the federal government would be less than half this amount because it would have a strong stimulative effect on the economy, creating over 200,000 jobs and thereby generating additional revenues for federal and provincial governments.

Most importantly, an affordable child care plan like this would provide a million Canadian children with high quality, affordable public child care, and provide their parents with much better choices.

The differences between the visions are clear. Ultimately it will be up to the voters to decide which they prefer.

Check out rethinkchildcare.ca for more on the benefits of a public child care plan.

TRENDS **INTERNATIONAL TRADE**

Why talking about trade deals shouldn't frighten you

Conservatives are using international trade agreements to permanently shrink government and increase privatization. How? Trade deals reduce federal and provincial capacity to regulate economic activities in Canada and abroad.

Many Canadians might be surprised to discover that since 2009, the Conservative government has initiated or signed several international trade agreements. Important examples include the Comprehensive Economic and Trade Agreement with the European Union; the 12-country Trans-Pacific Partnership negotiations led by the United States; the Canada-South Korea FTA; and NAFTA-plus agreements with several Latin American countries. More recently, the Conservatives have been part of a new WTO process which seeks to bring public services under direct influence of trade agreements. It's called the Trade in Services Agreement (TISA).

Conservatives say trade agreements open "new" markets. But we already trade with most countries we are signing deals with. The reality is that these agreements open competition with lower-wage, looser-regulation areas such as Eastern Europe, and drive down our wages at home as a result.

Trade policy should not be left entirely to so-called experts and corporate lobbyists to decide what's best. It's a political issue that concerns all citizens. Canada's trade policy should be debated in public and incorporate meaningful democratic participation. Principles guiding negotiations with other countries on trade should express Canadian workers' principles of cooperation, solidarity and sustainable development.

It might sound difficult, but these principles are what drove European activists to start local discussions and develop a progressive alternative to corporate trade agreements. Under the banner "Trade isn't working," an alliance of nearly 50 European organizations and networks joined to propose an alternative to free trade. They called themselves the Alternative Trade Mandate Alliance.

Their goal was to establish local organizing capacity so that citizens could participate and be heard in the free trade discussion.

Engaging with the public on trade issues built knowledge of and then opposition to the issue of Investor-State Dispute Settlement (ISDS) across Europe. ISDS allows corporations to bypass local legal systems and challenge democratic laws in an unbalanced international arbitration system.

Public outrage over ISDS led to European centre-left parties and movements in the UK, France and Germany taking a strong stand against investor-state provisions. Awareness and opposition to ISDS has grown so much that the new Japan-Australia agreement does not include the provision.

It's an important win, and something we have a chance to do at home too. CUPE is part of the Trade Justice Network here in Canada, calling for local groups to organize discussions similar to those our EU partners initiated. This network's goals are to:

- Raise awareness about the dangers of trade and investment deals and current negotiations.
- Dispel the myth that to oppose or criticize corporate trade deals is to be against trade.
- Begin to outline and promote an alternative vision of fair trade agreements that benefit everyone – not just a global corporate elite.

■ **Graham Cox**

Find out how you or your local can get involved at tradejustice.ca

Canada's health care program is missing something important

Many Canadians don't know what pharmacare is. Some might guess it's a subsidy program for farms, or even a health insurance program for farm animals.

This lack of awareness should be forgiven; Canada is the only country with a universal health care system that doesn't have a national pharmacare plan.

Pharmacare is a national publicly funded and administered insurance plan for medicine that covers the cost of essential drugs the way Medicare covers hospitals and physicians.

Some provinces cover part of the cost of medicine for seniors. In Quebec, a public pharmacare plan is available for anyone who doesn't have private insurance. But other provinces don't provide any coverage, and most Canadians have to pay the full amount unless they have a workplace plan. Unfortunately Canada has one of the highest costs for medicine among OECD countries, which means many people just can't afford to pay for the medicine they require.

But wouldn't a national publicly funded plan for medicine be expensive? Actually, no! A national plan could in fact save money if it involved better control over drug costs, as other countries have done. It would also provide equal access to prescription drugs for all Canadians and better control over the use of medicine. Plus it could save up to $10 billion annually in drug costs for individual Canadians, our governments, and workplace plans.

A national pharmacare plan is supported by the Canadian Medical Association, provinces, unions, seniors groups and many others. What's not to like? Once again, it's our current federal government that hasn't been supportive. But if enough people get involved, eventually we can achieve change for the better.

Check out the latest issue of *Tabletalk* (cupe.ca/tabletalk) to learn about the growing cost of for-profit insurance, and visit pharmacarenow.ca for info on how you can support a national pharmacare plan.

PUBLIC INVESTMENT IS BETTER

Cover image explained

Economic growth in this recovery is a third slower than in the recoveries of the 80s and 90s. Job and wage growth have also been dismal.

It isn't because businesses lack money to invest: they have a record $600 billion of excess cash they aren't investing in the economy. It isn't because we're lacking labour: there are over 1.2 million officially unemployed with hundreds of thousands more underemployed.

Everything is in place according to the Conservatives' economic ideology—balanced budgets, low taxes, low interest rates, corporations flush with cash, excess labour, free trade, low-wage growth—so why does the economy stink?

As our infographic (see page 1) shows, public spending has a much stronger impact on the economy than tax cuts do. Cutting public spending while also cutting taxes leads to slower economic growth, higher unemployment and lower wage growth.

Investment in child care has the strongest impact in terms of jobs and one of the strongest in terms of economic growth while corporate tax cuts have the weakest impact.

The infographic is based on economic multipliers from Finance Canada and two highly respected private sector economic analysis firms.

Canadians are skilled, hardworking, conscientious and productive. Our economy suffers because our federal government chooses bad economic policies and it's time to do something about it.