ECONOMY AT WORK

INSIDE

CUPE Canadian Union of Public Employees

Why have wage increases been so darn low?

The economy has been growing strongly, but wages haven't. The failure of wages to rise more strongly has puzzled economists and frustrated many workers. But conditions appear to be changing, with signs wages are trending up. Workers deserve higher wage increases and it's time to demand more.

While the real value of workers' wages after inflation usually declines in economic downturns, wages usually regain lost ground once the economy has recovered and the jobless rate has fallen.

That hasn't happened this time, yet. In the first half of 2017, Canada's economy grew at the strongest pace in 15 years. We've added over 300,000 jobs in the past 12 months, and the jobless rate recently dropped to 6.2 per cent, the lowest since October 2008.

But so far this year, wage settlements have averaged just 1.7 per cent. That's about half the 3.3 per cent increase they were the last time the jobless rate was this low.

Low wage growth isn't just a Canadian problem. In the United States, the jobless rate fell to 4.1 per cent in October, the lowest in 17 years. Yet wages increased by only 0.1 per cent above inflation. The jobless rate in the UK is now at its lowest rate in 42 years, but average wage increases have

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ECONOMIC BRIEFS

Better ECE is better for the economy

Every dollar spent on expanding early childhood education (ECE) will yield close to six dollars in economic benefits. That's the finding of a recent Conference Board of Canada study. Short-term benefits of ECE include increased workforce participation. Long-term benefits include improving outcomes for children. By enabling more women to enter the workforce, an expanded ECE program could also lift 23,000 Canadian families out of poverty. Add your voice to CUPE's *Child care for all* campaign at **cupe.ca/child-care**.

IMF: Tax the rich, increase public spending

The International Monetary Fund (IMF), which has regularly forced deep spending and program cuts on countries, now says taxing the rich and increasing public spending on improving health and education for lower income people would reduce inequality and improve economic growth.

The tax systems of "advanced" countries such as Canada have become less progressive, over the last 30 years. This has led to growing inequality, along with slower economic growth. Canada's tax and transfer system does less to redistribute income than most other advanced countries.

The IMF's more progressive change of perspective is welcome. But their words need to be backed with action that supports countries introducing progressive policies, instead of austerity and other regressive measures.

Gender equality: progress too slow

The Organization for Economic Cooperation and Development (OECD) says progress on gender equality is far too slow. More women are working or looking for work. But they are far more likely to work in lower paid part-time jobs, face discrimination, experience harassment, not advance to management positions, and earn less than men.

Canada has a relatively high share of women in the workforce. But our gender wage gap is worse than the OECD average. The OECD report says pay equity legislation, access to child care, parental leave for fathers, employment equity, reducing violence and harassment against women, and gender-based budgeting all contribute to improving gender equality.

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ECONOMIC DIRECTIONS

Economic growth	Canada had strong economic growth of over 4.0 per cent in the first half of 2017, but is expected to average 3.1 per cent for the year, followed by 2.2 per cent growth in 2018 and 1.7 per cent in 2019.
Jobs	This year's strong job growth of 1.4 per cent is expected to moderate to 1.1 per cent next year. But it will still be strong enough to bring the unemployment rate down to an average of 6.1 per cent next year, and to 6.0 per cent in 2019.
Wages	Collective agreements signed in the first nine months of this year provide average base wage increases nationally of 1.7 per cent. Pay raises for public sector workers also averaged 1.7 per cent. The average increase for private sector workers was 2.0 per cent.
Inflation	The cost of living, or consumer price inflation, is now forecast to average just 1.5 per cent this year. It will rise to 1.8 per cent in 2018, and to 2.0 per cent in 2019.
Interest rates	The Bank of Canada has already hiked its key lending rate twice this year, to 1.0 per cent. Forecasters expect rate hikes to continue for the next two years until the lending rate reaches 2.0 to 2.5 per cent. This will bring longer term bond yields and mortgage rates, up by a half to a full percentage point.

SPOTLIGHT: CENSUS SHOWS RACIAL PAY GAPS PERSIST

More than 20 per cent of Canadians are racialized, or "visible minority" as reported in the 2016 Census, up from less than five per cent in 1981. Despite this growth, being racialized in Canada still comes with a hefty price in terms of lower incomes and wages, as well as other forms of discrimination.

On average, both racialized (non-white, non-Indigenous) and Indigenous workers in Canada had an average income of just $25,500, about 30 per cent less than the $36,500 average of white Canadians. Some of this wage gap may be due to other factors such as age and education, but as Andrew Jackson of the Broadbent Institute reports, average incomes are still significantly lower for racialized Canadians in the key working age group of 25-54 who were born and educated in Canada.

On average, these second-generation racialized Canadians had incomes 12 per cent lower than white Canadians, a pay gap of over $6,100 annually. The racial pay gap is worse for second-generation working-age Black Canadians, who had average incomes 28 per cent or $14,000 lower than white Canadians in the same category.

CUPE's 2014 membership survey found that racialized workers and women are more likely to be employed in precarious jobs. CUPE also has a lower share of racialized workers in its membership, just 15 per cent compared to a national average of 20 per cent. This reflects lower rates of employment of racialized workers in the public sector.

To eliminate inequality, we need employment equity legislation, representative workforce policies, and employment equity language in our collective agreements so our workplaces represent the diversity of our communities. But we also need to confront other discriminatory practices and attitudes in our workplaces and communities at an individual level. CUPE's Equality Branch provides resources and support to help members achieve this.

Accounting for the true costs of P3s

Accounting may seem like a science. Put the numbers in the right columns, add them up, and out pops an unbiased result. But how the numbers are organized and counted can be highly political, and can distort public policy. Accounting rules are widely used to hide the true costs of public-private partnerships (P3s) and privatization.

That's why CUPE has intervened in a review of how governments and public-sector organizations report P3s in their financial statements.

Canada's public-sector accounting standards dictate how governments and public-sector organizations present their financial statements. Currently, these rules have strong incentives for governments to privatize public assets and engage in P3s.

Canadian accounting standards allow governments to severely undervalue public assets on the books. With one side of the balance sheet artificially low, it's tempting to sell physical infrastructure like buildings, roads, airports, ports and bridges. That's because privatizing, even at below market value, can make a government's deficit and long-term debt magically appear better.

Asset sales, like the partial sale of Hydro One, put the government in a worse financial situation over the long term. The asset is gone, forever, along with any revenues that flowed back to the service and the public.

Under Canadian public-sector accounting guidelines, there are no standards or rules whatsoever for reporting P3 contracts or obligations. They're a black hole for transparency and accountability. Governments can report as little or as much as they want, with no consistency.

The guidelines don't force Canadian governments to account for future P3 payments in their financial reporting, except in the years payments are due. Most P3 contracts are for 20 years or more. So P3s and private contracts appear to cost less in the short term, even though publicly financed and operated infrastructure costs far less over the long term.

P3s are also creating a growing and off-book debt bomb that will weigh heavily on future generations. When the UK government added up all the liabilities and obligations associated with their P3 projects, known as PFI or private finance initiatives, the final tally was over £300 billion. That's almost C$500 billion, or C$20,000, per UK family.

It could soon be harder for governments to sweep P3s under the fiscal carpet. Canada's Public Sector Accounting Board (PSAB) is proposing new disclosure requirements and standards for public entities reporting on P3 liabilities.

Any positive changes would be an improvement over the current vacuum. But it's important to get it right, because this may be the only review for many years. Otherwise, we'll all pay the price for years to come.

Strong economy, what about wage growth?

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been below inflation all year.

Some of the factors that have suppressed workers' wage increases and bargaining power in recent years include:

• **Labour market polarization and a shrinking middle class.** The decline in middle income jobs, and growth of both lower and higher paid jobs explains some of the slow growth in average wages. But it's not the full story, because the wage growth for most occupations remains low.

• **Globalization and the threat of contracting out.** Free trade agreements, globalization and the ever-present threat of outsourcing and contracting out have constrained wage demands in goods and some service occupations. Both the OECD and the Governor of the Bank of Canada have acknowledged this pressure.

• **Growing precarity.** While there's been strong job growth over the past year, more than half of the growth has been in self-employed, term or contract positions. This adds to the reserve army of the precariously employed. Many of these are lower-paid gig-type jobs, such as working for Uber.

• **Austerity and wage freezes.** Public sector wage freezes, cuts and austerity have reduced overall wage growth. Wage settlements for public sector workers have increased by less than private sector workers for seven of the last eight years, and by less than inflation for five of the last eight years.

• **Lowered expectations.** After years of tough times, workers may have lowered expectations. Raising expectations will take time. Low wage increases may have been enough when inflation was also low. But with interest rates and inflation rising, low wage increases will erode living standards.

• **Threat of automation.** While previous industrial revolutions have eventually been accompanied by job growth in other sectors, there's fear that the rise of robots will lead to a jobless future. With low unemployment, that clearly hasn't happened. But even the threat of automation may constrain wage growth in some sectors and occupations.

• **Declining rates of unionization.** Unionization rates have gone down in the private sector over the past decade with the decline in manufacturing and resource sectors. They've also dropped more recently in the public sector, partly due to increased use of contract workers in services like health care and education.

• **Weaker labour regulations and worker protections.** Weaker employment standards have contributed to lower rates of unionization. They've also weakened workers' bargaining power in other ways, including whether they are considered employees, can collect overtime pay, or qualify for employment insurance.

• **Rising power of large corporations and the top 1%.** The increasing power of large corporations may be capping wage growth, as revenues are siphoned to owners and top executives.

Some of the factors behind low wage increases are now changing, and should result in higher wages. Legislated minimum wages rising to $15 an hour should also help push other wages further up the pay scale. Stronger labour standards in some provinces should boost workers' bargaining power and unionization rates. While some provinces continue to attack public sector workers' wages, there's growing resistance to these attacks. Other provinces are spending more and easing off austerity. It's time for workers to demand more at the bargaining table, and from our governments.

Wages rising in Ontario and BC, declining in Atlantic and Prairies

After averaging less than 1.5 per cent in each of the last two years, the national average for wage settlements is finally moving up. Base wage adjustments settled in the first nine months of this year include yearly average increases of 1.7 per cent over the life of collective agreements, up from 1.3 per cent in 2016 and just 1.2 per cent in 2015.

While wage adjustments have trended down in provinces dealing with resource revenue declines and in provinces where governments are forcing wage freezes and constraints, including Nova Scotia, Manitoba and Saskatchewan, wage increases are finally trending up for workers in Ontario, Quebec and British Columbia. If these trends continue, 2017 will be the first year since 2009 that Ontario and BC workers achieve wage adjustments averaging two per cent or more.

The average wage increase for public sector workers so far this year mirrored the national average of 1.7 per cent, while increases for private sector workers averaged two per cent. Average wage adjustments are higher this year than in 2016 for every sector except construction.

In key CUPE sectors like education, health and social services, public administration, utilities, transportation and information and culture, there's been a distinct upward trend in average settlements, although this varies by region.

WAGE AND PRICE INCREASES

	Canada	Federal	NL	PEI	NS	NB	QC	ON	MB	SK	AB	BC
Average base wage increase in major settlements 2016	1.3%	1.3%	1.9%	2.6%	1.7%	1.7%	1.1%	1.6%	1.7%	1.0%	1.1%	1.4%
Average base wage increase in major settlements 2017 YTD	1.7%	1.5%	–	–	0.7%	1.0%	1.5%	2.0%	1.4%	1.5%	0.7%	2.0%
Inflation average forecast 2017*	1.5%	1.5%	2.4%	1.8%	1.1%	2.1%	1.1%	1.6%	1.5%	1.3%	1.5%	1.9%
Inflation average forecast 2018*	1.9%	2.1%	1.9%	2.2%	2.3%	2.1%	2.1%	1.9%	2.0%	2.1%	2.0%	1.9%

* Based on latest forecasts by TD Bank, RBC and BMO banks to Nov. 15, 2017; wage settlements from Labour Canada

What's up, or down, with inflation?

It's been a bit of a mystery. Inflation has been so persistently low, not just in Canada but also in other countries, that central bankers are not only trying to push it up, but also struggling to explain why it isn't higher.

Consumer price inflation has averaged just 1.5 per cent annually since 2008, even though central banks want inflation to be higher. An average of 1.5 per cent is well below the Bank of Canada's two per cent target rate of inflation.

As Claudio Borio, head of the monetary and economics department of the Bank of International Settlements, recently stated:

"Central banks must feel like they have stepped through a mirror, and who can blame them? They used to struggle to bring inflation down or keep it under control; now they toil to push it up. They used to fear wage increases; now they urge them on. They used to dread fiscal expansion; now they sometimes invoke it. Fighting inflation defined a generation of postwar central bankers; encouraging it could define the current one."

Why would central banks want inflation to be higher? One reason is to lessen the threat of deflation (ongoing declines in prices) as happened during the Great Depression. Deflation can be far more damaging than inflation. Higher inflation, if accompanied with higher wages, could also improve the financial situation of households and provide central banks with more ability to act in the future.

Many of the factors that have kept wage increases low, such as globalization and the information technology revolution, also appear responsible for keeping inflation low, and could restrict price increases over the long term. It may also be that it's taking inflation longer to materialize. With the economy tightening, the Bank of Canada expects consumer price inflation to move up to two per cent in the second half of 2018 and to remain close to that thereafter.

While economists and central bankers may struggle to understand what's affecting overall inflation, ordinary Canadians are getting hit with price increases that will hurt lower- and middle-income households the most.

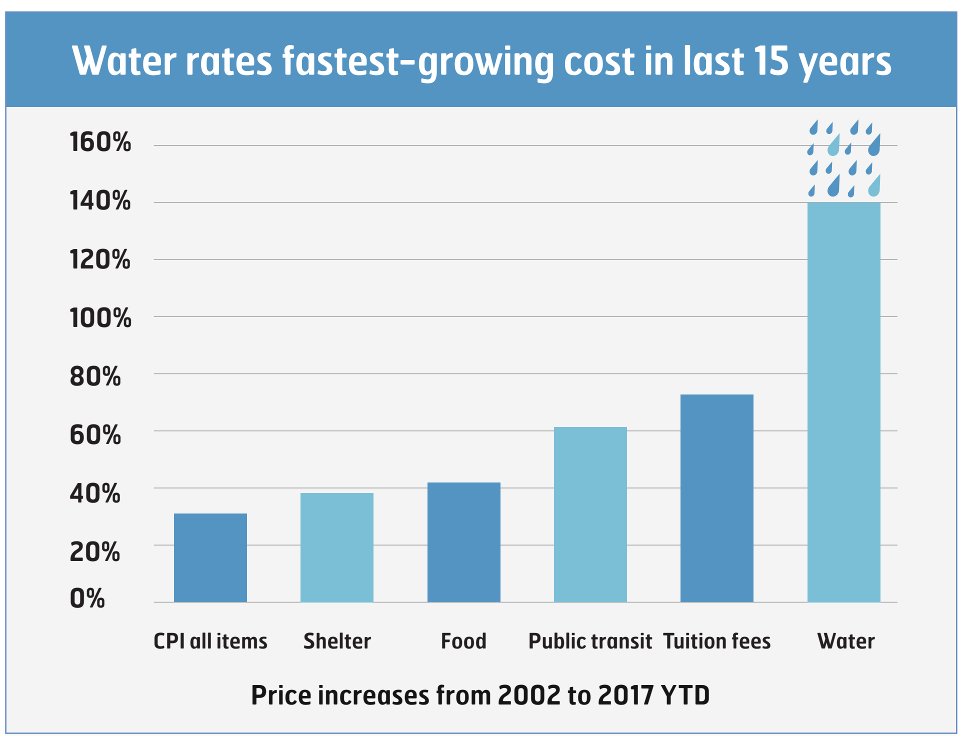
Swings in energy and food prices cause the greatest variation in consumer price inflation. They affect lower- and middle-income families the most, and have increased at a higher rate than overall consumer prices over the past 15 years.

While housing prices have escalated, low interest rates have kept homeowners' mortgage interest costs more affordable. That will change as mortgage rates increase, following Bank of Canada interest rate hikes. A full percentage point increase in mortgage rates will increase mortgage payments by about $50 per month or $600 per year for each $100,000 borrowed, amortized over 20 years.

Other costs that have persistently increased in recent years are the fees governments charge for public services, including for water, tuition, public transit and community sports and recreation services. All these fees have increased considerably more than overall prices, as governments shift more of the costs onto users and off the general tax base. Increased prices charged for water in some jurisdictions are no doubt being used to subsidize lower taxes.

In fact, fees charged for water have increased on average by more than any other individual component of the consumer price index over the past 15 years. Nationally, they've averaged a six per cent increase every year, adding up to a 141 per cent increase over 15 years. Rates charged for water have increased the most in Saskatchewan and Ontario, and the least in Quebec, where they've actually declined.

We may not know what's causing overall inflation, but it's clear what's causing some prices to increase—and it's in areas that will continue to pinch working families the most.



Source: Statistics Canada Consumer Price Index Cansim Table 326-0020

Pension plans healthy, and getting stronger

After the financial crisis and market crash of 2008-09, employers and governments tried to use temporary pension deficits to fear-monger about pension sustainability. They hoped to scare our members into accepting permanent pension concessions. But CUPE members fought back, engaged at bargaining tables, and refused to accept that defined benefit pension plans were broken.

Less than a decade later, our members have been proven right. Recent good news from the pension world gives our members solid backing to not only push back against pension concessions, but also demand more retirement security at bargaining tables.

Let's start with the Healthcare of Ontario Pension Plan (HOOPP). CUPE, through the Ontario Council of Hospital Unions (OCHU), plays a key role as a settlor and trustee of this major defined benefit plan. HOOPP has become one of Canada's top-performing funds without investing in public-private partnerships.

The plan has over $70 billion in assets. It is funded at 122 per cent, meaning for every $1 of pension obligations the plan has made, it has $1.22 on hand. HOOPP had double-digit returns last year and has a 10-year annual average return of more than nine per cent.

The hard work of OCHU and its HOOPP trustees has ensured these investment returns benefit plan members. The plan has delivered on cost-of-living increases. All retirees have been paid for money lost to inflation over the last 15 years. HOOPP also recently announced a significant benefit improvement for active plan members, as well as increased survivor benefits. Over the past decade, HOOPP has been able to enrol almost 55,000 new part-time members in the plan.

It's not only HOOPP that is doing well. Pension consulting firm Aon Hewitt recently reported that the median solvency funding ratio (a measure of a plan's financial health that compares plan assets to liabilities) for Canadian plans it monitors is at its highest point since 2002. Aon reports that more than half the Canadian pension plans in its database are now fully funded. Rising interest rates and healthy stock returns have contributed to these improved funding ratios.

Backed by this good news, CUPE workers at the University of Prince Edward Island recently rejected the employer's demands for a radical overhaul of their pension plan. CUPE locals worked with other unions on campus to successfully negotiate a deal that preserves their defined benefit plan with no benefit reductions and gives the unions an equal role in plan governance going forward.

CUPE workers across the country are right to question employer rhetoric about pensions. Canadian pension plans are doing well. Many have already fully recovered from the worst financial crisis the world has seen since the Great Depression. The numbers are on our side. CUPE members are well equipped to fight for more, and better, pension coverage for all workers.