INSIDE

CUPE Canadian Union of Public Employees

Liberals plan "bank of privatization"

The federal Liberals are planning a new public-private infrastructure bank that wouldn't just open the door to privatization – it would kick it right off its hinges.

In defending his newly-announced Canada Infrastructure Bank, Finance Minister Bill Morneau said private investors are 'clamouring' for access to Canada's infrastructure projects. That's because the only voices he's listened to are from his corporate-heavy Advisory Council on Economic Growth.

NDP finance critic Guy Caron calls it the "bank of privatization," and Liberal MP Robert Falcon-Ouellette said it "seems like a massive transfer of public funds toward the private funds in order for them to make money – a subsidy towards business."

Our public infrastructure belongs to all Canadians, and should not be for sale – or a source of private profits. Putting private capital in the driver's seat would allow private interests to set priorities on what gets built and how it is operated, as well as build pressure to sell off assets.

This will lead to the cannibalization of our public infrastructure for private profit, including airports, roads, bridges, public transit, wastewater, ports, government buildings and more.

It also means we'll only get half the bang for our buck. Financing infrastructure privately at the expected rate of return of seven to nine per cent – instead of the federal government's less-than two per cent borrowing rate – will mean five times the financing costs and double the total costs.

Morneau should stop this shift to privatization and instead create a bank that provides low-cost public financing to build our infrastructure.

A centerpiece of Minister Morneau's fall economic update, the bank will start with $35 billion in federal funding. Morneau and other bank boosters say every $1 of public funding will attract another $4 in private financing from large asset managers and pension funds. This could mean $175 billion to invest in public infrastructure.

But, there's a catch.

According to the government,

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ECONOMIC BRIEFS

HIGHLIGHTING RECENT ECONOMIC STUDIES AND DEVELOPMENTS

Nobel economics prize-winners expose privatization

The 2016 Nobel Prize in economics went to experts in "contract theory" who demonstrated that privatization often fails, especially for public services where the quality of outcomes is difficult to judge. Harvard economics professor Oliver Hart and others showed in a 1996 paper that the incentives for private prison operators to cut costs and reduce quality are too strong, and outweigh potential benefits. The incentive to profit at the expensive of quality extends beyond prisons to many other public services. Profit is also at the heart of so-called "innovations" like social impact bonds that are really just new privatization schemes.

US ends use of federal for-profit prisons

In August, the U.S. Department of Justice announced it will stop using private prisons to house federal inmates "because the facilities are both less safe and less effective at providing correctional services than those run by the government." Private prisons had lower-quality medical care and food, higher rates of assaults and property damage, and were overall less safe. Cost-cutting by private prison operators led to higher financial and social costs. Federal inmates make up about 10 per cent of America's total prison population, which means much work remains to end privatization at the state and local levels. With the election of pro-private prison President Donald Trump, this federal win is now in danger. Shares in for-profit prison operator CoreCivic (formerly known as Corrections Corporation of America) shot up on news of Trump's election.

NS buys back P3 schools

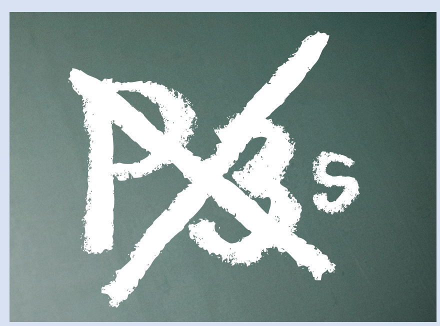
Nova Scotia is taking steps to end its failed P3 schools program. In early November, the government announced it would be cheaper to spend $85.9 million buying 12 schools, instead of renewing the leases with for-profit owners. In the government's own words, "purchasing is more affordable than extending the leases and provides the added benefit of ownership."

Later that month, the province announced it was buying back another 11 schools, adding to a first two announced in July.

CUPE Nova Scotia supported research by the Canadian Centre for Policy Alternatives that found P3 schools cost the public tens of millions of dollars more than publicly owned and operated facilities, and concluded that the government should buy out the leases.

The *Private Profit at a Public Price* report documents many problems with the P3 contracts, including that they didn't transfer risk or reduce public debt, cost more than publicly-delivered schools, and added costly layers of complexity. The P3s were criticized in several provincial auditor's reports. Secrecy surrounding the 20-year contracts makes it impossible to know exactly how much the public overpaid.

The leases expire in 2020. The province still has to decide about another dozen P3 schools. CUPE will keep up the pressure to end these deals once and for all.



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CUPE Canadian Union of Public Employees

ECONOMIC DIRECTIONS
Latest economic trends at a glance

Economic growth	Despite more infrastructure spending, there's little economic rebound on the horizon. Canada's economy is expected to grow by only 1.2 per cent in 2016, by two per cent in 2017 and by an average of just 1.8 per cent each year from 2018 to 2021.
Employment	The jobless rate is expected to stay stuck close to seven per cent in 2017, gradually declining to 6.5 per cent in 2020.
Inflation	After rising by about 1.5 per cent this year, consumer price inflation is expected to increase by about two per cent in 2017 and thereafter.
Wages	Base wage increases in major collective agreements settled in the first nine months of 2016 averaged just 1.2 per cent over their terms and just 0.6 per cent for the first year of these agreements.
Interest rates	The Bank of Canada quashed any expectations of interest rate increases when it recently revealed it was considering another cut. Long-term rates are expected to rise gradually after declining earlier this year to historical lows.

ECONOMICS 101:
Privatization decoder

Privatization can take many forms, and its promoters often use different terms to hide what they're actually doing. Or they dress it up in misleading (and sometimes bizarre) language like "flywheel of reinvestment" – a term being used to promote the new Liberal public-private infrastructure bank. Here's what it really means.

Privatization broadly means the transfer of services, functions and responsibilities from the government or another public body to the private sector. Privatization of public services and infrastructure comes in many forms, and in its most extreme form is the all-out sale of public assets like buildings, utilities, or roads to a private company.

In an **asset sale**, a government sells complete or partial ownership of a capital asset that provides a public service, such as a utility, road or airport. This also involves transferring the operations and workers to the private sector. "Asset recycling" or "reinvestment" are simply friendlier terms for this form of privatization, suggesting that the sale proceeds will go back into new infrastructure.

Public-private partnerships (P3s) are long-term contracts between a public entity and a for-profit enterprise that finances, builds, owns, operates and/or maintains a public infrastructure asset and the services it provides. The term "partnership" is misleading. P3s are structured to guarantee the private sector profitable payments and/or user fees, while governments are left holding the risk. Known in Ontario as AFPs (Alternative Financing and Procurement), P3s were born in the UK, where they are called Private Finance Initiative, or PFI.

Other words to watch for include social impact bonds (SIBs), social financing, commissioning, and more. We'll take a closer look at these in our next issue.

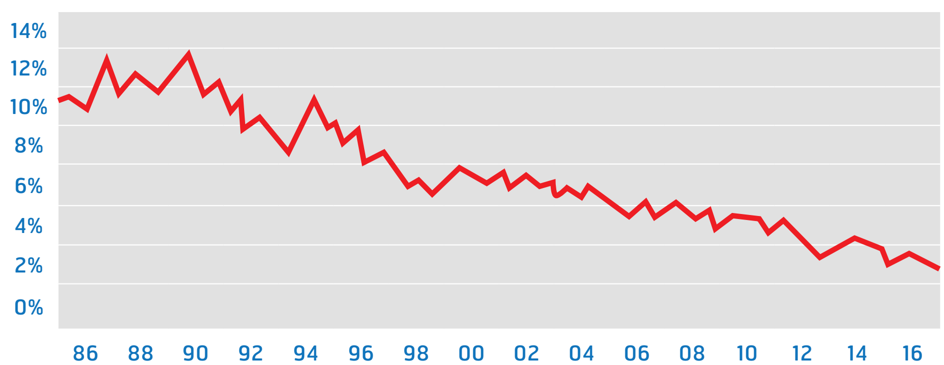
The time is right for public investment

Long-term borrowing rates for governments have never been lower than they are right now. This year the Canadian government has consistently been able to borrow at rates of below two per cent for terms of up to 30 years, and below one per cent for terms of less than eight years.

Meanwhile private financiers expect much higher returns for investing in infrastructure and public-private partnerships (P3s): seven to nine per cent according to Caisse de dépôt et placement du Québec CEO Michael Sabia. The average cost of private finance for P3 projects in British Columbia has been 7.5 per cent.

In fact, a financing cost of eight per cent over 30 years means five times the financing costs, compared to the current federal government 30-year borrowing rate of 1.9 per cent. That means double the total cost for a project. Private financing is not a new pot of "free" money – it's just a far more expensive funding source, one Canadians will have to pay for.

Government of Canada long-term borrowing rate



January 1986 to January 2016

Source: Statistics Canada Cansim Table 176-0043 (10+ years average yield)

Private financing can double the total cost of infrastructure projects

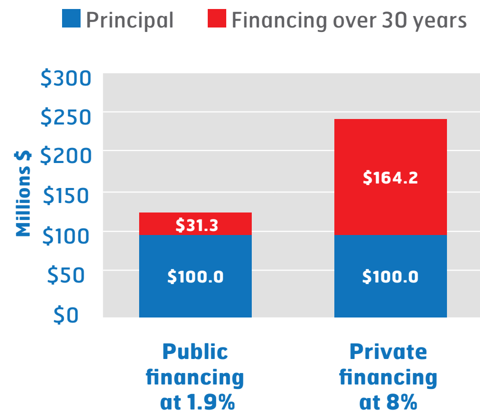


Chart prepared by Toby Sanger, CUPE

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the bank will "structure its financial supports in order to attract private sector capital and conclude project deals." The arm's length bank would also help develop a national infrastructure plan, receive unsolicited proposals from the private sector, and advise governments on revenue-generating infrastructure projects.

These plans are troubling for many reasons.

Private financing costs far more than public borrowing. The rates of return expected by private lenders could double the overall cost of infrastructure projects. The public will pay through new or higher user fees and tolls, as well as through contracted payments over the life of the projects.

The bank will outsource public policy-making to corporate-dominated interests, skewing priorities towards projects that are profitable for private finance, instead of ones that serve the needs of our communities and all Canadians.

Privatized projects and public-private partnerships are much less transparent and accountable. There's no assurance the bank's funds and projects will be subject to the full scrutiny of Parliament or the Auditor General. Privatization also creates opportunities for corruption and fraud, as happened with a Montreal P3 hospital.

While pension funds could profit from infrastructure investments, CUPE opposes private financing, ownership and operation of infrastructure, including through our pension funds, because they're a bad deal for the public and for our members overall.

There are much more constructive proposals for a national infrastructure bank that would reduce the financing costs of public infrastructure by providing direct loans and loan guarantees.

Finally, the proposed bank won't do much to strengthen our economy. There's no shortage of capital – in Canada or elsewhere – looking for investments. Canadian corporations already have more than $700 billion in excess cash – one third the size of our GDP. But they aren't investing in the economy. What we need is more household and public spending to increase demand – and for that we need higher wages for workers and fairer taxes.

Privatized MTS: Lessons for Brad Wall

With the Saskatchewan government threatening to privatize its public telecommunications utility, SaskTel, a quick glance east to Manitoba shows the many ways privatization can turn out badly for the public.

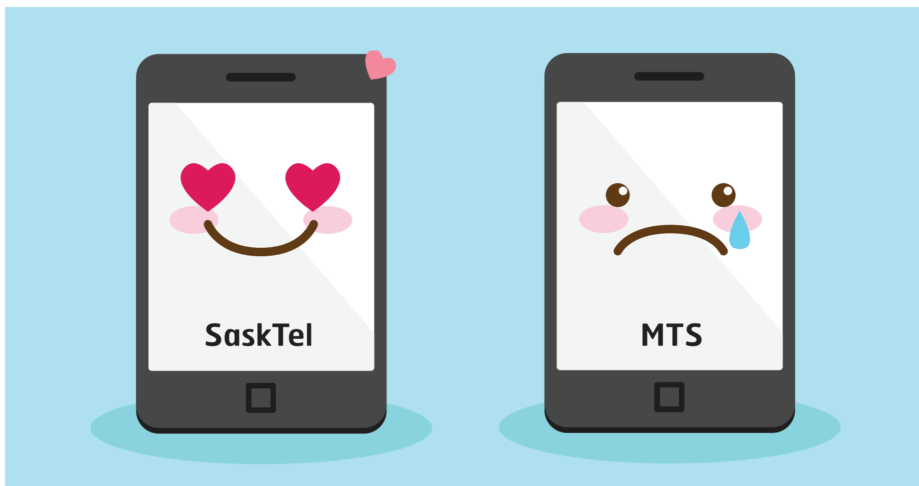
Both SaskTel and Manitoba Telecom Services (MTS) were established as public utilities in the early 1900s. Both serve similar-sized populations, and have similar sizes in terms of revenues, subscribers, types of services and number of employees relative to their populations. But that's where the similarities end. MTS was privatized by former Manitoba Conservative Premier Gary Filmon in 1997, while SaskTel has remained a public utility. But now the Saskatchewan government is considering privatizing it.

MTS's priorities are serving its private shareholders and commercial customers, rewarding executives and promoting itself through advertising. Meanwhile SaskTel focuses on customer service and satisfaction, being a good employer and providing returns to its public shareholder: the people of Saskatchewan.

The cost of SaskTel's basic phone service is about 27 per cent lower than the lowest-cost phone service offered by MTS. SaskTel has received recent awards for highest customer satisfaction for wireless (Canada wide), for internet and TV (western Canada). The utility has also drawn accolades as a top Canadian employer, top diversity employer, and top green employer. SaskTel has also been more innovative than MTS, contrary to claims that private companies are more innovative.

While MTS generates about twice the profit of SaskTel, it goes to shareholders and executives, with little returned to the people of the province. MTS has paid virtually no taxes for many years and doesn't expect to pay taxes until 2027. In contrast, SaskTel has paid an average of almost $100 million per year in dividends back to the province.

Despite their similar sizes and revenues, MTS CEOs have earned between $3 and $5 million a year: five to ten times as much as the CEO of SaskTel. Meanwhile SaskTel pays its workers, such as its operators, about 25 per cent more than MTS, even though they're members of the same union. SaskTel workers also have better pensions and benefits than workers at MTS.



Profiting from P3s, hiding from taxes

Privatization of public infrastructure and P3s can be so profitable that the ownership in them is often flipped a few years after a P3 becomes operational, generating large profits.

More often than not, these new owners – usually asset, hedge or private equity funds and holding companies – are based offshore in tax havens. For example, expert Dexter Whitfield recently discovered that three-quarters of the 735 current P3/PFI projects in the UK are at least partially owned by one of 12 offshore investment funds based in tax havens. Nearly half of UK P3 projects are majority controlled by these 12 funds. The five largest of these funds paid absolutely no tax to the UK despite recording profits of $3 billion CDN between 2011 and 2015.

More and more Canadian P3 projects, including roads and hospitals, have been acquired by offshore multinational corporations based in tax havens. This not only robs our governments of tax revenues, but also puts our public infrastructure under foreign control by corporations interested in squeezing the maximum profit from users, governments and workers.

Foreign ownership also gives corporations even more control because trade and investor protection agreements give them the ability to sue governments in secret tribunals for any potential loss of profit, using "investor state dispute settlement" rules.

Widening the gaps: Privatization worsens inequality

The Trudeau government emphasizes more than anything else the need for inclusive growth, strengthening the middle class and creating good, well-paying jobs for Canadians. These words are repeated over and over again in their press releases, speeches and reports. But if the Trudeau government accelerates privatization, it will result in greater inequality and turn these promises into little more than empty words.

Privatization of public services worsens inequality in a number of ways:

New and increased user fees. Privatization generally leads to new and increased fees for use of roads, bridges, water, community services, transit, education, health services, parking and any related services. User fees are regressive and increase inequality, as an internal study prepared by the federal Finance department recently confirmed. Well-heeled advisors such as McKinsey head Dominic Barton and former Bank of Canada governor David Dodge are now urging the Trudeau government to engage in a privatization sales job convincing Canadians it is in their interest to pay more in user fees.

Inequitable pay and benefits. Privatization also increases inequality because private employers provide lower and less equitable pay to workers than the public sector does. Workers, especially those in generally lower-paid occupations, receive lower pay and benefits in the private sector than in the public sector while executives and managers pay themselves much more. Women, racialized workers and other equity-seeking workers are hit

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Wage-led growth needed to strengthen the economy

Average base wages continue to increase at less than inflation, resulting in real wage losses.

Base wage increases in large collective agreements settled during the first nine months of 2016 averaged just 1.2 per cent and just 0.6 per cent in the first year of these agreements. These increases are considerably below consumer price inflation not only for the current year but also for the 52-month average duration of these agreements.

Other measures of wage increases aren't much better: Statistics Canada's payroll survey shows a 1.3 per cent increase in hourly wages and just 0.7 per cent for average weekly earnings so far this year. If the averages remain this low for the rest of the year, they'll match the lowest increases on record since the early 1980s.

Federal and provincial governments have continued to suppress wage increases through austerity, imposed wage settlements and policies that undermine the creation of good jobs. Lower settlements for public sector and unionized workers generally mean lower wage increases for private sector and non-unionized workers as well.

Increasing foreign investment and using private financing for public infrastructure won't do much to strengthen the economy. Instead we need to create more demand through public and household spending—and for that we need stronger wage growth.

WAGE AND PRICE INCREASES

Wage and price increases	Canadian average	Federal	BC	AB	SK	MB	ON	QC	NB	NS	PEI	NL
Average base wage increase in major settlements to Sept 2016	1.2%	1.4%	1.3%	1.2%	1.0%	1.8%	1.4%	1.1%	2.3%	1.7%	2.7%	--
Inflation average forecast 2016*	1.6%	1.6%	1.9%	1.3%	1.5%	1.6%	1.9%	1.0%	2.0%	1.6%	1.7%	2.3%
Inflation average forecast 2017*	2.1%	2.1%	2.1%	2.1%	2.4%	2.2%	2.0%	2.0%	2.0%	2.1%	2.1%	2.3%

* Based on latest forecasts by TD Bank, RBC and BMO banks to 8 Nov 2016, and wage settlements from Labour Canada http://www.labour.gc.ca/eng/resources/info/datas/wages/index.shtml

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hardest, receiving substantially lower pay in the private sector.

Lower revenues for governments and higher profits for corporations. When public assets that generate revenues are partially or fully privatized, such as Ontario Hydro, governments lose valuable revenues that help fund public services, while corporations, investors and financial advisors profit. Because ownership of corporations and capital is more concentrated, this further exacerbates income inequality.

Lower quality, less access. Privatization generally leads to a deterioration of public services, often combined with inequitable access. The wealthiest individuals have access to better services, while lower-income earners, racialized people and other equity-seeking people, and those living in remote communities have worse-quality services, or none at all. As a recent report concluded, "when they are privatized, public goods that were meant to serve everyone can morph into separate and unequal systems that further divide communities and perpetuate inequality."

See also:

• How Privatization Increases Inequality, In the Public Interest, September 2016.

• Narrowing the Gap: The difference that public sector wages make, CCPA, October 2014.

• Battle of the Wages: who gets paid more, public or private sector workers, CUPE 2011.

Cities bringing services back in house

Faced with rising costs and declining quality of contracted out services, cities in Canada and around the world are taking back control of their public services.

The growing trend is documented in the new Columbia Institute report *Back in House: Why local governments are bringing services home.* The report reviews Canadian and international evidence about contracting out and the reasons to contract in. It also revisits pro-privatization reports dating back two decades to find that many privatization poster projects are now back in house.

Back in House tells the story of 15 Canadian communities that have ended privatization. In many cases, the services are now being delivered in-house by CUPE members. The number one reason municipalities brought work back in house was to save money, followed by problems with the contractor, poor-quality service, and the need for more flexibility.

In some of these communities, local governments saw they could do the work themselves because of increased in-house capacity. Many communities took the opportunity of a contract expiring to end privatization.

Contracting in was a major theme in the municipal meeting at CUPE's recent National Sector Council Conference. Members shared their successes and setbacks, including CUPE 3034 president Terri-Lynn Cooper who described the patient, 20-year campaign her local waged to win back solid waste services in the Town of Conception Bay South, Newfoundland and Labrador.

The local built its case over time, tracking complaints and documenting when in-house staff cleaned up after the contractor. The first step was contracting in door-to-door pickup of bulky garbage.

That foot in the door helped the local showcase superior in-house service. Cooper and other local leaders worked to build support with CUPE 3034 members, including mechanics who were initially reluctant to service what they saw as dirty garbage trucks.

A spike in complaints and rising contractor costs helped strengthen the local's case as they developed a fully-costed proposal for an in-house fleet and public service delivery. In 2011, council voted to bring solid waste services in house for a five-year trial.

Cooper says savings since in-house service began, are approaching $1 million. At the same time, the workers have improved wages and benefits, and far better health and safety protection than the contractor provided. "It's a win-win for everyone," says Cooper, who announced that the trial is over and the services will be staying in house.

CUPE funded *Back in House* to help our members and municipal officials promote and protect public services. Read the report and order copies at cupe.ca/back-in-house

■ Karin Jordan

No room for profit in seniors' care

A new study concludes privatization is harmful to the quality of seniors' care, and calls on governments to invest in public and non-profit care for the sake of our seniors.

The findings, published in the journal *PLOS Medicine*, add to the mounting evidence about the dangers of for-profit care. Across the country, our members in long-term care are fighting privatization and advocating for public, well-funded care that delivers high-quality health services to our frail and vulnerable elders. It's part of our union's work to strengthen and expand Medicare.

The report analyzes existing research and concludes that overall, public and non-profit homes provide more and better care than for-profit facilities.

For-profit facilities have fewer staff, higher staff turnover, and deliver less hands-on care to residents. Together, these factors hurt seniors' health and their overall quality of life. Underfunding and short-staffing create unsafe conditions for seniors and for the workers providing their care.

The report notes that the facilities making the highest profits also had the highest number of problems.

Large corporate chains and private equity-owned firms are expanding in long-term care, a dangerous trend the authors call "caretelization." In Canada, 37 per cent of long-term care beds are owned and operated for profit.

Based on the evidence, the authors call for decision-makers to fund public and non-profit long-term care, as well as to require and fund minimum standards of direct care. But some governments are headed in the wrong direction. In British Columbia, members of our health services division, the Hospital Employees' Union (HEU), are fighting a recent move by the Vancouver Coastal Health Authority that flies in the face of the evidence.

Under the guise of expanding and modernizing seniors' care, the health authority is closing two public long-term care facilities, replacing them with a private, for-profit home. The move has galvanized workers and sparked an outcry in the community. HEU has stepped up its "Care Can't Wait" campaign to stop privatization and boost staffing levels across the sector. The campaign demands higher minimum standards of care, with assurances that public funding goes to staffing, not profits.

In Alberta, our long-term care members are calling for the government to heed the evidence that public care delivers better results and, stop the growth of for-profit seniors' care. A new Parkland Institute report, *Losing Ground*, finds that the province continues to rely on privatized seniors' care, even though it doesn't measure up to public and non-profit care.

Mobilizing to protect Cassellholme, the only municipally-operated long-term care home in Ontario's Nipissing region, has paid off. In November, CUPE celebrated news the home will not be moving to a private, non-profit model.

Canada's aging population means it's past time for governments to get it right when it comes to seniors' care. Stopping the spread of for-profit care isn't just good public policy. Treating seniors and other vulnerable people well is at the heart of who we are as a society.

Karin Jordan