

---

# Challenging austerity

---

Questions and answers for  
supporters of good jobs, quality  
public services, and healthy  
unions in Ontario

---



*Second edition - Summer 2011*





# Let's challenge the austerity agenda – one conversation at a time

Dear friends:

For a while now, leading business groups and their allies have been using the recent recession as an excuse to call for big changes to the way Ontario runs. They want lower taxes for corporations, lower wages for workers, more privatization, and cuts to public services. These policies increase business profits; that's the point. But they also weaken our communities, our province, and our country.

This Q&A is a resource for anyone who wants to defend good jobs, quality public services, and healthy unions. Feel free to use it when you talk with friends, family, co-workers, neighbours, political candidates, or reporters.

In solidarity,

A handwritten signature in black ink, appearing to read 'Warren Thomas', written in a cursive style.

Warren (Smokey) Thomas  
President, Ontario Public Service Employees Union

### 1. What is the “public sector,” anyway?

The “public sector” is the part of the economy that is paid for and controlled by government. This may mean direct government operations; it also includes public agencies like hospitals and community colleges. Most public services are not-for-profit, but some, like the LCBO, earn money that pays for other public services.

The public sector is an important source of jobs and income. Nearly one in five working Ontarians earns a living in the local, provincial, or federal public sector.

### 2. What do people in the public sector do?

The list is long! Public sector workers are the people who:

- restart your heart,
- defend children from abuse and neglect,
- ensure the security of the blood supply,
- diagnose cancers,
- protect your health card from fraud,
- make Ontario’s highways the safest in North America,
- inspect your food,
- keep alcohol away from minors,
- support people with disabilities so they can live with dignity,
- provide dental care to children in school,
- give women and families a safe haven from abuse,
- care for your son or daughter at daycare,
- comfort your mother or father in a nursing home,
- make the courts work,
- protect the public from accused murderers,
- educate and train the workforce of the future,
- help people overcome mental health issues,
- protect our air and water, and
- sustain our fish and wildlife – and that’s just a partial list!

### 3. Where does the money come from to pay for public services?

The public sector is funded by:

- various kinds of taxes, including taxes paid by public sector workers;
- fees for specific services like drivers’ licences or tuition fees; and
- profits from government enterprises like the LCBO or Ontario Lottery and Gaming.

### 4. The recession hit the economy hard. How can the private sector keep on paying for “big government?”

Some people think the private sector pays for government and gets little in return. This is not true. Without government, there would be no legal system to enforce contracts or protect the property rights that make

business possible. Without government, we would never have built the public electricity, transportation, or water systems people and businesses depend on. Without government, there would be no education system to provide trained workers and no public health care to keep them healthy so they can work.

The public sector does depend on the private sector. But it's just as true to say that the private sector depends on the public sector. You can't have one without the other. Every country in the world that has a strong economy and a strong democracy also has a strong public sector.

**5. With our budget deficit, don't we need to get spending under control?**

Spending is under control. For the last five years, Ontario has spent less compared to the size of its economy than any other province except Alberta and Saskatchewan.<sup>1</sup> And those two provinces have huge resource-based economies compared to their small populations.

The McGuinty government inherited a \$5.6 billion deficit from the previous Conservative government in 2003 and balanced the budget in 2005-06, 2006-07 and 2007-08.<sup>2</sup> The recession of 2008-09 was a global recession caused entirely by people outside of Ontario. It was not caused by government spending here.

Much of the current deficit of \$16.3 billion results from the government's ongoing effort to fund private sector construction jobs while building infrastructure Ontario needs. In 2011, the province budgeted \$12.8 billion for infrastructure. That's a lot – about \$6 billion more than the average over the last 10 years.<sup>3</sup> That money is creating jobs, and history has shown that the surest route to pay down deficits is through job creation. When the economy grows, deficits take care of themselves.

**6. Private sector workers had to cut back in the recession. Why shouldn't public sector workers suffer, too?**

The recession was bad, but the sacrifices people made were not evenly distributed. Three-quarters of Ontarians had no one in their household who lost their job or saw their working hours, pay, or benefits reduced because of the recession.<sup>4</sup> The majority of people who were not affected were in the private sector. So if we think the cost of the recession should be shared fairly, then it's not just public sector workers who need to contribute.

But it's important to remember: Working people are not the problem. A much fairer approach to balancing the budget would be to stop giving away public money through corporate tax cuts and focus instead on creating good jobs for all.

Every country in the world that has a strong economy and a strong democracy also has a strong public sector

**7. If we pay public employees less, won't that free up money for public services?**

Wage cuts that happen at the same time as huge cuts to corporate taxes don't do a thing to protect public services. All they do is transfer money out of the pockets of workers into the profits of corporations like the Royal Bank, Rogers, and Imperial Oil.<sup>5</sup>

In any case, the McGuinty government is aiming to cut wages at the same time as it is cutting public services and jobs. The government aims to cut close to 5,000 jobs in the Ontario Public Service alone.

**8. The government is trying to freeze the wages of public employees, but some arbitrators are hiking wages anyway. What's wrong with them?**

Wage cuts that happen at the same time as huge cuts to corporate taxes don't do a thing to protect public services. All they do is transfer money out of the pockets of workers into the profits of corporations like the Royal Bank, Rogers, and Imperial Oil

Arbitrators are paid to be fair and impartial. Since the wage freeze was announced in March 2010, only a few arbitrators have given workers wage awards that kept up to inflation. But they have not awarded zeroes, either. Arbitrators must use their judgment to weigh a range of factors – the cost of living, the wages of comparable workers, government budget decisions, and so on.

Of course, when the McGuinty government is giving large tax cuts to profitable corporations, some arbitrators may not accept the government's claim that wages must be cut.

**9. Some public sector workers get paid more than private sector workers who do the same work. Why should private sector workers pay those high wages?**

**A1** A unionized janitor cleaning a public hospital likely earns more than an "independent" janitor cleaning a bank tower on Bay Street. The real problem is the failure of private sector employers to provide the jobs that allow people to live decently, bring their kids up the way they want to, and retire with dignity. We need better jobs in the private sector, not worse ones in the public sector.

**A2** Business groups around the world have been on a campaign to drive down wages for workers for more than 30 years. They know that good wages in some jobs make it harder to find cheap labour to do other jobs. So that's why they want to cut wages, benefits, and pensions in the public sector. It's not because they care about their own workers – business groups

want to drive down *their* wages, too. That’s why so many employers fight to keep unions out of the workplace.

**A3** The public sector often pays more for administrative and service jobs that are mostly performed by women. That’s because public sector unions have enforced pay equity laws so women are not discriminated against. But in the private sector, where unionization is lower, that’s not easy. If we want public and private sector workers to be paid the same, enforcing pay equity laws is a great idea. It’s a concrete step that will reduce discrimination and bring up women’s wages in the private sector.

**A4** Even where public sector wages are higher than private sector wages, that doesn’t mean public services cost more than private services. That’s because there is no markup on public services. When you buy a private service you pay the wages of the workers *plus* the profits of the owners. Those profits often make private services cost more than public services.

There is no markup on public services!

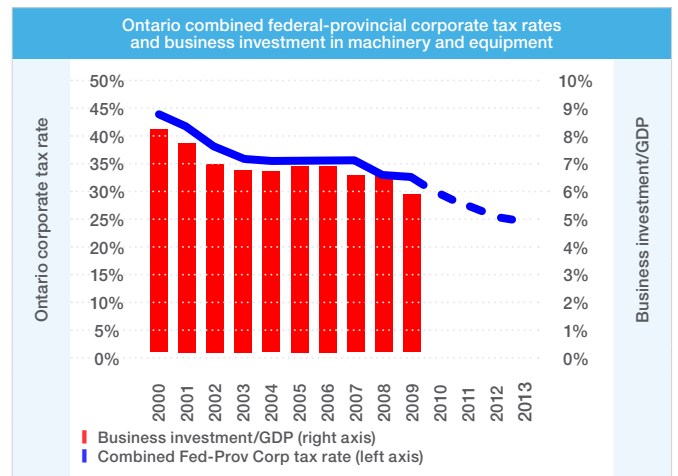
**A5** A better question is, “Why should *any* worker pay for the corporate tax cuts, monster bonuses and sky-high wages of corporate CEOs?” They’re raking in millions while regular working people can’t make ends meet. Our society is becoming more and more unequal, and that’s not good.

**10. But don’t corporate tax cuts create jobs?**

Where we most often hear this is from corporate executives. But cuts to the corporate income tax rate are no-strings-attached. The money corporations get is just as likely to fund pay raises for CEOs as it is to create jobs.<sup>6</sup>

If corporate income tax cuts were going to create jobs, they would have done so by now. We have seen corporate income tax rates fall for the last 10 years, but the rate of investment has actually gone down (see chart at right).<sup>7</sup>

Of all the ways the government could spend \$2.4 billion, corporate income tax cuts are one of the worst. The federal government says that every dollar a government spends on corporate tax cuts creates just 30 cents worth of economic growth. But we get \$1.70 in economic growth when we support unemployed and low-income people, and \$1.40 when we invest in public services.<sup>8</sup>



Corporate tax rates are not preventing investment in Ontario. The KPMG consulting firm says Canada has the lowest corporate income taxes and the second-lowest overall tax costs for

## Expenditure and Tax Multipliers

*How much the economy grows for each \$1.00 of government spending*

Measures for low-income households and the unemployed	<b>\$1.70</b>
Infrastructure investment measures	<b>\$1.60</b>
Housing investment measures	<b>\$1.50</b>
Other spending measures (e.g., public services)	<b>\$1.40</b>
Personal income tax measures	<b>\$1.00</b>
Corporate income tax measures	<b>\$0.30</b>

business of 10 competitor countries they studied. And the Toronto region has the fifth-lowest business taxes of 41 international cities studied. Taxes account for at most 14 per cent of location-specific costs for business, KPMG says.<sup>9</sup>

### 11. So what's the solution to Ontario's economic problems?

In Ontario, 400,000 people are forced to use food banks every month

and 15 per cent of children are growing up in poverty. Entire communities don't have safe drinking water. There are 200,000 fewer young people working in Canada today than two years ago.<sup>10</sup> The best solution is to invest in the programs and infrastructure we need and put money in people's pockets so they can live decently. That's what will grow the economy and create the good jobs we need.

There are other ways to create good jobs, too. Government could do more to match qualified workers to tens of thousands of job vacancies that go unfilled. Literacy training, better employment standards and easier unionization would help workers improve their lives and build their buying power. And that would strengthen local economies.<sup>11</sup>

There are 200,000 fewer young people working in Canada today than two years ago

### 12. Can't government save money by contracting-out or privatizing public services?

Business groups always say that. It's rarely true. Governments can borrow money at a lower rate than business can, and governments are big enough to benefit from economies of scale. So business has two main ways to cut costs (and earn a profit) on public services: by reducing workers' wages, or by cutting corners on quality.

To give one example, medical laboratory technologists in public hospitals typically earn a bit more than those in private labs. Yet a 2008 consultant's study showed that tests by private labs in Ontario were costing the public *50 per cent more* than tests done at our smallest public hospitals.<sup>12</sup> By providing services at cost, the public sector can provide better services for less – with better jobs in our communities to boot.

**13. But don't private companies have more of an incentive to innovate?**

Sometimes. But there's pressure on governments to contain costs and improve services, too. Government must continually change and improve to provide services people will vote for. And it has to account publicly for every penny spent.

Of the world's developed countries, the one with the most expensive health care is the one with the private system. The United States, with its private system, spends 16.0 per cent of its Gross Domestic Product<sup>13</sup> on health care. Canada, with its public system, spends just 10.1 per cent.<sup>14</sup>

U.S. health corporations do innovate, it's true, but their innovations are aimed at boosting profits. That's why they raise premiums, de-insure patients, and lobby to stop governments from expanding public health care.

**14. What about these stories we hear about government waste, like at eHealth or Ontario Lottery and Gaming, for example?**

What we learn from eHealth and OLG is that problems in the public sector don't stay hidden for long. That's a good thing. Governments are subject to Freedom of Information laws, Question Period in the legislature, and close scrutiny from press galleries. On the other hand, things that make the news in the public sector often stay hidden in the private sector.

The biggest private-sector story, of course, was the recent recession. Investment banks in New York and London blew up the global economy through their own greed – and mainstream news outlets ignored or downplayed the story until it was too late.

**15. Why should private sector workers pay for platinum-plated pensions for public employees when they don't have company pensions themselves?**

Public sector pension plans are not "platinum-plated." For example, the average pension for a retired worker in the Hospitals of Ontario Pension Plan is about \$15,900 a year.<sup>15</sup> Many, many public sector workers don't have pensions at all.

Company pension coverage in Ontario peaked at 40 per cent of private sector workers in 1985.<sup>16</sup> Now, less than 35 per cent of private sector workers have a company pension. More and more private employers are refusing to fund pensions that would offer private sector workers a secure retirement. That's because when pension costs are less, corporate profits are higher.

Of the world's developed countries, the one with the most expensive health care is the one with the private system

We need private sector employers to see decent pensions as part of the wages they pay workers. And that's why we need to expand the Canada Pension Plan – so all working Canadians have enough to live on when they retire.

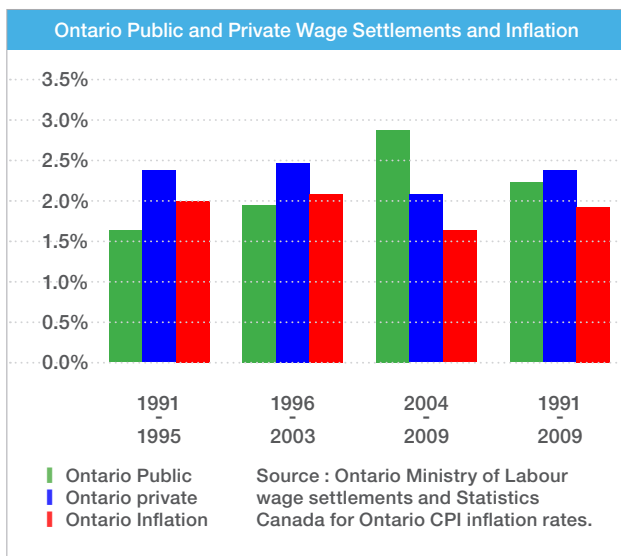
We need private sector employers to see decent pensions as part of the wages they pay workers.

**16. I've heard some business groups complain that expanding the CPP is a "payroll tax increase" for them.**

Pensions are deferred wages – wages that workers earn after they finish their time in the workforce. Additional payments to improve pensions are not a tax increase, they're a wage increase.

Lobby groups like the Canadian Federation of Independent Business oppose wage increases for even the poorest workers – those on minimum wage – so it is hardly surprising that they oppose better pensions for retired workers as a group.

**17. Don't public employees get bigger raises than private sector workers because there is no competition in the public sector?**



Public employees *don't* get bigger raises than workers in the private sector. Public sector wages are limited by political pressures just as much as private sector wages are limited by market competition.

From the 1991 recession to the one in 2009, private sector wages actually went up more than those in the public sector. But that's only compared to inflation. After you take away inflation, wages for full-time workers in both sectors have stagnated for 30 years. During that time, working people have been more productive, but the benefits of that extra productivity have gone to the profits of corporations and other businesses, not workers' wages.<sup>17</sup> That's bad enough, but many jobs are now part-time, temporary, and agency temp jobs that pay less – in both the private and public sectors.

**18. I pay your wages, and I can't afford them any more!**

We all pay each other's wages. Public sector wages are paid by people (including public sector workers themselves, through their taxes), but so are private sector wages. A children's aid worker buying groceries is paying the wages of the grocery store worker. We all pay each other's wages.

The real story in the world today is that when business profits go up,

workers' wages don't, and the jobs people need to live a decent life are just not there. Our communities need good jobs for everybody. That should be our top priority, but for more than 30 years we've let big corporations make their profits, not good jobs for all, the top priority.

**19. You're lucky to have a job!**

That's the problem! These days, only five out of eight Canadian workers have full-time permanent jobs. That means three out of eight workers can only find part-time or temporary jobs, temp agency work, or low-paid self-employment. Employers and governments have done nothing to stop this trend. In fact, they've created it by pushing for ever-lower wages for workers to fund ever-higher profits for employers.

**20. If we don't cut spending we'll end up broke just like Greece or California!**

Around the world, news outlets have praised governments for bailing out the banks and bond traders who caused the economic crisis. But they've criticized regular citizens who don't want to sacrifice their jobs, their wages, and their public services to pay for the damage.

According to Nobel-Prize-winning economist Joseph Stiglitz, cuts and "austerity" have been tried many times before. Cutting the public sector makes economic problems worse and leads to higher unemployment and weaker economies, he says.<sup>18</sup> And that is exactly what is happening in Greece right now.<sup>19</sup>

Interestingly, California has a long history of cutting the taxes that pay for public services. Greece is now famous as a place where tax evasion is widespread.<sup>20</sup> In both cases, it was just a matter of time before their governments could no longer cover their debt payments.

**21. These are tough economic times. We all have to tighten our belts.**

These tough economic times didn't just happen.

For more than 30 years, business and government have been telling us that right-wing economic policies would make us all better off. They said free trade would mean "jobs, jobs, jobs." They said privatization would save money. They said corporate tax cuts would mean "jobs, jobs, jobs." None of those promises came true. Instead, they created an economy where we lost our manufacturing jobs, wages have stagnated, more jobs are part-time and temporary, and tuition fees and student debt have skyrocketed.

These days, only five out of eight Canadian workers have full-time permanent jobs. That means three out of eight workers can only find part-time or temporary jobs, temp agency work, or low-paid self-employment

At one time,  
homelessness was  
rare in Ontario.  
Now it's normal

At one time, homelessness was rare in Ontario. Now it's normal. The end result of 30 years of right-wing change is 400,000 Ontarians visiting the food bank every month. The only people doing better are rich corporations and their high-paid CEOs – their salaries have gone up and up.<sup>21</sup>

**22. Some business groups say unionized workers should be able to “opt out” of paying union dues. Why shouldn't they?**

No business providing professional services could survive by giving them away for free. Neither could unions. In 1946, Supreme Court Justice Ivan Rand ruled that no worker has the right to enjoy the benefits of being in a unionized workplace without paying his or her share of the cost of those benefits through union dues. A “free rider” who enjoys the advantages of a unionized workplace but refuses to pay dues is like a diner who leaves a restaurant without paying the bill.

Business groups dislike unions because they increase wages and improve working conditions for workers. Unions also pressure government to enact basic health and safety laws, protect human rights, and enforce basic standards like the minimum wage. Better jobs do increase costs to individual businesses, which they don't like. But better jobs also grow the economy to the benefit of all businesses. They do better when their customers have good incomes. And that's a fact.

**23. Isn't it true that unions only protect lazy workers?**

No. A unionized worker can still be disciplined or fired. The difference is, under Ontario law, every collective agreement must have a process for handling disputes between workers and their employer. This is important: Your boss is not always right. Many workers are subject to harassment, discrimination, and intimidation on the job. The union's role is to make sure a fair process is followed when disputes arise.

The main thing unions do, though, is work to improve the wages and working conditions of *all* workers.

**24. Don't unions drive up wage costs and prevent employers from creating jobs? Won't that hurt our economic recovery?**

Unions typically improve the incomes of workers, and workers are customers. When customers have good incomes, they spend, and that's good for local businesses and job creation. When workers join unions, they don't hurt the economy, they help it.

To hear some business leaders talk, their perfect world is one in which every worker is poor but every customer is rich. It's not a model for a healthy economy.

**25. Unions were important 50 years ago, but we don't need them today.**

If everyone worked in a safe, healthy, workplace, with no harassment or discrimination, with good wages, decent benefits and a pension plan, this might be true. But working people are facing more problems today than they have in decades. More and more jobs are part-time, temporary jobs; workplace discrimination is on the rise; wage growth has stalled even though workers are more productive; the number of workers with pension plans is falling. Now more than ever, working people need to come together to stand up for their rights and the rights of the generations to come. When they do, it's called a union.

When customers have good incomes, they spend, and that's good for local businesses and job creation. When workers join unions, they don't hurt the economy, they help it

Notes

1. See RBC Economics Research, *Provincial Fiscal Tables*, June 6, 2011, p.5. Available at [http://www.rbc.com/economics/market/pdf/prov\\_fiscal.pdf](http://www.rbc.com/economics/market/pdf/prov_fiscal.pdf).
2. Dwight Duncan, *2011 Ontario Budget: Budget Papers* (Toronto: Queen's Printer for Ontario, 2011), pp. 230-231.
3. Dwight Duncan, *2011 Ontario Budget: Budget Papers* (Toronto: Queen's Printer for Ontario, 2011), p. 10.
4. In the spring of 2010, Vector Research and Development asked 500 Ontarians how the recession had affected their household. In total, 22 per cent said someone in their household had had their hours of work cut during the recession; 20 per cent said someone in their household had lost a job; 12 per cent said someone in their household had had their wages reduced; and 11 per cent said someone in their household saw their pension or benefits reduced. Source: Vector Research and Development, *The Vector Poll on Public Opinion in Ontario*, May 2010, p. 18.
5. For a summary of the McGuinty government's tax reductions for Ontario businesses, see Dwight Duncan, *Ontario's Tax Plan for Jobs and Growth* (Toronto: Queen's Printer for Ontario, 2009), p. 15.
6. According to Statistics Canada, Canadian corporations are now sitting on close to \$500 billion in cash – more than the federal and Ontario government budgets put together – which they are not investing in new ventures. See Jim Stanford, "How corporate tax cuts can actually destroy jobs," *Progressive Economics Forum*, Jan. 27, 2011. Available at <http://www.progressive-economics.ca>.
7. Calculated from Ontario Ministry of Finance, *Ontario Economic Accounts* (July 2010), "Historical Tables." (Figures in 2010 dollars). Special thanks to Liam McCarthy (PSAC), Toby Sanger (CUPE), Jim Stanford (CAW), and Erin Weir (USW) for the two graphs in this document.
8. James M. Flaherty, *Budget 2010: Leading the Way on Jobs and Growth* (Ottawa: Her Majesty the Queen in Right of Canada, 2010), p. 281.
9. See KPMG LLP, *Competitive Alternatives 2010: Special Report: Focus on Tax*. Available at [ftp://ftp.competitivealternatives.com/2010\\_compalt\\_report\\_tax\\_en.pdf](ftp://ftp.competitivealternatives.com/2010_compalt_report_tax_en.pdf).
10. CBC Radio, "The Young and the Jobless," *The Current*, June 6, 2011. Available at <http://www.cbc.ca/thecurrent/episode/2011/06/06/the-young-the-jobless-documentary/>.
11. Progressive groups interested in jobs have done extensive work on this very issue. See the Wellesley Institute's web site, [www.talkingaboutjobs.ca](http://www.talkingaboutjobs.ca), for detailed policy ideas.
12. RPO Management Consultants, *Laboratory Pilot Projects Review Final Report*, March 31, 2008, p. 22.
13. Gross Domestic Product is a common measure of the size of the economy – the sum total of all goods and services bought and sold in the country.
14. Canadian Institute for Health Information, *Health Care in Canada 2009: A Decade in Review*. Ottawa, Canadian Institute for Health Information, 2009, p. 47.
15. The average pension plan for an OPSEU member in the Ontario Public Service is under \$17,000 a year – about \$325 a week. Workers in the Colleges of Applied Arts and Technology pension plan earn an average annual pension of \$22,500 (although retired college support staff earn \$13,730 a year). Retirees in the Ontario Municipal Employees Retirement System (OMERS) average \$14,200 a year. Source: OPSEU Research and Benefits.
16. See the report of the Expert Commission on Pension Reform, *A Fine Balance: Safe Pensions, Affordable Plans, Fair Rules* (Toronto: Queen's Printer for Ontario, 2008), p. 38. Available at [http://www.fin.gov.on.ca/en/consultations/pension/report/Pensions\\_Report\\_Eng\\_web.pdf](http://www.fin.gov.on.ca/en/consultations/pension/report/Pensions_Report_Eng_web.pdf).
17. For a full discussion of this issue, see Ellen Russell and Mathieu Dufour. *Rising Profit Shares, Falling Wage Shares*. Ottawa: Canadian Centre for Policy Alternatives, June 2007. Available at <http://www.policyalternatives.ca/publications/reports/rising-profit-shares-falling-wage-shares>. See also Statistics Canada, "2006 Census: Earnings, income and shelter costs," *The Daily*, May 1, 2008. Available at <http://www.statcan.gc.ca/daily-quotidien/080501/dq080501a-eng.htm>.
18. See Frances Schwartzkopff, "Nobel Winner Stiglitz Warns Job-Killing Austerity Measures Hurt Economies," *Bloomberg News*, May 13, 2011. Available at <http://www.bloomberg.com>.
19. See Lefteris Papadimas and Harry Papachristou, "Greece piles on austerity measures, economy dives." *Reuters*, June 9, 2011. Available at <http://uk.reuters.com>.
20. See Suzanne Daley, "Greek Wealth Is Everywhere but Tax Forms," *New York Times*, May 1, 2010. Available at <http://www.nytimes.com/2010/05/02/world/europe/02evasion.html>. Also see Richard Walker, "The Golden State Adrift," *New Left Review*, 66, November-December 2010. Available at <http://www.newleftreview.org/?view=2868>.
21. See Hugh Mackenzie, *Recession-Proof: Canada's 100 best paid CEOs*. Ottawa: Canadian Centre for Policy Alternatives, 2011. Available at <http://www.policyalternatives.ca>.





Ontario Public Service Employees Union  
100 Lesmill Road, Toronto, Ontario M3B 3P8  
1-800-268-7376  
[www.opseu.org](http://www.opseu.org)

Produced by OPSEU Communications Division

