

**PRE-BUDGET
SUBMISSION
TO THE
STANDING COMMITTEE ON
FINANCE AND ECONOMIC AFFAIRS**

PRESENTED BY THE

ONTARIO FEDERATION OF LABOUR

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I am very pleased to make this pre-budget presentation to the Finance Committee on behalf of the Ontario Federation of Labour and its 650,000 affiliated members.

At the risk of oversimplifying, I want to focus my comments in the time available on three key points.

1. The first of these is the most important – for me anyway – and it’s the point that we need to understand what’s been going on in Ontario’s economy for the last decade.

We now appear to be at the peak of the current business cycle. Economic growth and job creation have returned to the level of the previous high point, which was more than a decade ago, in 1988-89. Ontario has finally recovered from the worst recession in 60 years, a recession which devastated the entire working population.

But, before anybody breaks their hand patting themselves on the back for this brilliant recovery, we should reflect on what sent Ontario’s – and Canada’s – economy into such a terrible tailspin. Economists from the labour movement, and even many US economists, have documented time and time again that our 1990-97 recession was a made-in-Canada recession. It lasted five years longer than the American downturn. It was created by Canada’s last Conservative government, the Mulroney government – and kept alive for another two years by the current Liberal government of Jean Chrétien.

It was caused by the simultaneous adoption of the GST, the Free Trade deal and the job-killing Zero Inflation policy of the Bank of Canada in the 1980's. What was a short downturn in the US economy turned into a seven year nightmare for Canada's working people, and the real killer was sky-high interest rates that squeezed the life out of the economy, and especially the Ontario economy. Real short-term interest rates of over 6% extended through the entire recession from 1990 to 1994. A brief experiment in lower interest rates in 1994 led to a brief, if spectacular, recovery – 194,000 jobs were created in Ontario that one year, and GDP grew 5%.

Then, Ottawa jacked interest rates up again for another two years and knocked us back into recession. It wasn't until 1996 that interest rates returned – if temporarily – to a more rational level. You can trace this history on the chart in Figure 1.

Figure 1

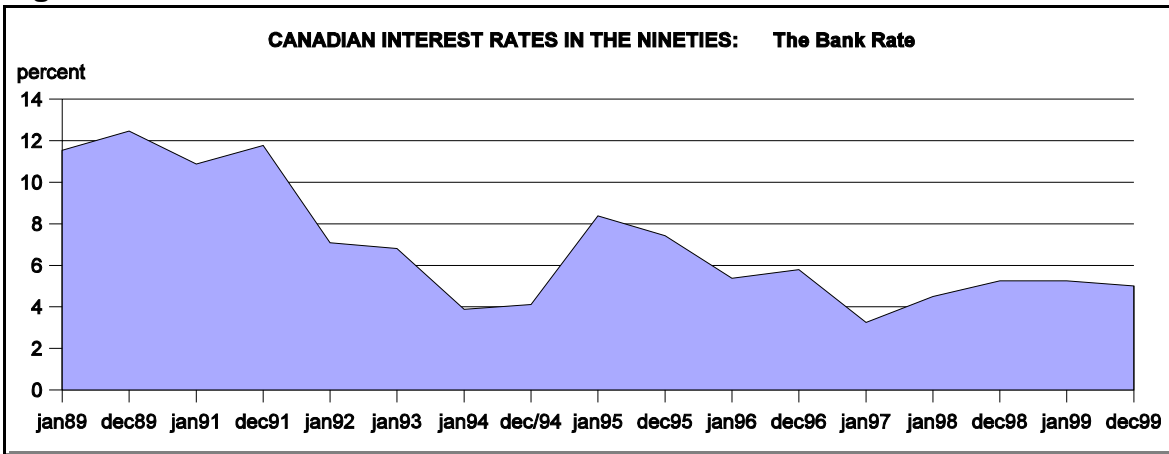
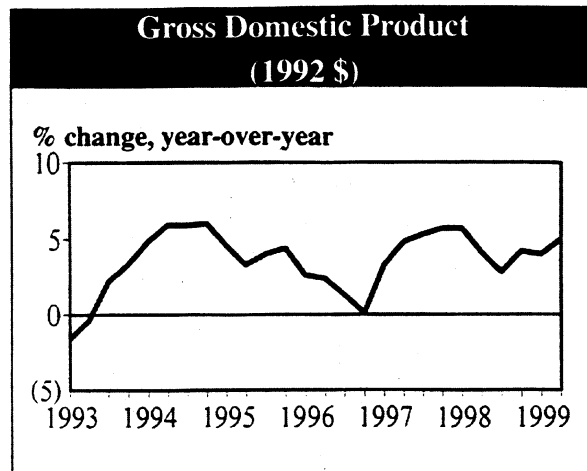


Figure 2



Figures 1 and 2 show the correlation between interest rates and growth in GDP.

The recovery from negative growth in 1993 to a strong recovery in 1994 was triggered by a dramatic reduction in rates, down to 4.11% in 1993. As soon as the economy showed signs of life – 5% growth in 1994 and 196,000 new jobs – the Bank of Canada jacked interest rates up above 8%.

The result: two more years of recession.

The big question is: will they do it again?

Lower interest rates and a lower Canadian dollar have given us the export-led recovery that has reduced unemployment to today's levels. Instead of the slogan "*It's the economy, stupid*" – this old saying from the Clinton election should be restated as "*It's the interest rates, stupid*".

I dwell on this because this basic fact – that interest rates were, and are, the key to our economic fate – is getting lost in all the political propaganda. The ceaseless prattling about the miracle of the tax cuts keeps people from focussing on the real story – the rise and fall of interest rates.

This would be funny perhaps, if it wasn't so deadly. Interest rates are rising again. As the events of the last few weeks have shown – Canada's economic gurus – from the BCNI to Paul Martin to the Governor of the Bank of Canada – have not abandoned the Zero Inflation policy. Interest rates are once again on the rise. The bank rate is creeping upwards again. Mortgage rates are back up to 8.5%. Every point of interest rate increase picks thousands of dollars out of the wallets of hardworking Ontarians. The benefit of low interest rates is infinitely better for low and middle income workers than the misguided tax cut policy of this Government. Better in terms of real cash in hand. Better in terms of maintaining the low dollar that is behind our export-led recovery. Better for small – and big – business to allow them to borrow for continued real growth and to generate profit for themselves, instead of profit for the banks and money lenders.

The most useful thing I believe this Committee could do, is to pay focussed attention on the interest rate issue. There needs to be a stern warning. If the current trends continue, today's economic recovery could be killed dead in exactly the same way that recovery was killed in 1994. Rising interest rates will be the death-knell for our economic recovery.

2. The second point I want to make has to do with the recovery itself – I should say the so-called recovery. Because whoever it is who has recovered, it sure isn't ordinary Ontario families. The sorry fact is that the standard of living of low and middle income families has declined steadily during the 90's. Armine Yasminian has marshalled all the numbers in her presentation to the Committee earlier this month. You will see the evidence in her brief that incomes tumbled for everybody during the nineties – rich, poor and middle alike.

And the sorry fact is that this economic recovery has recovered more bad jobs than good jobs.

The tell-tale signs about the fragile nature of this recovery for ordinary Canadians are there to read.

! The employment rate, i.e. the percent of working age Ontarians, who actually have a job, is only 62%. That is still lower than it was in 1989, when it was 67%.

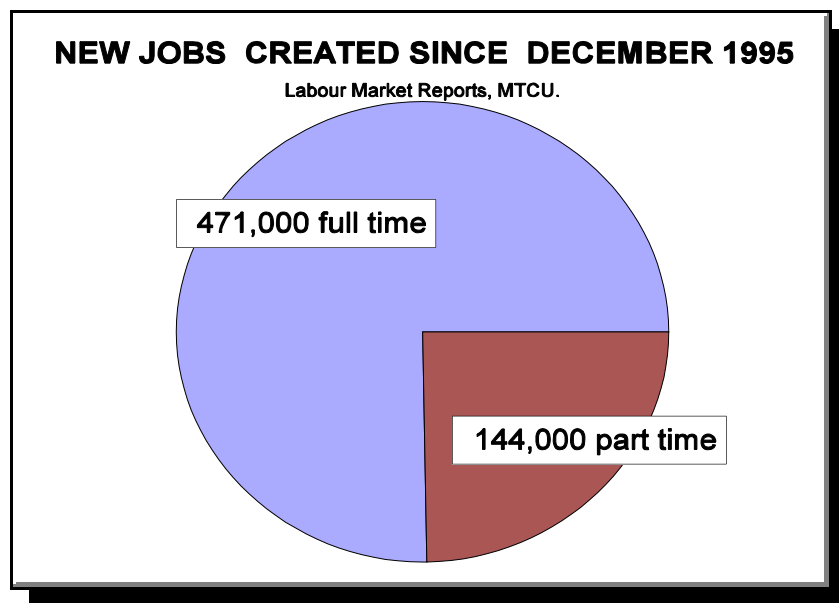
! The participation rate, i.e. the percent of adults, who are either working or looking for work, is still stuck at 65%, down from over 70%

in 1989. In other words, there is still major hidden unemployment from “discouraged workers” who have dropped out of the workforce.

! And, as for the miracle of job growth during this recovery, we need to remember that:

- In December 1995, Ontario had a total of 5,241 million jobs. Of these, 4,306,000 were full-time, and 935,000 were part-time.
- As of December 1999, Ontario has 5,856,000 jobs, an increase of 615,000 jobs. (By the way, that’s 135,000 short of the 750,000 promised.)
- Of these 615,000 new jobs created since December 1995, 471,000 or 74% were full-time but a huge number – 144,000 – or 24% were part-time.
- And worst of all, 41% of all new jobs created in Ontario in the last decade were “self-employment.” Most of the self-employed are unincorporated individuals with no paid help – and extremely low incomes, well below the average weekly wage.

Figure 3



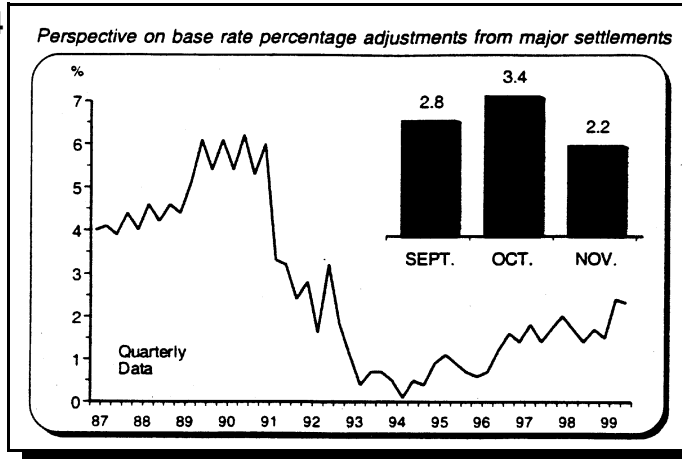
**Total Ontario jobs created Dec. 1995 to Dec. 1999 = 615,000.
But 24% of all new jobs created since 1995 are part time.
And 41% of new jobs are self employment.**

(Source: Ontario Ministry of Training, Colleges and Universities Labour Market Report series; Statistics Canada Labour Market Surveys).

So here is the recovery. Fully one-quarter of Ontario's fabulous job recovery is part-time employment. And over 40% of the total growth is self-employment. This is one of the reasons why real income for ordinary Ontarians has not recovered from the economic hammering they have taken since the eighties.

To further illustrate this point, I have attached three charts. The first, Figure 4, shows what has been happening in collective bargaining nationally since 1987. Wage increases became a thing of the past.

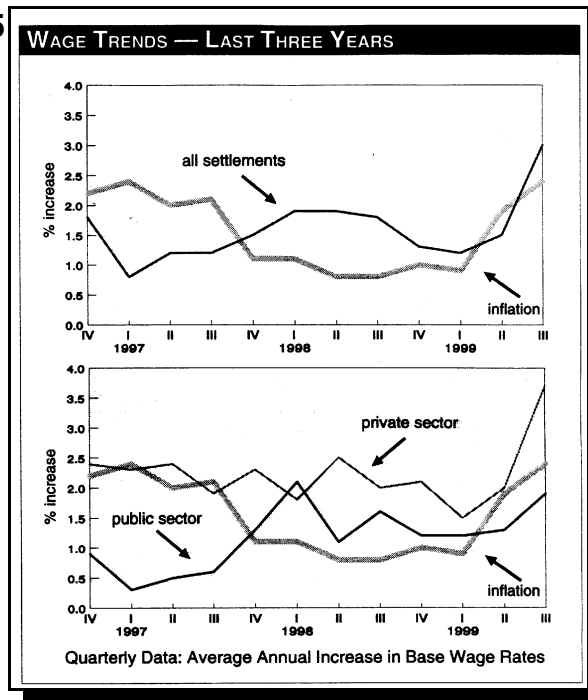
Figure 4



Next, Figure 5

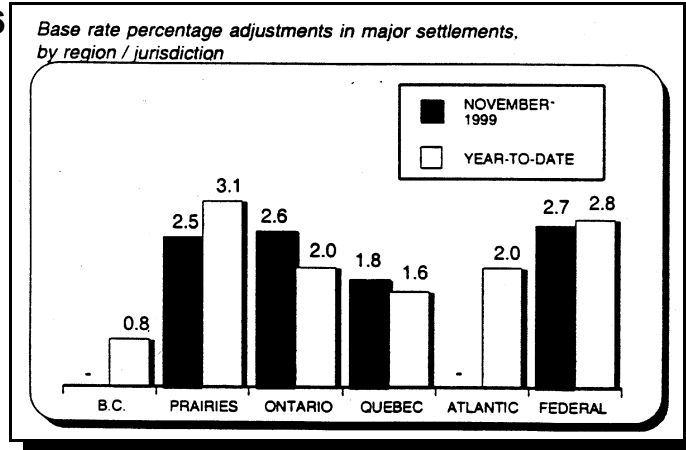
shows the wage trends in Ontario during the so-called recovery. Settlements have, on average, been below 2% and, until 1998, even below the rate of inflation.

Figure 5



The next chart, Figure 6 shows the Ontario average wage settlement during 1999 was 2%.

Figure 6



Whatever prosperity has returned to the economy, it is still not being shared with most working people. Ontario's working people need a raise.

And for those at the very bottom, the new supply side economics has been a catastrophe. They need a raise too.

3. The third point I want to touch on, is the tax cut policy of the Government of Ontario. This is a government that is firmly in the grip of an ideology – the ideology of supply side economics. The supply siders tell us that the key to everything in economic management is cutting taxes. Cut taxes and all will be well. Cut taxes, shrink the state, deregulate, and market forces will propel us like magic to new levels of prosperity. There's only one problem to the supply side ideology. It doesn't work. There is a reason that it is called "voodoo economics" – called by George Bush "voodoo economies" before he became one of its witch doctors.

And it doesn't work for the simple reason that a simple minded reliance on deregulated market forces has never worked for any but a privileged elite.

Unregulated market forces gave the world child labour, the seven day work week and levels of poverty and squalor that were unequalled in history. You can still see it all over the Third World. The fight against the exploitation and degradation caused by unregulated market forces is what created the trade union movement in the first place. And that is why we struggled for a hundred years to create the social programs that this Government is so determined to undermine.

The best way to deal with this issue of tax cuts is to respond to the question that was raised on February 2nd by the member for Thornhill, Mrs. Molinari.

She asked Hugh Mackenzie, didn't he believe that taxpayers were a better judge than government about how to spend their own money, and didn't he agree that government should put as much money as possible back into their pockets in the form of tax cuts.

My answer, like Mr. Mackenzie's, was "No, I don't." And the reasons are very basic.

No amount of tax cut – no matter how large – will give me, or anyone I represent, enough money to buy access to a closed Emergency Room in a hospital in this province, if one of my kids is critically ill.

No tax cut can give me enough money to access an MRI machine, if my doctor thinks I may have cancer.

No tax cut will buy me just-in-time radiation treatment, if I do have cancer.

No tax cut will provide proper mental health care, if someone I love develops a mental illness.

No tax cut will pay for tuition fees at an Ontario University, or cover the \$30,000 debt that our students receive as a graduation present.

No tax cut will let me buy back clean air, clean water or a healthy countryside after it's been polluted and contaminated.

The Harris tax cuts and the spending cuts needed to pay for these have created conditions of misery and impoverishment for people all across Ontario.

Children are being forced into shelters. There is an epidemic of homelessness. The latest report on homelessness from the City of Toronto shows the fastest growing victims of homelessness are children.

Investment in public works – in our physical infrastructure – is less than half of what it was under previous governments. Our network of roads, bridges, schools, and public transit, is going to crumble. No tax cut I can ever get, will let me afford to do anything about any of this.

We have taxes and governments and tax financed social programs and tax financed public works because that's what we need to live in a civilized, decent and compassionate society.

I know the Conservatives are going to respond that taxes create growth and growth creates new revenue for new spending. It's a great line but, alas, it's just not true.

Ontario's economic recovery has been entirely generated and led by exports, as economist Hugh Mackenzie has shown in his submission.

In 1995 and 1996, 100% of Ontario's economic growth was accounted for by exports.

In 1997 – 160% of GDP growth was accounted for by exports – in other words – exports made up for losses in other sectors of the economy.

Other sectors of the economy revived in 1998, but again, in the 3rd and 4th quarter of 1999, exports accounted for more than 90% of GDP growth.

Without low interest rates and a relatively low Canadian dollar, our export sector will collapse and the Ontario economy will go into a major tailspin.

And the Harris tax cuts are totally irrelevant to this basic economic reality. All that the tax cuts have achieved is major damage to essential public services.

In early days, the Common Sense Revolution had the virtue of honesty. Spending would be slashed. These days, the government sounds like it is spending like wild. But the fact is, spending has been slashed. Between 1975 and 1995, Ontario spent an average of 15.3% of Gross

Domestic Product on public program spending – through the operating and capital budgets.

After 5 years of the Common Sense Revolution, Ontario's public program spending for 1999-2000 is 12.9% of the GDP. That is a reduction of over 15% in the size of the public sector relative to the market sector.

Using data from the Canadian Institute for Health Information, our researchers have calculated that after factoring in spending cuts, population growth and health care inflation, Ontario was spending \$2 billion less in real dollars for health care in 1998 than it did in 1995.

Enforcement of environmental protection laws no longer exists. And the welfare cuts have produced misery on a scale that is a total disgrace. If you told me 10 years ago that, in 10 years' time, Ontario would be using the shelter system to house 6,000 children in Toronto alone, I would not have believed you. I would not believe we could sink that low as a society.

Recommendations

Even after 10 years of income loss, job loss and public service cutbacks, it is still possible to turn things around.

1. The first step is to cancel the remaining phase of the second term tax cut and reinvest that money in health care, education and other essential services.

2. Second, it is clear to everyone that Ontario needs a raise. We intend to take that message to every bargaining table in the Province. The best thing this committee could do is raise the minimum wage for our lowest paid workers.
3. Repeal the 1995 welfare cuts and give a raise to those stuck at the very bottom of the income ladder – on social assistance.
4. Start building social housing again, before it's too late for a whole generation of poor children.

Respectfully submitted,

The Ontario Federation of Labour

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