

Labour's \$4B election fund: Unions free to spend compulsory dues on political activities

Scott Stinson

June 6, 2014

In the fall of 2012, Ontario held two provincial byelections that were unusually important. If the governing Liberals took both, then-premier Dalton McGuinty would have upped his seat count just enough to have turned a minority legislature into an effective majority.

The upstart NDP blocked his path to comfortable rule, taking a riding it had never held before in affluent Kitchener-Waterloo. Union support was considered a big factor in the win, as labour organizations had mobilized against the Liberals when Mr. McGuinty brought in austerity measures the previous spring. Indeed, at the NDP victory party in a Waterloo banquet hall that night, leaders of four of the province's largest labour unions stood, in orange shirts, smiling as Ontario's newest MPP was introduced. One of them bragged that the NDP had been handed a "Cadillac of campaigns" thanks to union largesse.

It was only months later, after financial statements were filed, that the extent of the largesse was known. Unions representing elementary teachers had spent more than \$846,000 on advertising campaigns. The secondary-school teachers had spent another \$676,000 on ads.

The New Democratic Party itself had spent \$50,000.

The campaign is a microcosm of what is happening in Ontario's general election, now entering its final week. Unions have adjusted their sights to Progressive Conservative leader Tim Hudak, who is proposing his own austerity measures, and everyone from teachers to service workers to nurses to police — yes, police — has joined in the advertising strafing runs.

Ontario has laws — or a lack of them — that make its situation unique, but it is not alone in feeling the effects of a strong union influence on public policy. In British Columbia, a contract dispute between the Liberals and the teachers' union has brought strike action, a heavy advertising campaign, and no end of court battles. In Quebec, the Charbonneau commission has uncovered union funds being spent in all sorts of non-bargaining ways, including the construction of a strip club. In Alberta, public-sector workers including doctors, teachers and nurses have all sparred with the governing PCs in recent years.

And in every case, the ability of public-sector unions to mount pet campaigns is driven by money — and a lot of it.

Canada is unique among major Western economies in allowing both the collection of mandatory union dues and the use of that money to fund political activities. In the United States, workers have the right to opt out of the portion of their union dues that would be used for non-bargaining activities. In the United Kingdom, workers cannot be compelled to join a union as a condition of employment; they can opt in or out.

(Several U.S. states have adopted similar laws.) France, Germany and Italy prohibit the use of compulsory union dues for political contributions. And in Australia, workers can neither be forced to join a union if one exists at their place of work nor have to pay the portion of union dues that would go toward political activities.

Meanwhile, those countries all have systems in place that require unions to disclose basic financial information about major expenses.

In Canada, union financials are utterly opaque. According to the Ministry of Finance, about \$860-million worth of union dues were deducted from tax returns in 2012, the last year for which numbers are available, up from \$705-million in 2007. There are estimates that the total amount of dues collected runs into the billions. That money, which is exempt from federal taxes, can be spent however the union chooses: office space, staff salaries, organized protests, political attack ads. And the employee has no say over any of it.

Russ Hiebert, the B.C. MP who introduced a private member's bill that would require unions to disclose basic financial statements, plus expenses of \$5,000 or more, says "these are institutions that receive a public benefit in terms of tax deductibility, and in terms of tax-exempt revenues, and there is no accountability in terms of how those dollars are spent."

His bill, C-377, passed the House of Commons last year — a rarity for a private member's bill — but was hung up in the Senate. It had the unfortunate timing of landing in the upper chamber at about the time the Senate was in the throes of an expense scandal, and was collateral damage in the feud between both houses of parliament and the Prime Minister's Office.

Mr. Hiebert dismisses concerns that disclosure would be a burden on the unions, noting that Canada requires the same thing of registered charities, which also receive preferential tax status. He notes that a Canadian union that is affiliated with a U.S. parent will have to provide its financials to the U.S. Department of Labor, but can keep such details shrouded from the Canadian government, and taxpayer.

Asked if part of the motivation for C-377, which is back before the Senate this year, is to expose the amount of union money spent on political activities, Mr. Hiebert gives a measured response. That's one benefit, he allows: "We don't know where the money goes." But, he says, "I just believe that for institutions that receive public support, the public has a right to know at least some of what that money is used for."

Mr. Hiebert says he believes Canadian unions collect as much as \$4-billion a year in annual dues.

Though unions won't disclose their financial statements publicly, occasionally they leak out. A 2011 report prepared for the CUPE national convention offers a snapshot into the money behind one of the country's major unions. That year, it counted almost \$160-million that went into its general fund, revenues that covered staff and office expenses, as well as a \$2.5-million "anti-

privatization” campaign. CUPE also had a strike fund worth more than \$40-million and a defence fund, “for most of our political activity,” that had a budget of about \$9-million annually.

It, and unions like it, can spend that money on political causes aggressively outside of a writ period — or, in Ontario, inside of one.

There is little doubt that public-sector unions are effective at their main purpose: increasing compensation for their members. A 2010 Cato Institute study found that public-sector unions “push up the cost of the public workforce by 8%, on average.”

Sarah Anzia, a professor at the University of California, Berkeley, co-wrote a paper on the costs to government of public sector unions in 2012. She and a colleague from Stanford examined three different eras, and found that in each, public-sector unions increased costs relative to governments that didn’t have unionized employees by between four and nine per cent. The increase is driven by two things, Prof. Anzia said in an interview. First, the collective bargaining process itself, “and also, [the unions] tend to be very active in politics,” exerting pressure where they can.

Those figures are mirrored in a recent report from the Institute for Competitiveness and Prosperity, a think-tank funded by the Ontario government. Looking at data for Ontario, Quebec, British Columbia and Alberta from 1997 to 2012, it found there was a “public wage premium” of about 7%, and the trend has been upward in each province. Meanwhile, the premium was larger for such low-ranking jobs as “clerical” positions (9.7%) and negative for senior managers, who are paid at a 13.8% discount relative to private-sector managers. (Unions routinely blast management as being overpaid.)

The difference in public and private wages is due to a host of factors, not the least of which is the inherently awkward relationship between a government and its unions. Where a private company can up and move if it decides it can’t reach an agreement with unionized workers, a government has no such out.

“A government can’t go anywhere,” says Prof. Anzia. “And the threat of bankruptcy is really remote. Also, you totally lack the profit incentive.”

“When you look at what is driving a government when it negotiates with its workers, it’s not clear what the motivation is. Is it to keep voters happy? Is it to get re-elected?”

In addition, she notes, public-sector unions that are heavily involved in politics are effectively helping select their senior managers. “It’s an unusual relationship,” she says, “and very different from the private sector.”

In Ontario, unions and union-backed organizations spent more than \$6-million in the 2011 election, which returned Mr. McGuinty to power. The Hudak PCs challenged the legality of the ad binge after the fact, but an Ontario court ruled that the various anti-PC campaigns were not partisan in nature because they didn’t support a particular party. Attacking one, the court determined, did not count as partisan.

“It’s absurd,” says Catherine Swift of the Canadian Federation of Independent Business, a lobby group that has been outspoken about the union influence on Ontario politics. “You only have to read those ads to know that they are partisan in nature.”

“The rules have to change,” she says, a view that is shared by, among others, the Chief Electoral Officer of Ontario.

“It perverts our elections in a big way,” Ms. Swift says.

It also puts pressure on the public purse. The report from the Prosperity Institute notes that the largest disparity between public and private wages occurred during the 2009 recession. “While private-sector wages decreased, public-sector wages proved to be recession proof,” the report says. In Ontario, it wasn’t until the McGuinty re-election in 2011 that anyone in government suggested wages needed to be reined in.

Third parties have six months to file expense reports with Elections Ontario, meaning the public will know by December — long after the current campaign is over — how much the unions spent during it.

Ms. Swift has a rough estimate: “They’re blowing their brains out this year for sure.”