

BC Commentary

A QUARTERLY REVIEW OF PROVINCIAL SOCIAL AND ECONOMIC TRENDS

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Special double
issue:

Paying for the tax cuts

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From the editor

Spending cuts are the wrong choice for BC

The BC Liberal government has set out a perilous and painful course for the province since it arrived in power in June 2001. The 2002 Budget is set to implement deep spending cuts announced in January that will affect every aspect of the public sector. The path to Budget 2002 has been filled with the familiar refrain that there is no alternative. But as our Centre has noted at the federal and provincial levels for some years, there are always alternatives—budgets are all about the choices we have as a society.

The irony of BC's situation is that the government is quickly implementing a radical right-wing agenda at precisely the moment when the wheels are falling off the cart of neoliberal economics. Recent events have demonstrated all too clearly how Canada's experiment in neoliberalism is, at best, failing to deliver, and at worst, taking human lives.

When the Walkerton report was released in mid-January, it indicted the Ontario government for its failure to ensure adequate oversight of drinking water. The report drove a spike into the heart of the "small government" philosophy that spending cuts, privatization and deregulation can be implemented without consequences. Walkerton was a wake-up call that demonstrated all too clearly that regulations cannot simply be dismissed as bureaucratic red tape.

Nationally, the federal government has placed its faith in the markets, only to be rebuked. For more than a decade, the Canadian government has done exactly what financial markets have demanded. It tamed the deficit, turning it into a massive surplus; it signed onto every trade agreement imaginable; it implemented huge tax cuts that predominantly benefited the most affluent individuals and corporations. The reward: financial markets have driven the Canadian dollar to record lows.

The most recent signs from outside Canada also point a scathing finger at the dictums of neoliberal economics. After designing all of its economic policies to conform with IMF dictates, Argentina's affair with neoliberalism has turned a middle-income country into a shambles where 19% are unemployed and 40% live in poverty. The world economy now faces its first global recession in decades, and the only hope in sight is that US consumers and businesses resume their debt-fuelled spending patterns of the late-1990s.

Finally, the spectacle of Enron has shattered the belief in the superiority of the private sector over the public sector. The seventh largest corporation in the US imploded in an orgy of corruption that deceived millions of workers and shareholders, while top executives walked away with over US\$1 billion in personal gains.

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editor's note

With this in mind, it is incredible that the BC government is moving ahead with an agenda that is perhaps even more ideologically right-wing than Ontario and Alberta in the late-1990s. Fuelled by the largest tax cut in Canadian history, the government now seeks equally large spending cuts to re-balance the provincial budget by 2004. This is a far cry from the Liberals' election platform. Conservative columnist Jeffrey Simpson called the New Era document "a political fraud and economic nonsense" that "peddled illusions to themselves and the people." The provincial government's backwards response to the global recession testifies to their ideological commitment.

This special issue of BC Commentary looks in detail at the government's budget and job cuts. BC Office Director Seth Klein deconstructs the cuts announced on January 17, with a special emphasis on how welfare cuts will affect the poorest of the poor. BC Office Resource Researcher Dale Marshall comments on how environmental protection cuts coincide with the government's efforts to cater to resource extraction business interests. Both find that British Columbians are paying a very high price for last summer's tax cuts.

By the time you read this issue of BC Commentary, the CCPA will have published "Towards a Solutions Budget", with a look at how BC should be confronting the cyclical downturn and longer-term issues. It is available on the CCPA web page.

—Marc Lee, Editor



Reckless and Unnecessary

BC's January 17 budget and job cuts announcement

by Seth Klein

On January 17, dubbed "Black Thursday" by many, the BC government announced a three-year program of job and spending cuts that are destructive, unnecessary, and unprecedented in scope. The cuts will be approximately \$500 million in the first year, \$1.2 billion in the second year, and \$1.9 billion in the third year. They will result in a 30% cut to the number of workers in BC's direct public sector (a loss of almost 12,000 jobs). These cuts will depress the provincial economy, and will undermine our collective ability to care for one another and to protect the environment.

The phony "structural deficit"

Premier Campbell and Finance Minister Collins have continually stated that a \$3.8 billion "structural deficit" (prior to the government's tax cuts) left them no choice but to slash government spending, programs and jobs. This claim is nonsense—an ideological fabrication to justify these destructive cuts. Manufacturing a "crisis" of this sort is a classic neoliberal government strategy—create a phony crisis and then say you have no choice but to deal with it.



First, let's look at what a "structural deficit" actually means. A structural deficit exists when government expenditures and revenues are such that, no matter where we are in the business cycle, the budget cannot be balanced. Yet, BC balanced its budget in 1999/2000 and ran a \$1.5 billion surplus in 2000/01. Any "structural deficits" must be laid entirely at the feet of the government's massive tax cuts last summer.

Setting aside the tax cuts for a moment, BC is facing a "cyclical" deficit, due to the fact that we are likely in a recession, and due to the impact of the Softwood Lumber Dispute. But as we emerge from the downturn, revenues will pick up and the "cyclical" deficit will disappear. BC maintains an extremely healthy fiscal position in terms of provincial debt relative to GDP, allowing it to weather the current downturn, while running deficits.

The government defends its claim of a structural deficit by citing last summer's report from the Campbell-appointed Fiscal Review Panel (FRP). However, the FRP's deficit forecasts were based on a number of hyper-conservative assumptions. First, approximately

one-third of the so-called structural deficit (\$1.25 billion) is actually a “forecast allowance”—a huge revenue cushion that deliberately overstates the projected deficit. Second, the FRP assumed that government revenues would actually *decline* next year, even before accounting for the tax cuts. This would be amazing indeed, as revenues haven’t declined in absolute dollars in decades. The FRP bases this ultra-pessimistic forecast mainly on a steep decline in energy prices. Yet the government’s own Energy Task Force recently stated that it believes energy prices will rise.

Interestingly, though, it is my view that the Premier and Finance Minister do not truly believe there is a “structural deficit” of \$3.8 billion (in addition to the cost of the tax cuts). The FRP projected a structural deficit by 2003/04 of almost \$3.8 billion, plus a further deficit of nearly \$2.3 billion as a result of last summer’s personal and business tax cuts. On January 17, the BC government announced spending cuts that will escalate to \$1.9 billion by 2004/05. Therefore, the January 17 cuts will, at best, merely recoup the lost revenue due to the tax cuts.

This leaves two possibilities: either the Liberals don’t actually believe their own rhetoric about a “structural deficit,” or there are more cuts (and sell-offs) coming. Hopefully it is the former.

These numbers also mean, quite clearly, that the spending cuts are directly related to the government’s need to pay for its tax cuts. In many respects, we are witnessing a straight transfer of income from the poor (in program cuts) to the wealthy.

The notion that we cannot afford our public programs—that BC has been living beyond its means and has “the most expensive social programs in Canada” (as the government keeps repeating)—is simply untrue. BC’s public sector is already

the second smallest in Canada (measured as the number of public sector employees per capita). BC’s government spending relative to GDP (the size of its economy) is already the third lowest in Canada.

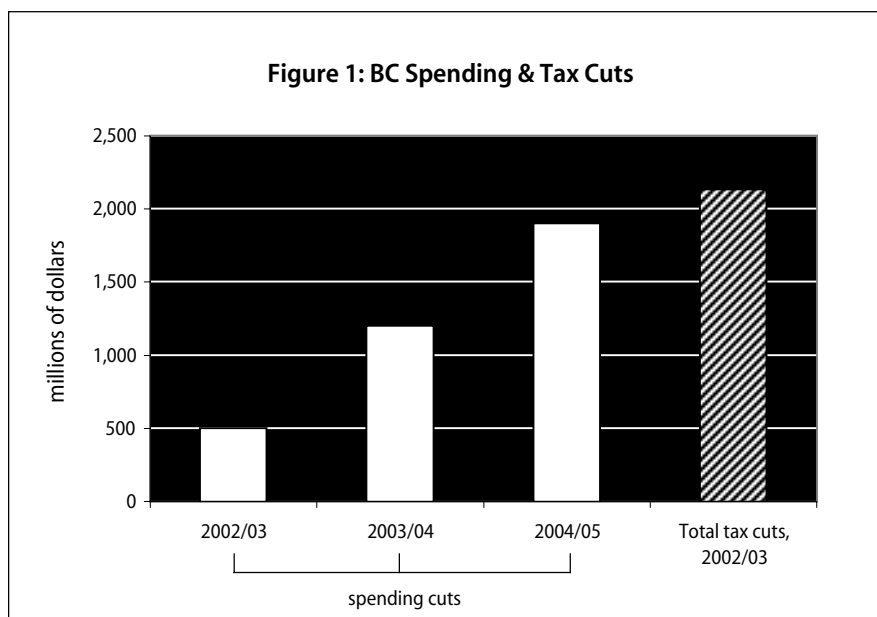
The government’s January 17 press release states: “Government spending has increased far beyond our rate of economic growth over the past decade and is simply not sustainable.” Again, this is not true. Government spending relative to GDP peaked in 1991 and has since declined (see Figure 2 on page 4). Likewise, program spending per capita peaked in 1992. Outside health and education, program spending was already significantly cut under the NDP. BC’s public sector is already lean.

More importantly, BC is a very rich province, with the highest average personal wealth in Canada (see <http://www.policyalternatives.ca/bc/btn-bcwealthgap.pdf>). We can afford to take better care of one another than we do. It comes down to a question of political choices. Nothing is forcing the government to savage our public programs.

The impact on employment: more job cuts coming

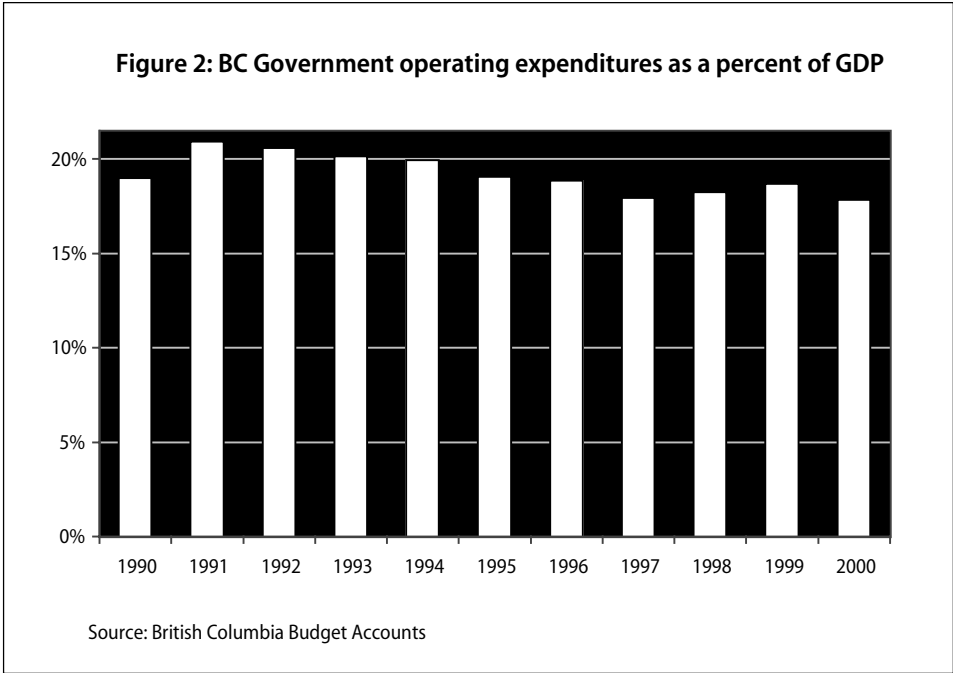
Business economists have been quick to defend the government, arguing that the public sector layoffs—while regrettable—will not have a noticeable impact on the provincial economy or the unemployment rate. This is wishful thinking indeed.

It is true that recent private sector job losses have been larger than the scheduled public sector job cuts. It is also true that spreading the job cuts out over three years will somewhat dampen the economic impact. However, the government’s



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The government says that provincial spending has “increased far beyond our rate of economic growth over the past decade and is simply not sustainable.” This is not true. Government spending relative to GDP peaked in 1991 and has since declined.



plans *will* have a depressing effect on the economy and *will* bump up the unemployment rate.

Here’s the problem:

- Even with BC’s recent tax cuts, the private sector has been shedding jobs (and not just in the resource sector). BC lost 59,000 jobs in 2001. Since the election, BC has been leading the country in job losses, and the unemployment rate has jumped from 6.8% (a twenty year low) to 9.7% in December. In all likelihood, we will be back into double-digit unemployment as of January. Therefore, the province is giving pink slips to people and sending them out into a very unwelcoming job market. This will surely increase unemployment.

- While the job losses in the direct public sector this year will be about 3,000, thousands more either know or believe they will lose their jobs over the following two years, and they will cut back their household spending accordingly (further depressing the private sector economy).

- The January 17 job cut announcement concerned “FTEs” (full-time equivalents). In practice, many of these positions are staffed by part-time workers. Thus, the actual number of people who lose their jobs will likely be higher than many estimates currently circulating.

- More job cuts are coming. Only cuts to the direct public sector were announced on January 17. There will likely be

further job cuts announced for Crown corporations and agencies. Also, if funding is indeed frozen for health and education, rising costs will force health and school boards to lay-off thousands more. Post-secondary institutions will be forced to either cut jobs, increase tuition or establish new “partnerships” with the private sector—or some combination of all—thereby undermining access to post-secondary education. Finally, grants to numerous non-profit organizations (particularly from the Ministry of Community, Aboriginal and Women’s Services) are being reduced or eliminated, and thus, we will see layoffs in the non-profit sector as well.

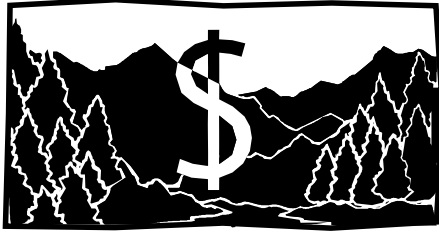
Ultimately, we do not know exactly what the overall impact of the cuts on GDP and employment will be because the provincial government has refused to publicly present its economic models and assumptions. This is irresponsible and unacceptable (particularly from a government that promised transparency), and it is to the media’s shame that it has not demanded that the gov-

ernment table its evidence. The government ran on a promise of “hope and prosperity.” Surely they should be required to demonstrate that their program is based on more than an ideological leap of faith.

Various commentators and the Finance Minister have

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In many resource communities, it is public sector workers who are keeping their households and local economies afloat. Many of these communities, already hard hit by the Softwood Lumber Dispute, will feel the impact of these cuts hardest.



In Service of Business: BC's New Plan for the Environment

By Dale Marshall

When analyzing the full array of plans to cut, privatize, and deregulate environmental protection, there is one clear theme that emerges. In its bid to improve the province's investment climate, the BC government has put the emphasis on facilitating access to BC's natural resources, while risking environmental protection and the long-term viability of those resources.

The language contained in the January 17th Ministry "service plans" is striking. The Ministry of Water, Land and Air Protection (MWLAP) will focus on "client service" in order to do away with "constraints on economic development." The Ministry of Sustainable Resource Management (MSRM) will "facilitate sustainable economic development." The Ministry of Forests will eliminate regulations to "facilitate industry competitiveness." The Ministry of Energy and Mines' mandate is to trim regulations to foster "a more competitive investment climate." The Environmental Assessment Office, originally intended to identify the environmental risks associated with major projects, will now use "enabling statutes" to approve projects in a more "timely, cost-effective, and certain" fashion.

The transformation from regulator to service provider is also evident in the one-stop shopping approach to mining project approvals. Companies will only have to go to one ministry, by-passing

the environment ministry staff who too often ask pesky questions about impacts on water, wildlife, and habitat.

The language is not accidental. It reflects the decreased ability the government now has to protect the environment thanks to cuts in regulations and to the staff who monitor and enforce them. Regulations will be cut in forestry, mining, oil and gas projects, and agriculture. Fish farms, despite continued escapes of Atlantic salmon and increased evidence of environmental impact, will be allowed to expand as the laws that regulate them are "streamlined." The forest industry will now undertake activities formerly done by the government—insect/disease control, treating invasive plants, silviculture, timber supply analysis—and shoulder the costs. The fact that industry leaders applauded the changes, however, speaks volumes about how they expect their environmental compliance costs and timber supply calculations to change.

BC is the only province, post-Walkerton, to weaken drinking water regulations. Though the MWLAP promises to improve drinking water protection, the MSRM (in a remarkable contradiction)

vows to "minimize the provincial role" in that protection. It is difficult to understand how cutting forestry, mining, and agricultural regulations will improve water quality.

The reality is that the remaining staff at MWLAP will not have the capacity to monitor and enforce regulations. Together, the Ministry of Water, Land and Air Protection and the Ministry of Sustainable Resource Management will lose 1,000 people, continuing the downward slide in funding and staffing at the environment ministry over the last decade. The Ministry of Forests had its monitoring and enforcement budget cut by 14%.

The intent is not only to deregulate resource-dependent industries but also to allow them "greater access to Crown land and resources." This will also make

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The repeated injection of the word "sustainable" in the budget documents is clearly intended as a smokescreen for what is nothing but a massive reduction in the government's duty to protect BC's environment.

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asked, “why should the public sector be spared when the private sector is hurting so badly?” The logic behind this question is backwards. Yes, the private sector is hurting, particularly in resource communities. But when the economy is experiencing an economic downturn, we should expect our governments to offset the downturn with an economic stimulus, and to help those hardest hit. This government is doing precisely the opposite. Moreover, in many resource communities, it is public sector workers who are keeping their households and local economies afloat. Many of these communities, already hard hit by the Softwood Lumber Dispute, will feel the impact of these cuts hardest.

From “lean” to “mean”: the welfare cuts

The welfare cuts buried in Thursday’s announcements are the most surprising piece of bleak news—surprising because the Premier clearly stated during the election campaign that he would not cut welfare benefit rates, and because welfare rates were already so shockingly low.

That the government is choosing to balance its budget and finance its tax cuts on the backs of poor people is morally reprehensible. Welfare rates were already cut by the NDP in 1995. Now people’s incomes will fall even farther below the poverty line, at a time when the economy is shedding both private and public sector jobs.

That the government is choosing to balance its budget and finance its tax cuts on the backs of poor people is morally reprehensible. Welfare rates were already cut by the NDP in 1995. Now people’s incomes will fall even farther below the poverty line, at a time when the economy is shedding both private and public sector jobs.

The new welfare rate cuts are cruel and mean-spirited:

- Benefit rates for “employable” welfare recipients between age 55 and 64 will drop by between \$47 and \$98 per month.

- Low-income seniors will no longer be granted free transit passes, and the BC Seniors Supplement for low-income seniors is being phased out.

- Shelter allowances for families with two or more kids will be cut.

- Welfare benefits for single parent families will be cut \$70 a month. First Call (the BC Child and Youth Advocacy Coalition) reports that approximately 60,000 children will be affected by this cut.

- Until now, if a single parent on social assistance was receiving child support, they were entitled to keep \$100 per month of these family maintenance payments. This exemption will be eliminated.

- The Flat Rate Earnings Exemption has been eliminated. This rule allowed people on welfare to work and keep \$100 if they were single, or \$200 if they had children or a partner.

In total, these measures mean that many single parents will see a \$370 drop in their already meager monthly incomes.

The reforms also seek to reduce the number of welfare recipients by greatly restricting eligibility to the social safety net. Single parents will now be considered “employable” after their youngest child reaches three years of age (down from seven). First Call reports that

approximately 15,000 children will be affected by this move “in a climate where the present government eliminated the legislation that was going towards ensuring access to universal child care.”

The government also plans to introduce welfare time-limits. “Employable” people without children will only be allowed to receive welfare for two years during any five year period. After two years they will simply be cut off. Similarly, “employable” parents (with children older than 3 years), will only receive full benefits for two out of five years, after which time they will see their benefits cut by 11%.

Other categories of people will be denied welfare altogether. Young adults will have to demonstrate that they have lived independently of their parents for two years before being eligible for welfare. As First Call notes, “Youth escaping from abusive family homes need immediate assistance, training, and employment programs specifically targeted to vulnerable and multi-barriered youth-at-risk.” Refugee claimants, who are not currently allowed to work, will no longer be eligible for assistance. Full-time post-secondary students will no longer be eligible for welfare. They will have to turn exclusively to student financial assistance. And those found guilty of “fraud” (presumably as defined by the government) will be banned from receiving welfare in the future.

Note that it was the toxic combination of these last two measures that led to last summer’s tragic death of Kimberly Rogers in Ontario. Ms. Rogers, who was pregnant at the time, died while under house arrest for welfare “fraud.” Her “crime” was that she sought to make ends meet by claiming welfare benefits while also receiving Ontario Student Loans.

What will become of the people who are denied assistance? The Ministry “service plan” claims there will be a new emphasis on training and employment assistance, yet it is unclear how this will be possible. Overall, the Ministry of Human Resources will see its operating

budget cut by 30%, its staff cut by 15%, and 36 of its offices across the province closed. Who then is to deliver these employment and training programs? Moreover, training programs across government, including a number designed for young low-income people (such as the Blade Runners program, various student employment programs, and a number of apprenticeship offices across the province) are scheduled for termination.

A number of cuts to the Attorney General's Ministry also have significant implications for low-income people. While legal aid for criminal cases will still be available (although with reduced budgets), legal aid for many civil cases will not be. Funding for family and poverty law is to be eliminated. Meaning, low-income people needing assistance with a welfare or WCB complaint, or for a non-violent dispute with a spouse or landlord, will no longer have equal access to justice.

The "false economy" of cuts

Many of the cuts announced by the government will prove to be a "false economy"; rather than saving the government money, they will actually cost the public. For example:

- Running down provincial infrastructure by failing to invest in capital projects is bad for the economy and bad for business.
- Cutting Pharmacare can lead to adverse reactions and increased (and more expensive) hospitalizations. The same holds for reduced spending on home care.
- Cutting public funding for alternative therapies (such as physiotherapy, chiropractic care and massage) may result in more serious health problems and lost work days.
- Cutting the Auditor-General's budget may prevent that office from being a watchdog over government affairs and ensuring the government is getting good value for its money.
- Cutting 1,400 positions from the Ministry of Forests could cost dearly. This ministry has already experienced

Many of the cuts do not save the public money—they simply *shift* costs from the government to individuals and employers. If the government goes through with all the service cuts announced on January 17, the cost shifting will significantly outstrip what most British Columbians saved from last summer's tax cuts.

large budget and staff cuts. The Sierra Legal Defense Fund last year noted that the lack of sufficient staff resulted in the province losing up to \$2 billion in stumpage fees over the 1990s.

- A lack of environmental regulatory enforcement could potentially result in accidents or damages with large costs later (in clean-up, legal and compensation bills).

- Many of the positions and services being cut will merely have to be purchased from private consultants or corporations (in some cases, Ministries will end up hiring back as consultants the very people that took expensive buy-out packages).

- Making various services means-tested (tied to income) will require expensive new administrative systems.

- Failing to spend adequately on education, child protection and youth services will result in much higher social and economic costs later.

- Failing to expand the post-secondary education system will deny the province an adequate supply of skilled and educated people for a knowledge-based economy.

Many of the cuts do not save the public money—they simply *shift* costs from the government to individuals and employers. The Pharmacare and child care cuts are two such examples. Tuition increases would be another. If the government goes through with all the service cuts announced on January 17, the cost shifting will significantly outstrip what most British Columbians saved from last summer's tax cuts.

Even conservative commentators are now stating that the government's reckless cuts seem more driven by ideology than common sense. The size and scope of the cuts are unprecedented, and the timing is awful (coming in the context of massive layoffs in the resource sector and a recession). Given that BC already has the second smallest public sector in Canada, the cuts will impact services in a very measurable and noticeable way.

There is no legitimate fiscal imperative to justify these cuts, nor is there evidence to suggest that the spending cuts and the tax cuts that preceded them will lead to better longer-term economic prospects for the province. But, if the government proceeds, there will certainly be unacceptable social, environmental and economic costs. The government must rethink its fiscal strategy.

Seth Klein is the CCPA's BC Office director.



More resources on BC issues

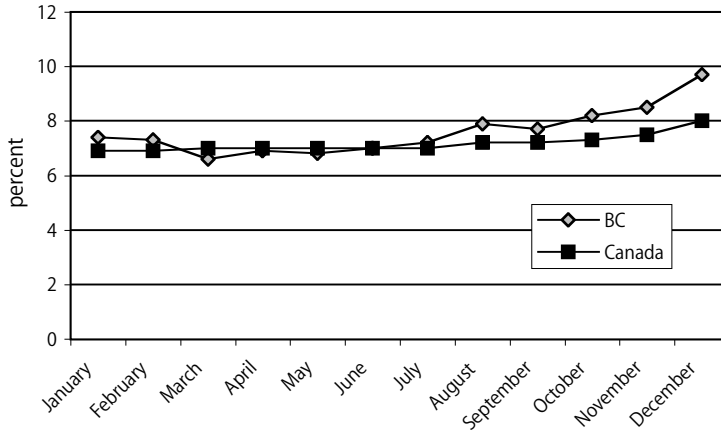
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Recent Indicators

Unemployment rate, 2001



Source: BC Stats

2001 Labour Market Recap		
	BC	Canada
Average weekly wage rate	\$645.68	\$636.95
Employment Growth	-0.3%	1.1%
Employment rate	59.3%	61.3%

Source: BC Stats

Distribution of Personal Wealth Among Family Units in BC, 1999			
	Total Wealth of Group	Average Wealth of Family Unit	Distribution of Wealth
All family units	\$423,494,000,000	\$251,235	100.0%
Poorest 10%	(\$1,371,000,000)	(\$8,126)	-0.3%
Second 10%	\$445,000,000	\$2,633	0.1%
Third	\$2,016,000,000	\$11,998	0.5%
Fourth	\$5,503,000,000	\$32,496	1.3%
Fifth	\$11,553,000,000	\$68,843	2.7%
Sixth	\$20,715,000,000	\$122,747	4.9%
Seventh	\$31,569,000,000	\$187,168	7.5%
Eighth	\$47,752,000,000	\$282,069	11.3%
Ninth	\$73,946,000,000	\$439,594	17.5%
Richest 10%	\$231,367,000,000	\$1,378,534	54.6%
Poorest Five Groups	\$18,146,000,000		4.3%
Richest Five Groups	\$405,349,000,000		95.7%

Source: Special tabulations by Statistics Canada based on Survey of Financial Security 1999

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In Service of Business: BC's New Plan for the Environment

it more difficult to resolve First Nations treaty negotiations. It does not appear that the government is at all interested in reinvigorating treaty negotiations in any event, given the substantial cut to the treaty negotiations office (including a 40% reduction in staff) and the complete elimination of 17 treaty advisory committees.

Expect wilderness experiences in British Columbia to also change. Parks will have higher fees, fewer services and facilities, but more commercial operations. Recreational sites and trails will no longer be maintained, nor will Forest Service roads that have only non-industrial users, i.e. campers, hikers, and canoeists.

Unfortunately, this is not all. No permits will be required for low- or medium-risk landfill sites...there will be no provincial response to some environmental spills...the list goes on. The repeated injection of the word "sustainable" in the budget documents is clearly intended as a smokescreen for what is nothing but a massive reduction in the government's duty to protect BC's environment.

Dale Marshall is the CCPA's resource policy analyst.



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