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Reckless and Unnecessary: **CCPA's analysis, facts, and figures for understanding and challenging BC's January 17 budget and job cuts**

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Free

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On January 17, now dubbed “Black Thursday” by the media, 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, and 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.

Reckless cuts unnecessary: Centre disputes government claim that “structural deficit” gave it no choice

Premier Campbell and Finance Minister Collins have continually stated that a \$3.8 billion “structural deficit” 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 neo-liberal 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.

In all likelihood, BC is facing a “cyclical” deficit (in addition to the deficit resulting from

last summer's tax cuts), due to the fact that we are in a severe economic slowdown (and likely 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. In other words, the only underlying deficit is a direct result of the Liberal tax cuts.

The government defends its claim of a structural deficit by citing last summer's report from the Campbell-appointed Fiscal Review Panel (FRP). However, as our Centre wrote at the time, 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 the government may never need. Second, the FRP assumed that 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 don't truly believe there is a "structural deficit" of \$3.8 billion (in addition to the cost of the tax cuts). Here's why.

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 (who disproportionately benefit from the tax cuts—see <http://www.policyalternatives.ca/bc/bccsummer01.html>).

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 press release on January 17 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. As our Centre has previously noted, government spending relative to GDP peaked in 1992 and has since declined (see <http://>

www.policyalternatives.ca/bc/btn-ndpgovt.pdf). Likewise for program spending per capita. 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. As the CCPA noted in an analysis published in November (see <http://www.policyalternatives.ca/bc/btn-bcwealthgap.pdf>), BC is home to the highest average personal wealth in Canada—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 plans *will* have a depressing effect on the economy and *will* bump up the unemployment rate.

Here's the problem:

- 1) 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.
- 2) While the job losses 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).
- 3) 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.
- 4) More job cuts are coming. January 17 only announced cuts to the direct public sector. 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 layoff 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 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 government 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 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 resource communities, already hard hit by the Softwood 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 are 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.

Below is a list of some of the announced cuts to welfare. Stay tuned for more detailed analysis of these reforms from the CCPA in the coming months.

- 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

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.

- Single parents will now be considered “employable” after their youngest child reaches 3 years of age (down from 7). First Call (the BC Child and Youth Advocacy Coalition) 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 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%.
- Full-time post-secondary students will no longer be eligible for welfare. They will have to turn exclusively to student financial assistance.
- Those found guilty of “fraud” (presumably as defined by the government) will be banned from receiving welfare.

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.

- Benefit rates for “employable” welfare recipients between age 55 and 64 will drop by between \$47 and \$98 per month.
- Seniors on social assistance will no longer be granted free transit passes.
- Young adults will have to demonstrate that they have lived independent 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.

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 is to 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.
- Ditto 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 finding the government savings 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 large budget and staff cuts. One study 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 re-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.

Moreover, 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.

Conclusion

Even many 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 an overall economic downturn). Given that BC already has the second smallest public sector in Canada, the cuts will impact services in a very measurable and noticeable way.

The reaction indicates quite clearly that these cuts are not what people thought they were voting for—they were told tax cuts would pay for themselves and cuts would not be needed. About 30 municipalities have passed resolutions opposed to the cuts.

There is no legitimate fiscal or economic imperative to justify these cuts. But, if the government proceeds, there will certainly be unacceptable social, environmental and economic costs. The government must rethink its fiscal strategy.