



## Restructuring Government in BC Are We Asking the Right Questions?

By Sylvia Fuller

The new BC government is dedicating itself to an ambitious agenda for so-called “smaller government”. On one major front, the Premier has appointed a Minister of Deregulation to spearhead a one-third reduction in government regulations. On another, a far-reaching “Core Review” has been initiated to “re-think” the nature of government. All government programs, activities, and Crown corporations are being evaluated with an eye to determining which services should remain in the core of government and which should be deemed “non-essential” and eliminated or transferred to the voluntary or private sector.

A periodic review of government operations is a good idea. But if the goal is to ensure that government operations serve the public interest, we need to ask the right questions and involve the right people. While the deregulation initiatives and core review process cast a wide net, their goals are both short-sighted and narrow, and their process is disturbingly exclusionary.

The deregulation initiative is the most obviously misguided. The initiative is based on the assumption that government regulations create “red tape” that hampers economic activity. Accordingly, the Minister of Deregulation, Kevin Falcon, has decreed that all Ministers must cut regulations by one-third. Some regulations may well be outdated or harmful, but regulations are also crucial for our protection and for meeting various social and environmental goals.



There was no prior review or evaluation that suggested one third of BC’s environmental and health and safety regulations were unnecessary—the goal is entirely arbitrary. The potential consequences of forcing ministers to cut regulations to satisfy an arbitrary quota is unnerving: will this lead to another Walkerton?

A review of regulations identified by the community as problematic could be extremely valuable. But it is important that the views of those who feel harmed by particular regulations be balanced against those who see them as beneficial. Unfortunately, the committee that Falcon has formed to advise him only includes representatives of the business community. Such individuals no doubt have clear ideas about which regulations are costly, but they may have a conflict of interest when it comes to the broader public good. Hospitality workers breathing second-hand smoke because business pressured the government to set aside Workers Compensation Board rulings would likely agree.

Broad community input is also conspicuously absent from the Core Review. If the government was serious about organizing services to best reflect the public interest, it would consult with those who have an intimate knowledge of the strengths and weaknesses of government programs: those actually using government services, and front-line workers. Instead, with stakeholder consultation at the discretion of Ministers, community input has been avoided, and the entire process has taken place behind closed doors. This is somewhat ironic in light of the review’s stated goal of ensuring that accountability mechanisms are in place for government programs and activities.

The lack of community involvement leaves the distinct impression that the conclusions of the Core Review are pre-set. The scenarios explicitly envisioned for programs, activities, and government enterprises include elimination, reduction, consolidation, or transfer to the voluntary or private sector. Programs may only be reaffirmed or improved if they first pass the test of “affordability in the current fiscal environment.” Given the huge deficit resulting from the government’s tax cuts, such “affordability” criteria will be extremely difficult to meet. Notably, the possibility that the public interest might be best served by expanding or adding programs is entirely absent.

The focus on current “affordability”

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enforces a short-term perspective that sets the stage for decisions that may ultimately be counter-productive in both economic and human terms. Much social spending, such as expenditures on education or childcare, represents investments in “human capital” that more than pays for itself, but only over periods of time longer than an election cycle.

The Core Review not only seeks to shift the provision of as many services as possible to the private sector, it also looks to the private sector as an organizational model for those that remain public. The preamble to the Core Review guidelines pays lip service to addressing equity and social justice concerns, environmental considerations, and public security and safety imperatives. But these are not represented in the main “tests” to which programs must be put, nor in the Government principles and New Era documentation with which the

review is supposed to be consistent. Instead, the focus is on narrowly defined efficiency, affordability, and accountability.

While efficiency, affordability and accountability are important, the “best” outcome should not always be assumed to be that which is cheapest or most efficient in the short run, but that which also weighs considerations of equity, justice, safety, and citizenship. Values such as service quality and accessibility, equality of treatment or environmental prudence are not always easy to quantify, nor do they take pride of place in private sector strategic calculations. This is precisely why we ask government to take responsibility for certain activities in the first place. Any evaluation and re-organization process that fails to adequately account for these broader values is ultimately destined to do more harm than good.

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## Cutting Pharmacare won't cut health costs

By Daniel Cohn

Having painted itself into a fiscal corner through “dramatic” tax cuts, the BC government is now claiming it cannot afford Pharmacare, the province’s public drug benefit plan. But cutting Pharmacare will not save the government money, nor will it reduce drug costs. Rather, cutting Pharmacare will merely *shift* drug costs onto individuals and employers, and risks increasing hospital costs.

The Health Minister is correct that Pharmacare is an expensive program and its costs are one of the fastest rising components of the health care budget. Nevertheless, it probably saves British Columbia money. To understand this, we have to look at why Pharmacare costs are rising.

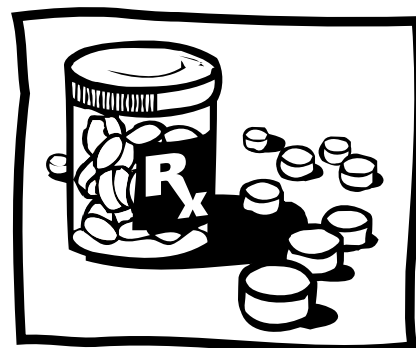
The complete explanation is complex. Research has identified a number of key factors—rising drug costs and longer patents (a gift from the Mulroney and Chrétien governments), over-prescribing, drug marketing to physicians, and direct-to-consumer drug advertising, among others. Sadly, the new government has shown little interest in tackling these critical issues.

Two other reasons for rising Pharmacare costs are an aging popula-

tion, and the shift from hospital-based care to outpatient and home treatment. As British Columbia’s population ages, demands on the health care system increase. In response to this and other cost pressures, a move has been afoot to reduce the reliance we place on in-hospital care and encourage both out-patient treatments and recovery at home.

This increases Pharmacare costs in two ways. First, when there is a choice of treating a disease with drugs or surgery, the preference in the system is now for drugs. Second, when patients are treated at home they must pay for drugs themselves. The elderly, those on social assistance, and those suffering from chronic diseases such as HIV infections turn to Pharmacare to meet these costs. In short, the plan for stemming the escalation of *overall* health care costs involved *increased* spending on the Pharmacare program.

Cutting Pharmacare thus risks increasing—not decreasing—overall health costs. The evidence from Quebec is telling. A study published in the January 24th 2001 edition of the *Journal of the American Medical Association* looked at what happened when that



province raised the cost of prescriptions for those on social assistance and the elderly from a nominal two dollars to twenty-five percent of the total cost per prescription. The effect was that fewer patients took the drugs they were prescribed, resulting in increased adverse effects and more visits to expensive emergency rooms.

The largest group receiving benefits under Pharmacare is the elderly, who often require multiple prescriptions. While most British Columbians believe Pharmacare should pay for the drug costs of those in need, some question why we should pay for Jimmy Pattison’s prescriptions. The answer is that there are not many Jimmy Pattisons among the elderly. In fact, roughly 75 percent of senior couples have incomes below the provincial

median family income of \$52,000. Fifty percent have incomes at or below \$33,000 and only ten percent have incomes above \$76,000. If we attempt to exclude only those with “high” incomes, the cost of administering the screening program may be more than the savings on benefits. The Jimmy Pattisons of BC should pay more, but they should do so through a progressive income tax system.

It should also be noted that there are few pharmaceutical insurance options for the elderly other than Pharmacare. Employers are reducing benefits for retired workers, and private insurers tend to charge seniors extraordinary premiums. Both trends are likely to increase further if access to Pharmacare is restricted or steeper co-payments are imposed.

The government is pleading poverty, claiming that BC’s public plan covers a larger share of drug costs than in any other province. That is true. But what they fail to mention is that *overall* per capita drug expenditures (public and private combined) are lower in BC

than in any other province (see table). The fact that we have chosen to pay for more drugs collectively is saving money. Governments can control costs through bulk purchasing. In

contrast, if the share of expenditures borne by the public system decreases, Pharmacare will lose influence over drug prices.

The government still has time to change its mind, but it is unlikely to do so unless there is a public outcry. That may come if the public realizes that what many of us save in tax cuts will now be spent on increased out-of-pocket drug expenditures. It is worth remembering the value of universal programs paid for by a progressive tax system: public Pharmacare—like so many social programs—has proven to be both more efficient and more equitable.

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**Provincial Comparison of Prescription Drug Expenditures, 2000**

Province	% Private	% Public	Total Per Capita Expenditures (public and private)
NFD	57.40%	42.70%	\$292.36
PEI	73.10%	26.70%	\$371.13
N.S.	63.10%	36.90%	\$344.30
N.B.	72.40%	27.60%	\$381.68
Quebec	52.00%	48.00%	\$379.55
Ontario	60.60%	39.40%	\$416.49
Manitoba	54.80%	45.10%	\$328.32
Sask	55.40%	44.60%	\$324.45
Alta	61.20%	38.80%	\$321.89
<b>BC</b>	<b>43.70%</b>	<b>56.30%</b>	<b>\$284.86</b>

Source: Canadian Institute for Health Information, National Expenditure Database, Drug Expenditures in Canada, 1985-2000

## Economic Impacts of Tax Cuts and Spending Cuts

By Marc Lee



What are the implications of “New Era” tax cuts and spending cuts for BC’s economy? Using a fiscal framework model provided to the CCPA by Informetrica (a leading forecasting firm), it is possible to estimate the employment and GDP impacts of different combinations of tax and spending changes. The CCPA looked at four different scenarios as part of our 2002 budget brief. All start from a baseline of BC prior to the personal and business tax cuts announced earlier this year. Estimates of the value of personal and

business tax cuts (\$1.5 billion and \$633 million respectively) are taken from the government’s *Budget Consultation Paper*.

Scenario 1 looks at the impact of the government’s tax cuts with no corresponding spending changes. The model predicts that the tax cuts will provide a modest economic stimulus of \$542 million to the provincial economy, or just under one-half of one percent of GDP, above the pre-tax cut world. They will also lead, other things equal, to an increase of 8,823 jobs in BC. Interest-

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## Recent Indicators

	Unemployment rate (%)				Retail Sales Growth (%)	
	Sept. 2001	Aug. 2001	July 2001	Sept. 2000	June 2001 to July 2001	July 2000 to July 2001
BC	7.7	7.9	7.2	7.7	-1.1	5.7
Canada	7.2	7.2	7.0	6.9	-0.5	3.4

Note: Figures are seasonally adjusted.  
Source: Statistics Canada

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ingly, however, because of “leakages” due to imports, Ontario receives a full 31% of the economic benefit of BC’s tax cut, almost as much as BC (since many of the products and services purchased in BC are from Ontario).

Scenario 2 looks at the same tax cuts, this time offset in part by spending cuts of just over \$1 billion (about half of the tax cut). In this scenario, the stimulative value of the tax cut is cancelled out and then some—GDP falls by \$162 million, or 0.14%, and provincial employment drops by 2,649 jobs. This is due to the fact that there are much greater leakages from tax cuts than from public spending.

More radical spending cuts are considered in scenario 3. The cuts are doubled in this scenario so that the value of tax cuts and spending cuts are exactly the same. The result is a much steeper drop in GDP by about \$870 million, or a decline of 0.73%. This corresponds to more than 14,000 job losses.

Finally, scenario 4 changes the terms of the discussion. In this scenario, we reconsider the tax cuts, keeping only the low- and middle-income tax cuts (i.e. reductions in the rates of the bottom two brackets) for 2001. This rolls back the upper-income tax cuts granted by surprise when the tax cuts were announced in June, and does not proceed with the 2002 personal tax cuts. On the corporate side, only the elimination of the provincial sales tax on machinery and equipment is carried forward, while the

other corporate tax cuts are rolled back.

In effect, this scenario includes an increase in spending of more than \$1.3 billion. However, the combined tax cuts and spending increases amount to *exactly the same* budgetary impact as the full-blown tax cuts set out in scenario 1 (\$2.1 billion). The difference is that money is reallocated from tax cuts to spending in order to boost the stimulative effect on the BC economy.


The fiscal shift outlined in scenario 4 increases GDP by almost \$1 billion, or 0.83%. This effect is much stronger than the “tax cuts only” scenario 1. In terms of employment impact, scenario 4 creates more than 16,000 jobs, also much larger than scenario 1.

Like scenario 1, scenario 4 poses fiscal challenges in terms of the impact on deficits and provincial debt. However, the case demonstrates that the government does have other options that would be more beneficial for the provincial economy. If such a proposal for large scale spending increases is not taken seriously by the government due to its fiscal implications (despite a stronger economic impact), then surely the same must be true for the already announced tax cuts.

Our model is not unique. Similar models by other forecasting firms, or even by the Finance Ministry itself, would likely arrive at similar conclusions—matching tax cuts with spending cuts is a recipe for increasing unemployment and lowering provincial GDP. Given the shaky nature of the

economy right now, the government should be guided by the principle of “do no harm.” Dramatic tax cuts were reckless before the current economic turmoil — further tax cuts and spending cuts now would be irresponsible.

Changed circumstances, from the impact of the softwood lumber duty to the global economic slowdown, demand that the provincial government fundamentally rethink its economic strategy. Given the reality of global events, no one should fault the government for thoughtfully re-evaluating its policy goals. In its short time in office, the government has undertaken a radical experiment. It is time that the government come clean about the results of that experiment and change direction before more people pay the price.

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