BC COMMENTARY

a review of provincial social and economic trends

CCPA
CANADIAN CENTRE
for POLICY ALTERNATIVES
BC Office

BC ANNIVERSARY 10th

Volume 10 · Number 2
Spring / Summer 2007

INSIDE:

Time to Raise BC's Minimum Wage

By Stuart Murray

Being a minimum wage earner in British Columbia means making $8 per hour – or as little as $6 if you're getting the so-called "training wage." If you work full-time, it means $640 every two weeks – and that's before deductions. It means seeing your buying power eaten away year after year by rising living costs – BC's minimum wage has been frozen since 2001, but you pay 2007 prices just like everyone else. And it means living on an annual income that is at least $4,000 below the poverty line for a single person.

BC is not alone in failing to set a decent standard of pay for low-wage workers. No province in Canada currently has a minimum wage that lifts people out of poverty. Provincial governments have been content to let minimum wages erode over time, until forced to act. As a result, their real value has fluctuated widely in recent decades, decided more by political winds than any rational policy or clear standard.

Raising the minimum wage to $10 an hour would mean a single person working full-time, all year round, could earn enough to live just above the most current (2005) poverty line. And indexing the minimum wage to inflation would put an end to pay cuts by inflation for our lowest-paid workers.

The idea that someone working full-time should be able to get out of poverty is a clear, transparent policy that should determine the minimum wage – in BC and in other provinces.

In March, Ontario's provincial government announced plans to raise its minimum wage to $10.25 by 2010, arguing that a more rapid increase would result in substantial job losses. The evidence suggests otherwise.

The minimum wage is, if anything, a bit player when it comes to employment rates. Over the past 25 years, increases in provincial minimum wages have been followed by both increases and decreases in employment, showing that other trends in the economy are much more important. Given BC's current economic growth and labour shortages, increasing the minimum wage to $10 would, at worst, result in a negligible slowdown in the growth of new jobs.

Opponents to minimum wage increases also argue that because so few people actually earn minimum wage the problem is trivial, and that most who do are teenagers living comfortably at home. In fact, one in twenty British Columbians works for the minimum wage or less. 28% of women minimum wage earners are age 25 and older, while 17% of male minimum wage earners are 25 and older.

Continued on page 8

BC Hydro Deals Mean Higher Energy Prices in BC's Future

By John Calvert

On July 27th 2006, BC Hydro announced the outcome of its 2006 tender call for new electricity from private energy developers. In doing so, BC Hydro committed the ratepayers of the province to purchase an enormous amount of new energy, at prices close to double the current market price, for at least the next two decades, locked in by extremely generous contractual commitments to private energy investors.

For all this money, BC ratepayers will get no assets, no long-term energy security and no protection from future price increases.

The amount of money involved in this one tender purchase is staggering. By BC Hydro's own figures, it could amount to $9.5 billion, or more, over the next 25 years and $15.6 billion by 2051 (figures may be lower if two approved coal-fired plants do not proceed, as a result of BC's new climate change strategy). This bonanza for private energy interests will add between $400 and $500 million a year to energy prices every year from 2012 to 2039. BC Hydro estimates that the impact on hydro rates of this one tender call will be 8.1%. Yet, for all this money, BC ratepayers will get no assets, no long-term energy security and no protection from future price increases.

To understand why BC will lose its ability to provide secure, affordable energy to BC residents, it is necessary to analyze the profound policy changes that the government has implemented since its election in 2001. Despite its frequently-voiced assertions that it is not privatizing BC Hydro, it has moved, step by step, to deregulate and privatize BC's electricity system, while integrating it with the US-dominated energy market in the Pacific Northwest through fundamental changes in the structure and operating rules of BC's transmission system.

The new policy framework was clearly laid out in the 2002 Energy Plan and reinforced in the new 2007 Energy Plan. It transforms BC Hydro from a generator of publicly-owned electricity to a purchaser of energy from private power developers. The significance of this change is hard to over-emphasize. The Energy Plan signalled a fundamental shift from the earlier – and highly successful – policy of relying on the Crown Corporation to build and deliver BC's electrical energy at prices based on the cost of production and controlled through public ownership of BC's generation assets.

This earlier policy resulted in BC's prices being among the lowest in North America and enabled customers to enjoy a lengthy period of stable prices. During the same period BC Hydro delivered approximately three-quarters of a billion dollars, annually, in dividends to the provincial government – money that contributed to funding needed public services such as health and education. Even today, the legacy of cheap public power provides enormous benefits to BC customers.

There is no immediate crisis that would justify locking BC Hydro into such large future expenditures. In fact, there are numerous alternatives to purchasing energy from private power developers:

- BC could have the large block of Columbia River Treaty 'downstream benefits' energy returned to the province rather than sold in the US. This would eliminate the need for almost all the private energy that BC Hydro purchased in its 2006 tender.
- The province could make greater use of the energy potential that could be developed by Columbia Power Corporation, a regional public utility based in the Kootenays.
- The BC government could reverse its policy of opening the grid to private energy exports by companies such as Alcan and Cominco so that this energy could be used to satisfy the needs of BC customers.

Continued on page 7

First Nations Forestry Accords: Not a Partnership of Equals

By Ben Parfitt

Six years ago, anyone who said that the provincial Liberals would try to forge a "new relationship" with First Nations would have been laughed out of the room. Yet that is precisely what has happened. Though they began by opposing the Nisga'a treaty and unabashedly aligning themselves with opponents of native rights, the Liberals have made a significant turnaround. In just a few years they have managed to sign more than 120 forestry agreements with First Nations, agreements in which cash and timber are flowing to First Nations like never before.

The government has touted each successive agreement as evidence of a newfound commitment to providing "viable" economic opportunities to the province's native communities, many of which are among the poorest in Canada.

But there are plenty of reasons to question whether this is the case. Comparatively little money is actually on the table. And the timber on offer is far from sufficient to build meaningful economic enterprises in communities plagued by staggeringly high unemployment rates.

What, then, is required to build a truly fair and lasting "new relationship" between the province and First Nations people?

Before answering that question, it is important to reiterate that something significant has occurred over the past few years. Some may wish to dismiss it as a cynical attempt to buy "peace in the woods" in time for the 2010 Olympics. But the fact remains that our government finally has accepted that "accommodating" First Nations means more than interminable talks at the treaty table. Forced by court cases to move in this direction, the province has made 35 "direct awards" of timber to First Nations, totaling 7.3 million cubic metres. And it has signed close to 100 additional agreements in which First Nations are receiving approximately $35 million per year and have been granted the opportunity to log up to 3.3 million cubic metres of timber each year.

Such numbers become less impressive, however, with context. On average in the past decade, BC collected $1 billion annually in stumpage fees from forest companies logging public lands – the same lands claimed by First Nations. The cash so far offered to First Nations amounts to just 3.5 per cent of that revenue stream. A new relationship, perhaps, but not a fair or meaningful one.

As I discovered in talking to many First Nation leaders during the course of several weeks last year, such inequity is inexorably giving rise to resentment. A major source of friction is the province's cookie-cutter template for arriving at its cash and timber offers. At first blush, the approach may seem equitable: all First Nations are treated the same, with offers based on head counts. The more members a First Nation has on federal Indian Band lists, the more cash and timber it gets – an annual per-person amount of $500 in cash and between 30 and 54 cubic metres of timber.

But on closer inspection, the formula is badly flawed. First, those First Nations with small populations are automatically penalized. Second, First Nations whose forests are being liquidated by logging companies are treated exactly the same as those whose lands are relatively pristine. It's as if the province sees all First Nations as alike – an idea as offensive as the suggestion that Canada and the United States are one and the same.

Third, the offers are time limited, five-year deals. In the few cases where First Nations already have sizeable forest industry experience, this helps to augment existing operations. But in the vast majority of cases, it is unlikely to attract the kind of serious investment needed to create meaningful long-term jobs in logging and manufacturing.

Continued on page 8

The timber on offer is far from sufficient to build meaningful economic enterprises in communities plagued by staggeringly high unemployment rates.

BC Budget 2007: The Housing Budget that Wasn't

By Marc Lee

BC Budget 2007, billed as a "housing budget," in fact does little to build much housing. The budget commits to a mere 250 new social housing units over two years – a far cry from the 2,000 per year that was built back when the federal and provincial governments were in the game (before 1993). At this pace, it will take 17 years to house the homeless of Greater Vancouver, and that is not taking into account estimates from the Pivot Legal Society that homelessness could triple by the time of the 2010 Olympics.

PHOTO: ALLISON JONES

There are a number of housing initiatives in the budget, most of which are fine as things go, such as more shelters year-round for the homeless, and an expansion of the rent supplements announced last fall. More recently, the government's announcement that it had purchased 14 buildings to protect about 800 units from conversion into higher-end housing is good news. But overall, the total amount of housing expenditures in the budget is quite small and spread very thinly.

Budget 2007 not only fails to deliver new social housing, but will be taking 750 existing social housing units and converting them to supportive housing for seniors. This is robbing Peter to pay Paul.

For every dollar of housing expenditures in the three-year fiscal plan, there are four dollars in income tax cuts. And tax cuts are the real centrepiece, which makes *BC Budget 2007* perhaps the most cynical document in recent memory because it counts the tax cuts as a substantial part of its housing plan. As the accompanying figure shows, the income tax cuts have a greater benefit to those with higher incomes. And if we go back to 2001, the cumulative impact is substantial for those at the top.

If the $1.5 billion in tax cuts over three years had instead been allocated to building new social housing, we could virtually eliminate homelessness. Instead, we have a budget that not only fails to deliver new social housing, but will be taking 750 existing social housing units and converting them to supportive housing for seniors. This is robbing Peter to pay Paul. And it is reminiscent of the game the provincial government played a few years ago, taking federal money for low-income social housing and using it to build assisted living spaces for seniors.

Even the 250 new social housing units over two years are funded out of $50 million transferred from the federal government. The province is going to take $250 million (one-twelfth of the 2006/07 surplus) to park in a fund that will pay for $10 million of new initiatives per year, although it is not at all clear that any of this money will fund new social housing.

Much of the housing effort in the budget is for the benefit of the middle class: tax provisions to keep seniors in their single-family homes; a waiver of property transfer tax for first-time homebuyers, up to a ceiling of $375,000; in addition, the expansion of the home owner grant for homes up to $950,000 in value means a person living in a $900,000 home will be spared $570 per year in property taxes.

Tax cuts aside, the fact of the matter is that provincial coffers are bursting with surplus cash. On top of $3 billion surpluses in each of the past two years, the 2007 budget will also close, according to our estimates, in the $2-3 billion range. The budget document only admits to an underlying surplus of more than $1 billion, but extremely conservative assumptions about revenues hide much more than that – in fact, the government forecasts that revenues will decline in 2007/08 in spite of projections of solid economic growth.

While almost all of the media attention will be on housing, some other developments are worth noting. There is the first decent increase in health care spending in years, which was announced back in January. The key fact in health care spending is that the budget needs to increase by 5% per year in order to keep up with inflation, population growth and population aging. Over the previous five budgets, the average annual increase has been less than 4%. Thus, the 2007/08 increase of 7.3% is welcome and will help address the pressures that we are seeing in emergency rooms and elsewhere.

But there was no commitment in the budget to stable multi-year funding for health care. For 2008/09 and 2009/10, the increases are 2.2% and 3.3% respectively, so expect health authorities to continue feeling pinched. More money could be coming, but the budget document repeats the same bogus claims that health care spending is unsustainable and that "alternatives" (read: private care options) will be needed.

The areas that fared the best in the budget did not make the press release. In post-secondary education, there was a 6% increase in 2007/08, though no reduction in tuition fees as many student advocates had hoped for. And the Ministry of the Environment got a 10% budget increase, mostly for conservation measures. The budget contains $4 million over three years to get the ball rolling on climate change, but we may need to wait until next year for some firm financial commitments.

Also noteworthy was an increase in social assistance (welfare) benefits. For single employables, long stuck at $510 per month, the shelter and support portions were increased by $50 each, for a new monthly total of $610. People with disabilities or barriers to employment will also get the $50 increase in the shelter component, but oddly, not the support portion. Any increase in welfare rates is welcome, and clearly this is a tribute to public pressure and the hard work of community activists in recent months. But it is a far cry from the 50% increase we called for in our last two *BC Solutions Budgets*. Rates were also not indexed to inflation.

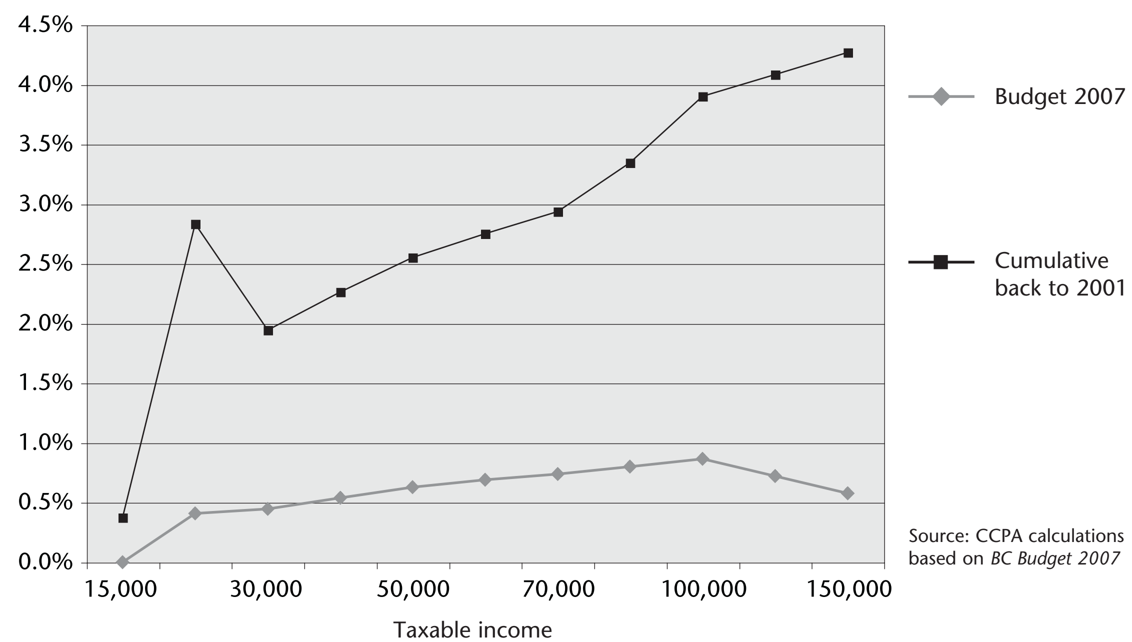
Child care is taking a hit of $140 million, following the elimination of the federal early learning and child care program. Indeed, child care is the only major program area to be cut in this budget, a move that is both outrageous and unnecessary, especially given that last year's was a "children's budget."

Like that "children's budget" that did not build early learning and child care spaces, *Budget 2007* is a huge disappointment, a gaping mismatch between rhetoric and reality. The provincial government seems to have got enough of the message to make housing the theme of the budget, but not so much as to really do something meaningful about it. This reflects a worldview that places so much faith in the market, that even when the market clearly fails – as it clearly has with regard to housing and child care – government is reluctant to step in, apart from some token measures on the margin.

Marc Lee is CCPA–BC's Senior Economist, and Editor of BC Commentary.

Like that "children's budget" that did not build early learning and child care spaces, Budget 2007 is a huge disappointment, a gaping mismatch between rhetoric and reality.

BC's income tax cuts as a share of taxable income



Source: CCPA calculations based on *BC Budget 2007*

TILMA's Attack on Public Interest Regulation

By Ellen Gould

Last year, the Alberta and BC provincial governments signed a far-reaching agreement – the Trade, Investment and Labour Mobility Agreement (TILMA). Most of the agreement came into effect on April 1, 2007, with additional areas to be covered by April 1, 2009. TILMA's purpose, according to the BC government, is "breaking down all of the economic barriers between the two provinces."

TILMA's provisions dealing with regulations are an example of an overall trend to cast regulatory differences as barriers to trade and investment.

TILMA raises some major questions about democratic governance, both in terms of how the deal was struck, and in terms of potential impacts of the agreement itself on democratic decision-making. In addition to its clear constraints on public policy, TILMA contains many provisions that are open to interpretation. The true meaning of many of these clauses will not be fully understood until the limits are tested by a dispute panel process that enables the parties to the agreement, individuals and corporations to launch complaints against governments, and to be awarded compensation for violations.

The BC and Alberta governments have chosen to subject all areas within provincial and local government jurisdiction to TILMA (including municipal governments, school and health boards, Crown corporations, and agencies) and only allow exceptions that are explicitly listed. The "top-down" approach to negotiating an agreement is risky because it requires that governments anticipate the full legal jeopardy TILMA poses for all measures they might want to safeguard, now or in the future. The consequences of opening health, education, and social services measures to TILMA challenges are significant.

TILMA requires governments not to "restrict" or "impair" trade, investment or labour mobility. Yet, by their very nature, government programs and Crown corporations confine private investment within certain limits by providing some services that otherwise might profitably be provided by the private sector. Similarly, government regulations often place limitations on private investment.

One of TILMA's purposes is to "reconcile" existing and future standards and regulations. TILMA's provisions dealing with regulations are an example of an overall trend to cast regulatory differences as barriers to trade and investment. But TILMA goes beyond addressing an "unnecessary paper burden"; it can only result in pressures to deregulate.

TILMA does contain some exceptions, including measures related to water, aboriginal peoples, energy, forestry, and mining. These exceptions are to be reviewed annually "with a view to reducing their scope." Health and education are not specifically exempted, and are among the areas – agriculture, tourism, parks, heritage conservation, consumer protection, land use planning – where the agreement could have major negative impacts.

In a limited number of areas, governments are allowed to adopt or maintain measures that deviate from TILMA rules, but only if they can pass a three-part test. The list of "legitimate objectives" has significant omissions, including protection of heritage sites, promotion of culture, provision of education, and expansion of the supply of affordable housing. It does not include most of the objectives municipalities pursue to enhance the lives of their residents – e.g. land use planning, green space requirements, building height restrictions and sign bylaws.

Some examples of regulations that could be ruled to be TILMA violations if they "impair or restrict" investment are:

- Penalties such as fines that provinces may impose to prevent hospitals from allowing individuals to pay in order to be put at the head of waiting lists for surgery or diagnostic tests.

- Restrictions the BC government may consider necessary to regulate the operation of private, for-profit surgery clinics.
- More stringent standards that the BC or Alberta government may impose on private care homes.
- Differences in BC and Alberta regulation of private schools.

While some environmental measures are exempted from TILMA, significant areas are open to challenge:

- Designation and protection of ecological reserves;
- Environmental assessments of projects like ski resorts or chemical plants;
- Regulation of air pollution produced by manufacturing plants and automobiles, such as BC's Air Care program;
- Restrictions on particular products like ozone-depleting substances or pesticides; and
- Regulation of recreation and tourism to protect ecologically sensitive areas.

Private parties can receive up to $5 million in compensation over any one violation of TILMA. But TILMA does not limit the number of complaints that can be brought forward against any specific government measure. Thus the potential cost to governments of violating TILMA is much higher than $5 million. TILMA's dispute process will also have an impact on public policy development through a "chill" effect whereby governments eliminate measures or decline to introduce new ones to avoid TILMA challenges.

Within the federal system, provinces have very important powers to exercise on behalf of their citizens. TILMA constrains those powers by making commercial interests the paramount consideration in policy making. TILMA coerces governments to disregard demands for higher standards even if these are expressed by the majority of citizens. This erases not only borders, but also the powers of democratic governments.

Ellen Gould is an independent researcher focusing on trade and investment agreements, and the author of Asking for Trouble: The Trade, Investment and Labour Mobility Agreement*, available at www.policyalternatives.ca.*

TILMA coerces governments to disregard demands for higher standards even if these are expressed by the majority of citizens.

Continued from page 2
BC Hydro Deals Mean Higher Energy Prices in BC's Future

- The government could re-consider the policy of providing extremely low-cost electricity to major industrial users. Perversely, because the price BC Hydro charges its industrial customers is so low, it must subsidize them further, through Power Smart, to put energy conservation initiatives in place, when higher prices would encourage them to do so on their own.
- Power Smart energy conservation could be expanded. One key element should be to retrofit all public facilities with the most energy efficient equipment and systems. Reducing electricity consumption in schools, hospitals, municipal buildings and other public facilities would have the added benefit of returning the resulting savings to the province in the form of lower energy costs.
- Finally, the province could allow BC Hydro to construct small hydro, wind farm and other renewable energy generating facilities. As BC Hydro enjoys a gold standard credit rating, it can borrow money for capital projects much more cheaply than private energy developers. It could also benefit from significant economies of scale, avoiding enormous amounts of duplication in the private sector as each firm learns how to construct and operate power plants.

Clearly, the government and BC Hydro had many other, and better, options than the one adopted in the 2006 tender call. The very large sums BC Hydro is now allocating for the purchase of energy from private power developers should be generating a major public debate about the entire rationale of the government's energy policy. Far from guaranteeing reasonable prices, security of supply and self-sufficiency for the province – as was the case when BC Hydro built its own generation assets – the current policy is guaranteeing that BC ratepayers will pay a lot more for their future electricity.

John Calvert is Adjunct Professor of Political Science at Simon Fraser University and a board member of BC Citizens for Public Power. He is the author of Sticker Shock: The Impending Cost of BC Hydro's Shift to Private Power Developers*, available at www.policyalternatives.ca.*

Continued from page 1
Time to Raise BC's Minimum Wage

But a much larger share of workers receive only a little more than minimum wage. One in five British Columbians earn less than $10 an hour, and nearly half of them are over 25. Thus, this debate is not "just about teenagers."

For a significant proportion of our workforce, the idea that full-time minimum wage work should pay enough to stay out of poverty isn't just a matter of principle. It's a matter of financial survival for them and their families.

These numbers tell us that economic growth alone is not enough to raise the floor for low-wage workers. And in spite of our growing economy, the gap between the rich and poor continues to widen. By 2004 it had reached a 30-year high, with the wealthiest 10% earning 82 times more than the poorest 10%. The bottom half of earners is taking home a shrinking slice of the income pie, even though Canadian families are working harder than ever (200 hours more per year, on average, than they worked 10 years ago).

Raising the minimum wage to $10 an hour won't end poverty or close the income gap overnight. But it is an important first step down the road to a less polarized society, and a step that will make a vital material difference in the lives of thousands of workers and their families.

It's time for BC's provincial government to raise the minimum wage to $10, index it to inflation, and get rid of the $6 "training wage."

Stuart Murray is a researcher with the Canadian Centre for Policy Alternatives' BC Office, and co-author of Bringing Minimum Wages Above the Poverty Line, *available at www.policyalternatives.ca.*

Continued from page 3
First Nations Forestry Accords: Not a Partnership of Equals

Instead, fleeting one-time forest tenures may force First Nations to export raw logs because they see this as the only economically viable option under the circumstances – hardly a recipe for social and economic renewal.

With their geographically isolated communities and limited opportunities to build healthy, vibrant economies, First Nations need much more. A lasting new relationship would see First Nations:

- Receive half of every dollar the province collects in stumpage fees, with individual nations compensated on the basis of how much logging occurs on their lands (a similar 50-50 arrangement already exists in nearby Washington State for the sharing of salmon resources);
- Become active partners or co-managers in land-use planning, something that is already happening to a limited extent between the Gitanyow hereditary chiefs and provincial Ministry of Forests officials in northwestern BC; and
- Be given the same opportunities as forest companies; in a nutshell, long-term access (not one-off, five-year agreements) to defined areas of land. And they should have such access before treaties are settled, given the glacial pace of those negotiations.

Once again, the province has made welcome advances in its relations with First Nations, breaking a longstanding and troubling impasse. It has taken baby steps. But it's time to acknowledge that bigger strides are needed if the new relationship is to amount to something approaching a partnership of equals.

Ben Parfitt is the CCPA-BC's resource policy analyst. Copies of his latest report, True Partners: Charting A New Deal For BC, First Nations and the Forests We Share *is available at www.policyalternatives.ca.*

BC COMMENTARY

a publication of the BC office of the Canadian Centre for Policy Alternatives

1400 – 207 West Hastings Street
Vancouver, BC V6B 1H7
tel: 604-801-5121
fax: 604-801-5122

www.policyalternatives.ca

Editor: Marc Lee
<marc@policyalternatives.ca>

Layout & Production: Terra Poirier
<terra@policyalternatives.ca>