STATE OF THE BC ECONOMY 2004

By Marc Lee

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CCPA
CANADIAN CENTRE
for POLICY ALTERNATIVES
BC Office

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Contents

Summary 4

Part 1: Introduction 6

Part 2: A Long View of the BC Economy 8

Part 3: A Recipe for Prosperity? 10

Part 4: Economic Growth and Investment 13

Economic Growth 14

Productivity 15

Capital Investment 16

Exports and Trade Balance 17

Personal Consumption 18

Part 5: Employment 19

Employment Growth 20

Unemployment Rate 21

Employment Rate 22

Employment Opportunities 23

Regional Employment 24

Part 6: Earnings 25

Average Hourly Wage and Hours Worked 26

Median Income 27

Unionization Rate 28

Minimum Wage 29

Public Sector Spending: “The Social Wage” 30

Male-Female Earnings Gap 31

Low Income Rate 32

Part 7: Conclusion 33

References 34

Summary

The *State of the BC Economy 2004* examines a wide variety of indicators to give the provincial economy a check-up.

Most analysts agree that the economy has underperformed for more than two decades relative to BC's own historical experience and compared to leading Canadian provinces such as Alberta and Ontario. The 2001 election brought in a new government that promised a dramatic turnaround in BC's economic fortunes. In just three years, it has delivered sweeping changes to the province's economic and social life. Tax cuts, deregulation and privatization have been the main tools used in the government's efforts to revive the sagging provincial economy.

The key question is whether this program has led to the promised economic revitalization. This report looks at standard indicators in three areas to evaluate its success: growth and investment; employment; and earnings.

> Most of the indicators in this report would not be much different had the government not proceeded with its sweeping reforms. Yet a tremendous amount of pain and hardship has been inflicted on British Columbians to pay for revenues lost to tax cuts.

Key findings:

- Overall, there are some signs of life in the BC economy, but the patient should still be kept under observation. The early results show that the government's policy program has not delivered a quick fix. It is too early to make a definitive assessment of the longer-term impacts, however, there is little to suggest that the economic boom promised before the election is on the horizon.
- Specific measures aimed at stimulating the BC economy, in particular tax cuts, have had litle impact to date. Employment and earnings indicators suggest that there has been no response at the microeconomic level to personal income tax cuts. Hours worked have continued to decline in line with recent trends, and the employment rate has not changed significantly from levels in the 1990s. Moreover, capital investment has not responded to almost $1 billion in corporate tax cuts.
- Most of the indicators in this report would not be much different had the government not proceeded with its sweeping reforms. External factors beyond the control of Victoria have played a major role in shaping BC's economic performance, including low interest rates, a higher Canadian dollar, weak demand in the US and Asia, and US softwood lumber trade actions. Yet a tremendous amount of pain and hardship has been inflicted on British Columbians, in particular the poorest and most vulnerable, to support the government's agenda and pay for revenues lost to tax cuts.

Economic growth and investment:

- After accounting for inflation and population changes, economic growth in recent years has been positive, but unspectacular in comparison to the rest of Canada and compared to recent history.
- The income gap (real GDP per capita) between BC and the rest of Canada has been growing. As of 2004, BC is expected to trail the Canadian average by about $3,000 per person.
- BC continues to rank third behind Alberta and Ontario in provincial productivity, a fact connected to ongoing reliance on exports of primary commodities.
- Capital investment has shown some improvement, but relative to GDP remains flat. Most gains have come in residential construction, which is a positive for employment, but does little to boost BC's productivity.
- Weak demand conditions globally and trade harassment from the US have contributed to declining exports in recent years.
- BC has been importing much more than it is exporting, with a projected trade deficit of 5.4% of GDP in 2004.
- Retail sales growth has been consistent with the Canadian average. But BC's personal savings rate has been negative since 1997, suggesting that on average British Columbians are borrowing more and more to finance consumption.

Employment:

- Employment growth improved in 2003, although it is still middle-of-the-road by historical standards.
- After two years of rising unemployment, the unemployment rate was down slightly in 2003 at 8.1%. Youth unemployment remains persistently high.
- The employment rate, which accounts for changes in labour force participation, rose slightly in 2002 and 2003, but is still low compared to other provinces and BC's recent history.
- The quality of employment opportunities is increasingly characterized by greater self-employment and part-time work.
- On a regional basis, most employment gains have been concentrated in the Lower Mainland and Victoria.

Earnings:

- BC's hourly wages continue to be tops in Canada.
- Average hours worked continues to decline.
- Median income for economic families in 2001 (the last year for which we have data) was about the same as the national average, but BC leads Canada with regard to unattached individuals.
- Union coverage has been on a declining trend since the late-1990s.
- BC has the highest general minimum wage in Canada, but one of the lowest if the $6 per hour training wage is counted.
- The "social wage" provided by public services has been declining for more than a decade.
- Female earnings (full-year, full-time) have increased over the past couple decades to about 70% of male earnings.
- The percentage of British Columbians with low incomes after taxes and transfers was 12% in 2001.

PART 1

Introduction

The struggling BC economy has been of concern to academics, media commentators and politicians for several years now—and most of all, to ordinary working people who struggle to make a decent life for themselves and their families. This *State of the BC Economy* examines a wide variety of indicators to give the provincial economy a check-up.

There are three principal reasons for this report. First, we aim to benchmark the BC economy in 2004 relative to recent historical experience and in comparison to other key provinces and Canada as a whole.

Second, this report performs an early test of neoliberal economics. BC has undergone tax and spending cuts, deregulation and privatization initiatives of various sorts—key tenets of a free market approach. To the extent possible, it is worth seeing if the desired results have manifested to date.

Third, the numbers provide a reality check on the government's pre-election claim that it would rapidly get BC's economy moving by restoring business confidence. To quote the government's pre-election document: "Our plan is aimed at kick-starting the economy in every sector, to create a New Era of prosperity in British Columbia." The government made bold claims about its economic program that should not be cynically dismissed as "election promises."

As much as possible, this report is written from the perspective of typical British Columbians, who sustain themselves through work and the services provided publicly by governments. We argue that the economy's success is in direct relationship to improved, sustained livelihoods for British Columbians. What matters for most people, as far as the economy goes, is the availability of well-paying, stable employment, a decent safety net should fortunes not be as bright, and high quality public services and infrastructure.

This report looks at standard indicators for the BC economy across three broad categories:

i) Economic growth and investment

- Real GDP per capita
- Productivity
- Capital investment
- Exports by industry
- Trade balance
- Retail sales
- Personal savings rate

ii) Employment

- Total employment growth
- Unemployment rate
- Employment rate
- Part-time employment and self-employment
- Duration of unemployment
- Regional employment

iii) Earnings

- Median market income
- Average hourly wage
- Hours worked
- Unionization rate
- Minimum wage
- Public sector share of GDP
- Male/female earnings gap
- Low income rate

> The numbers provide a reality check on the government's pre-election claim that it would rapidly get BC's economy moving by restoring business confidence.

Before we get to these indicators, it is worth considering their context. The next section looks back over BC economic history and the two-decade-plus slowdown at the heart of BC's economic fortunes. In Part 3, we consider the scope of radical policy changes since 2001 that were advertised as the key to economic revival. Readers who are just interested in the numbers can skip to Parts 4 through 6, where we analyze BC's performance across the indicators mentioned above.

A Long View of the BC Economy

BC's economic history is a classic case of what Canadian economic historian Harold Innis termed a "staples economy"—an economic development model driven by the extraction and export of unprocessed or semi-processed raw materials.

While many analyses limit themselves to the 1990s, a fuller picture requires a longer time horizon, as many issues facing the BC economy are rooted in our staples past.

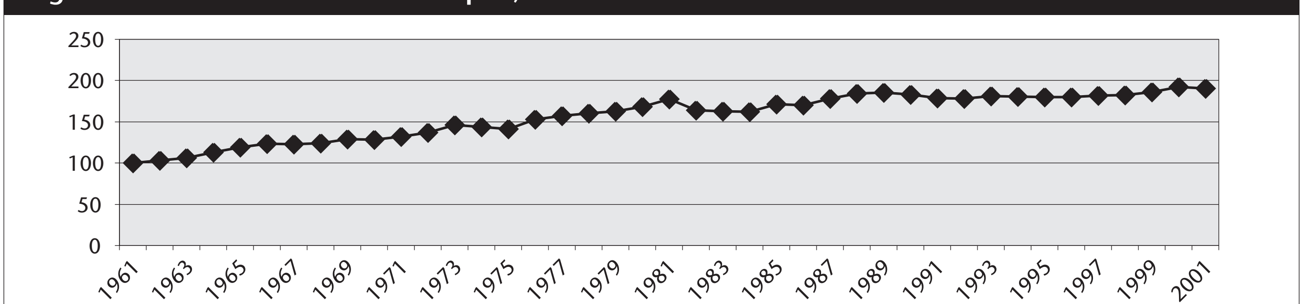
BC is a small, resource-dependent economy heavily reliant on the export of basic commodities. While it is true that BC now has a more diversified economy than in the past, this largely reflects the vitality of Greater Vancouver. Many observers have correctly noted that BC has "two economies": the populous and diversified Lower Mainland area (plus the provincial capital of Victoria), and the rest of the province, where resource industries still rule, and changes in export markets and commodity price swings have a great bearing on the fortunes of workers and communities.

BC has long lived the roller-coaster ride typical of staples economies. The good news is that the province has been experiencing less of these booms and busts—a result of diversification and modernization in the economy. BC now has a substantial service sector that accounts for three-quarters of provincial GDP and employment. Services have experienced relatively stable year-to-year growth, carrying the BC economy at a time when goods-producing industries have been flat.

The bad news is the stagnation of the past two decades is rooted in the resource sector. While many remember the 1990s as a weak decade in terms of economic performance, this actually reaches back to the 1980s, when there were only three good years of growth out of ten. In contrast, the 1960s and 1970s saw some bad years, but these were outnumbered by the good.

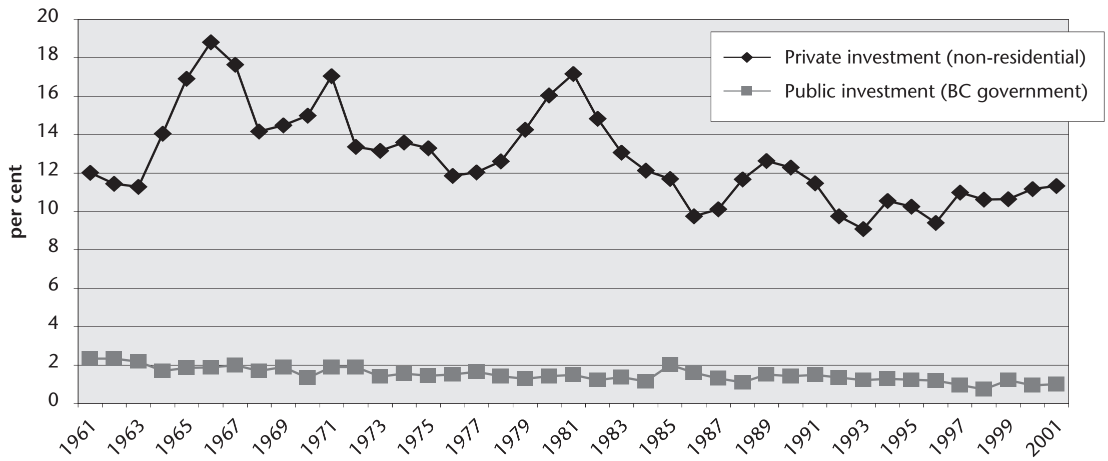
Figure 1 shows BC's real GDP per capita—the total size of BC's economic output per person, after accounting for population growth and inflation—over the past forty years in the form of an index (1961=100). The bulk of growth in real GDP per capita occurred in the first two decades. For the twenty-year period from 1961 to 1981, BC's real GDP per capita increased a total of 78%. But from 1981 to 2001, the total increase was a mere 7%.

Figure 1: Index of Real GDP Per Capita, 1961-2001



Note: 1982-01 based on November 2002 revisions to chain Fisher methodology. Source: BC Stats, BC Economic Accounts.

Figure 2: Public and Private Investment as a Share of GDP, 1961-2001



Source: CCPA calculations based on BC Stats, BC Economic Accounts.

This twenty-year-plus story of slowdown in the BC economy transcends the tenure of any particular government. It points to structural features of the economy that go much deeper than alleged government mismanagement. Socred governments, NDP governments and now a Liberal government have all presided over this period of relative stagnation in GDP growth.

The level of investment is a principal driver of economic growth and productivity. The upper line in Figure 2 shows two components of private sector investment: investment in machinery and equipment; and investment in non-residential structures—both as a percentage of GDP.

Beginning in the early 1980s and continuing through the 1990s, there is a general decline in business investment as a share of GDP. By the 1990s, this amounts to a difference of around four percentage points of GDP compared to the 1960s and 1970s. Like trends in GDP growth, the investment slowdown is not just a 1990s story.

Nor has the public sector picked up the slack (as shown by the lower line in Figure 2). Although public sector investment is much smaller in magnitude than private sector investment, it has also been on a four-decade declining trend when expressed as a percentage of GDP. This has compounded the decline in private sector investment somewhat, although the overall investment slowdown has much more to do with the private sector.

The investment decline translates into a productivity performance that is lagging behind Alberta and Ontario. This is a reversal from the early 1980s, when BC was Canada's productivity leader. The continuing dominance of resource industries in BC's economic portfolio is a major factor behind its drop in the standings.

Alberta, of course, demonstrates that it is possible to have a prosperous resource economy. Indeed, Alberta is even more resource dependent than BC. But its situation is unique, shaped by substantial oil and gas exports to the US. While BC does produce some oil and gas, our international exports are dominated by wood, pulp and paper products, which together accounted for almost half of our exports in 2003.

BC will never have the same oil and gas endowment as Alberta, even if offshore oil development plans go ahead quickly and without incident. Comparisons to Alberta often presume that BC could replicate Alberta's economic performance by lowering taxes, but low taxes are the consequence of a boom in oil and gas exports that reap windfall revenues for government—not their source.

Ultimately, the BC economy is a complicated entity. Because BC is a relatively small player in a global economy, it is very open to flows of trade and investment. External factors play a significant role in determining economic outcomes. These include:

- The strength of key export markets in the US and Asia;
- Trade harassment, as in the case of softwood lumber;
- Federal government fiscal, trade and other commercial policies;
- Bank of Canada policy, which affects interest rates and the value of the Canadian dollar; and
- Demand conditions in the overall global economy.

The BC Government is but one actor among many, albeit an important one. Many of the forces at play are not determined in the province. To some extent, the BC Government must go along for the ride when external economic shocks hit, as it did during the 1997-98 Asian crisis and the 2001-02 economic downturn. The provincial government can mitigate the hardship from such events through its social programs and provision of a safety net. It can also pro-actively engage in industrial development strategies that make strategic use of the tools available at the provincial level.

A Recipe for Prosperity?

The May 2001 election, and its changing of the guard in such dramatic fashion, was in large part a story about the economy (at least, perceptions about the economy). The previous government, it was alleged, were bad economic managers that drove the BC economy into the ground.

Tax cuts, deregulation and privatization were touted as the key ingredients in a "New Era" economic recipe that would return BC to its glory days.

The New Era document stated: "High taxes, over-regulation and hostile business practices have driven workers and employers out of our province.... We can turn that around in short order with the right attitude, policies and taxation environment." The government-in-waiting even went so far as to claim that its program, tax cuts in particular, would stimulate so much economic growth that provincial revenues would rise not fall. This message obviously proved attractive to voters, who swept the new government to power with 77 of 79 seats.

However appealing, this message is perhaps too simplistic given BC's historical circumstances and external environment. It is unreasonable to expect these policy changes to have such strong and immediate impacts. The CCPA warned several years before the 2001 election that jumping on the tax cut bandwagon was not going to be a miracle cure for the province's ails.

Nonetheless, in just three years the new government has delivered sweeping changes to BC's social and economic life. Change has come more quickly than in some other provinces that have had their own "common sense revolutions." While the degree of change has not been enough to satisfy some, there is no question that BC has been remade through policies that favour business interests and abandon important clauses of the province's social contract.

The following is a summary of major policy changes and initiatives put in place to stimulate the "competitiveness" of BC's economy. The list is by no means comprehensive, it is merely indicative of the wide scope of the government's policy agenda.

Changes in the tax system include:

- Personal tax cuts that concentrated gains among people with high incomes (half the tax cut went to the 13% of taxpayers with incomes above $60,000).
- Increases on sales taxes, MSP premiums, and tobacco, alcohol and gas taxes.
- Elimination of the provincial sales tax on machinery and equipment.
- Corporate income tax cuts and elimination of the corporate capital tax.

Changes in the delivery and scope of public services:

- Budget cuts in ministries outside health care and education amounting to an average of one-third of 2001/02 levels.
- Elimination and contracting-out of public sector jobs.
- Elimination of the tuition freeze leading to steep fee increases for post-secondary education.
- Real reduction in service quality in health care and education as funding has not kept pace with cost pressures in the system.
- De-listing of health care services, such as eye exams and supplemental health therapies (e.g. physiotherapy and massage therapy).

Reductions in the social safety net:

- The denial of welfare to youth until they meet a two-year "independence test".
- Benefit rates cut for single parents on welfare and people aged 55-64.
- Implementation of a 24-month limit on welfare (the government has since backed off this measure by introducing a plethora of exemptions, but the law remains on the books).
- Elimination of earnings exemptions that allowed welfare recipients to earn some additional income.
- Reduced child care subsidies for low-income parents.
- Elimination of funding for women's centres.

Changes to labour and employment standards include:

- A new $6 an hour "training" wage—25% lower than the general $8 per hour minimum wage—applicable to the first 500 hours of work.
- A lowered work-start age from 15 to 12, accompanied by reduced government oversight of working conditions.
- Reduced minimum work day to two hours from four.
- Labour Code amendments that make it more difficult to form unions and easier to decertify them.
- "Overtime averaging" provisions that reduce payments for overtime work by employees.
- Reduced protections for agricultural workers, who are now exempt from provisions on overtime and hours of work.
- Dismantling of the Industry Training and Apprenticeship Commission.

Environmental deregulation initiatives include:

- Exemption of all but "high risk" industries from permit requirements for the discharge of waste into the environment.
- Removal of most requirements for approval of pesticide use, accompanied by removal of public appeal process for pesticides.
- Relaxed guidelines for the development of coal-fired power plants (BC currently has none).
- Environmental assessments are no longer mandatory, but at the discretion of the government.
- Enabled increased industrial activities in provincial parks.
- Regulatory streamlining for mining and oil and gas sectors.
- Provisions for overriding regulations to move ahead "special projects."

Privatization initiatives include:

- The privatization of BC Rail.
- Contracting out of health support services (in areas such as long-term care delivery and hospital services).
- Conversion of BC Ferries from a Crown corporation to a private agency.
- Breaking up of BC Hydro, and contracting out of back-office operations to Accenture (about one third of employees affected).
- Attempted outsourcing of Medical Services Plan and Pharmacare Administration (currently under legal review).
- Public-private partnerships were made a condition for provincial participation in major public infrastructure projects (such as the Abbotsford hospital and the RAV line).

Changes that affect BC's rural and Interior communities:

- Allowed an increase in the volume of raw log exports.
- Removed the obligation on forestry companies cutting on public land to process timber locally.
- Amended forest company tenures to make them closer to property rights.
- Lifted the moratorium on fish farm expansion.
- Emphasized coal-bed methane and offshore oil development.

Other provincial policy changes and initiatives:

- Provincial and national ad campaigns promoting the province and the government's achievements.
- Changes to the Landlord-Tenant Act that enable landlords to raise rents annually by two percentage points above the rate of inflation.
- Special projects legislation that can override decisions made by municipal councils.
- A plan to reduce total provincial regulations by one third.
- Financing and promotion of the Olympics.

From this list, it is clear that the government has implemented many long-sought policy changes from BC business advocates (see for example the report of the 1998 BC Business Summit). The promise was that these policies would positively affect incentives for workers to work longer and harder, and for businesses to make new investments in BC.

The key question is whether this program has actually made good on these promises. Many British Columbians may accept the need for painful economic medicine as the price to be paid for a booming economy. But paying a high price for little in return is surely a bad bargain. It is too early to make a definitive assessment of these policies and initiatives. But we can examine some of the early results based on the available data.

There should be a tendency for favourable statistics for the government because they came to power in a recessionary year. Even if they did nothing significant in terms of policy, many indicators would show positive signs, particularly indicators of annual change (employment growth or economic growth, for example) reflecting cyclical factors. Whether the statistics show improvements that are exceptional relative to historical trends or other provinces is a key research question.

As mentioned in the previous section, external factors matter a great deal to BC's economic outcomes. Three major events are worth mentioning for their negative impact on BC's economy. First, the aftermath of the September 11, 2001 terror attacks reduced international travel volumes and has hurt BC's tourism industry, a provincial economic driver. Second, the ongoing dispute with the US over softwood lumber has led to mill closures and layoffs in the forest industry. Third, these external events have been accompanied by a general slowdown in economic growth worldwide in 2001-02. In addition, BC also endured SARS, mad cow disease and forest fires in 2003.

These factors have affected the rest of Canada as well. For this reason, we evaluate BC's performance relative to other provinces (that face the same external environment) as well as historical standards. The government made bold claims about its economic program that cannot be swept aside easily—one cannot argue that tax cuts only work miracles when the US economy is booming. At a minimum, we should see a relative improvement vis-à-vis other key provinces and/or Canada as a whole if the economic program is proving to be successful.

Economic Growth and Investment

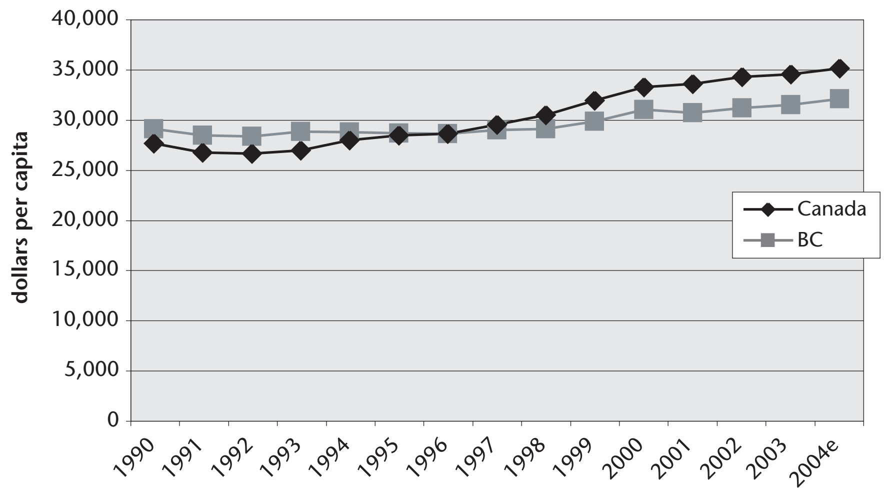
This section considers the broadest available indicators for the BC economy. Overall economic conditions matter for most working people to the extent that a stronger economy improves job prospects and wages, while enhancing job security.

HIGHLIGHTS

- After accounting for inflation and population changes, economic growth in recent years has been positive, but unspectacular in comparison to the rest of Canada and compared to recent history.
- The income gap (real GDP per capita) between BC and the rest of Canada has been growing. As of 2004, BC is expected to trail the Canadian average by about $3,000 per person.
- BC ranks third behind Alberta and Ontario in provincial productivity, a fact connected to continued reliance on exports of primary commodities.
- Capital investment has shown some improvement, but relative to GDP remains flat. Most gains have come in residential construction, which is a positive for employment, but does little to boost BC's productivity.
- Weak demand conditions globally and trade harassment from the US have contributed to declining exports in recent years.
- BC has been importing much more than it is exporting, with a projected trade deficit of 5.4% of GDP in 2004.
- Retail sales growth has been consistent with the Canadian average. But BC's personal savings rate has been negative since 1997, suggesting that on average British Columbians are borrowing more to finance consumption.

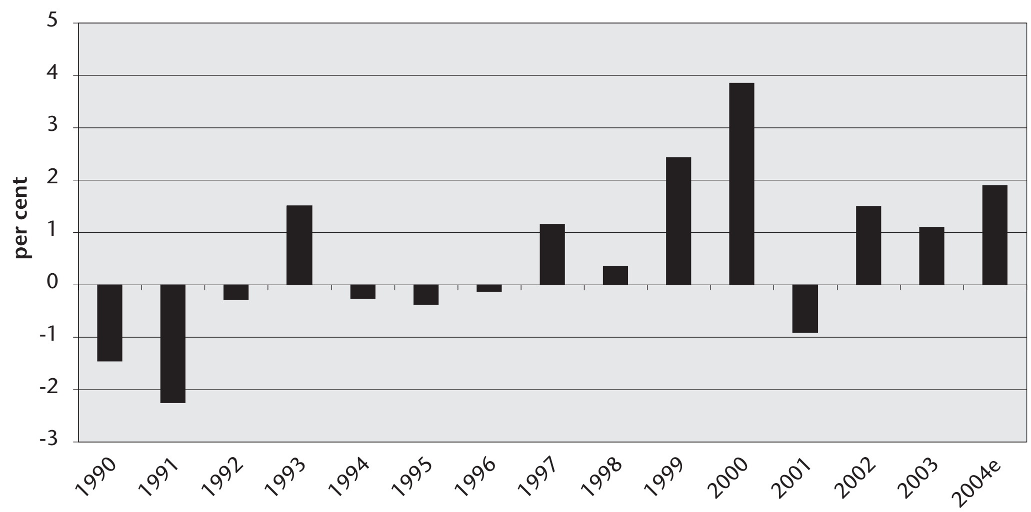
Economic Growth

Figure 3: Real GDP Per Capita



Note:
2003 figures are from preliminary provincial GDP numbers from Statistics Canada, April 2004.
2004 estimates from BC Budget 2004.

Figure 4: BC Real GDP Per Capita Growth Rates



Sources: Author's calculations based on: Statistics Canada, Provincial Economic Accounts, November 2003 release; BC Budget 2004; BC Stats, BC Quarterly Population, 1951-2003, March 2004 update; Statistics Canada, The Daily, April 28, 2004.

Figure 3 shows levels of GDP after adjusting for inflation and population growth (called real GDP per capita) for BC and Canada. BC led the Canadian average during the early-1990s, but Canada pulled ahead of BC in 1997 and the margin has widened since then. In 2004, projections are for Canadian real GDP per capita to be about $3,000 higher than BC. To close the gap, BC needs to post several years of above-average growth.

Figure 4 shows annual growth rates of BC's real GDP per capita. This tells a different story than many might expect: growth was stronger later in the 1990s than the early- to mid-1990s. The key difference is accounting for population growth. While total GDP grew more rapidly in the early- to mid-1990s, immigration was also quite rapid.

The growth rates in 2000 (3.9%) and 1999 (2.4%) are the best years in recent history, and are a benchmark by which we can assess current economic growth. Growth in 2002 (1.5%) and 2003 (1.1%) and estimates from 2004 (1.9%) are relatively weak by this standard, but better than many of the past 15 years. Ministry of Finance projections are for 2% annual real GDP growth over the next three years, whereas an economic boom should put annual growth rates above 3% based on historical standards.

Productivity

Figure 5: BC Productivity (GDP per hour worked)

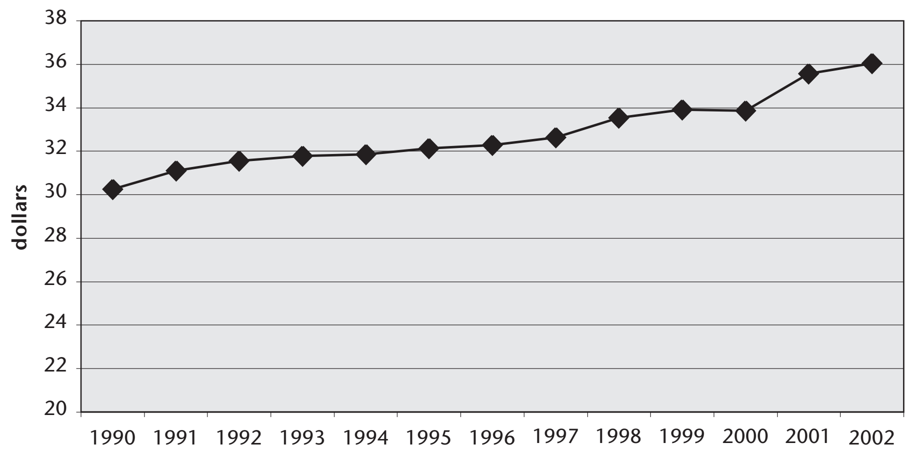
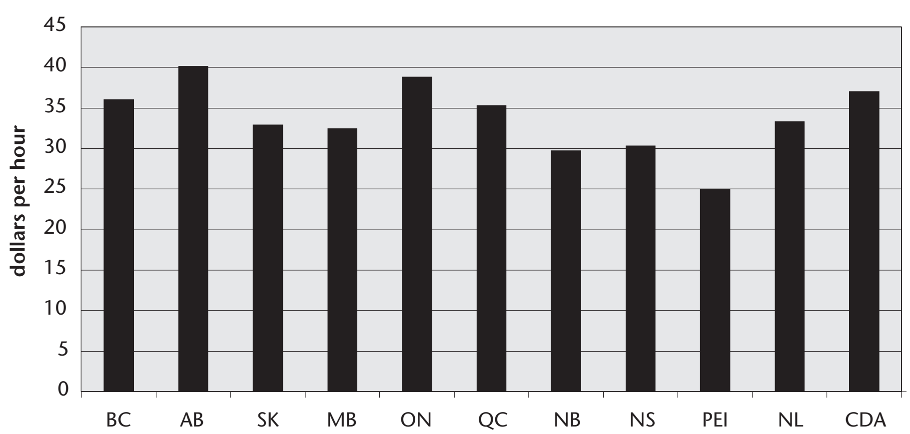


Figure 6: Provincial Productivity (GDP per hour worked) 2002



Note: Figures are in constant 1997 dollars.

Source: Centre for the Study of Living Standards Productivity Database, December 8, 2003 update.

Productivity is about the conversion of inputs (labour, capital, materials) into valuable goods and services. A standard measure of productivity is GDP per hour worked. Higher levels of productivity generally translate into higher incomes for workers (or at least the potential for such gains).

Figure 5 shows that from 1990 to 2002 (last year for which data are available), BC's productivity grew by about $6 per hour to $36 (constant dollars), a 20% increase. Productivity gains have been slow and steady. A "surge" in BC's productivity in 2001, a recession year, is due to the fact that employment declined relatively more than provincial GDP.

Figure 6 compares provincial productivity levels in 2002. BC ranked third among Canadian provinces, behind Alberta ($40 per hour) and Ontario ($39 per hour). Because of the relative economic size of Alberta and Ontario, BC also trailed the Canadian average despite its third place ranking. The gap between BC and both Alberta and Ontario widened over the 1990s (not shown).

Interestingly, when we account for the shares of particular industries in the overall economy, BC's productivity gap vis-à-vis Ontario is mostly accounted for by the different industrial mix. In "like" industries, productivity levels are very similar, but Ontario's economy is characterized more by high-value manufacturing, and less by natural resources (Baldwin et al 2001).

Capital Investment

Figure 7: BC Private Capital Spending as a Share of GDP

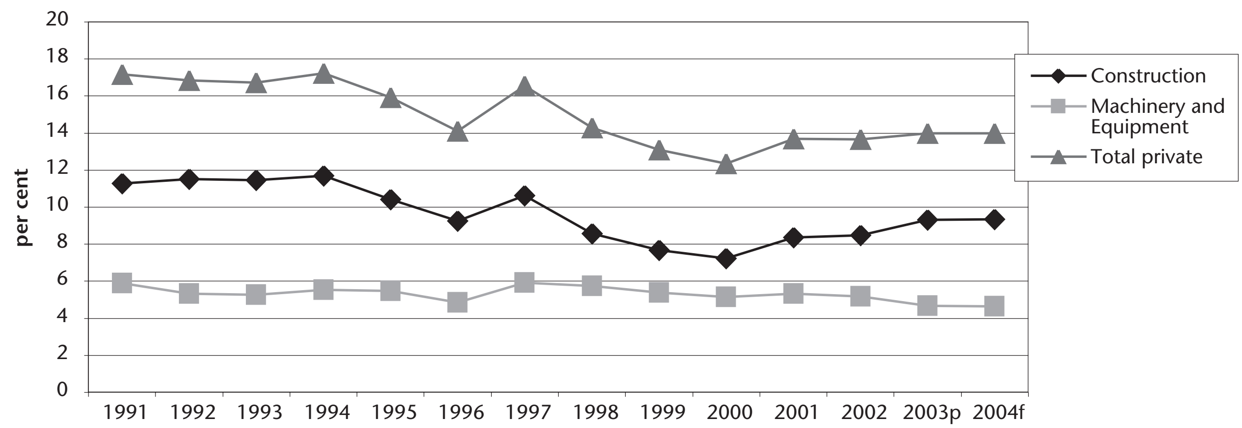
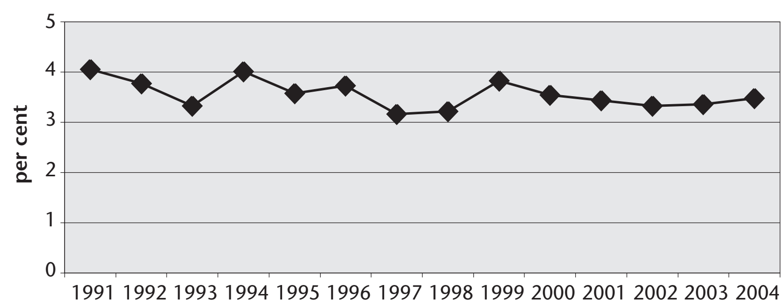


Figure 8: BC Public Capital Spending as a Per Cent of GDP



Notes: 2003 capital expenditures are preliminary figures, and 2004 are forecast based on investment intentions. Construction figures include residential construction.

Source: Statistics Canada, CANSIM table 032-0002.

A key factor driving both productivity and GDP growth is investment, particularly investments in machinery and equipment. Figure 7 shows private capital investment as a percentage of GDP because we are interested in how much of total income we are dedicating to new investment. The figure includes preliminary figures for 2003 and investment intentions for 2004.

While capital expenditures have grown in recent years, new investment has been strongest in the residential sector, which shows up in the rise in construction investment. Like the rest of Canada, low interest rates have fuelled a hot real estate market in general, and a boom in construction of new residential buildings. This creates jobs, and adds to the stock of housing. Still, this does little to enhance BC's overall productivity.

As a percentage of GDP, private capital expenditures have been essentially flat—in the 14% range in recent years, a level that is much lower than through most of the 1990s. This suggests that corporate income and capital tax cuts have done little to spur investment in BC to date. Given the size of the economy, private capital expenditures would have to be at least $5 billion greater per year to match investment-to-GDP levels of the early 1990s (which are in turn lower than 1980s levels, and much less than those of the boom years of the 1960s and 1970s).

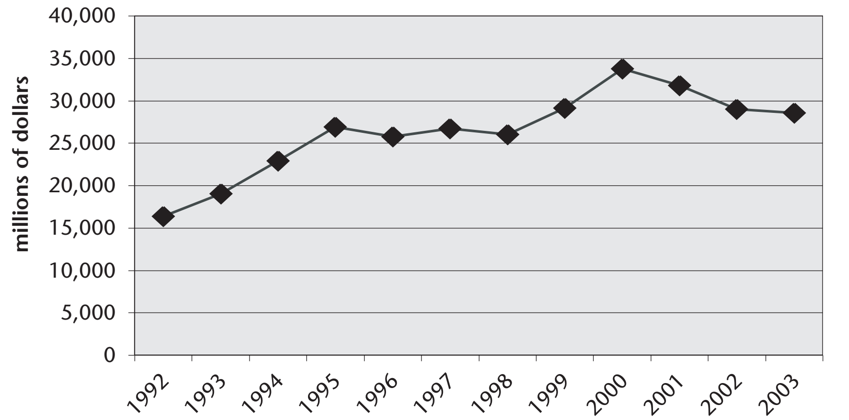
Stripping out residential construction, non-residential capital investment has been weak, continuing a downward trend that goes back to the early 1980s. In machinery and equipment, investment has declined to its lowest levels over the 1991 to 2004 period, in spite of another measure to stimulate it, namely the elimination of provincial sales tax on machinery and equipment.

Figure 8 considers public capital spending in BC by all levels of government (this differs from Figure 2 which only looked at BC Government capital spending). With some annual fluctuations, public capital spending has remained fairly steady in the 3.5% range. The public sector may be a strong source of capital investment in the next few years, as big-ticket projects related to the Olympics come on-line.

Combined public and private capital spending as a percent of GDP shows some modest improvement in 2003 and 2004 over the 1999-2002 period, although levels remain substantially lower than the early- to mid-1990s.

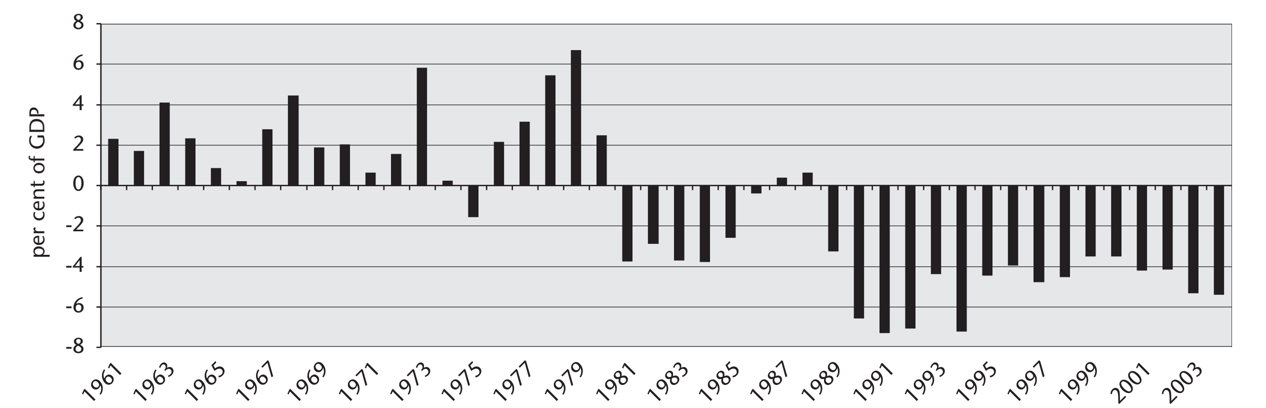
Exports and Trade Balance

Figure 9: BC Goods Exports



Source: BC Stats, Exports (BC Origin), multiple years.

Figure 10: BC Net Exports (International and Interprovincial)



Sources: CCPA calculations based on BC Stats, BC Economic Accounts; BC Budget 2004.

Because BC exports a significant portion of its GDP, exports are a key economic driver. As Figure 9 shows, the early 1990s saw growth of exports, which then flattened out mid-decade. Exports reached record levels by decade's end, feeding an economic recovery, peaked in 2000, and have declined since then. In 2003, exports were $5 billion lower than in 2000. Of this, $1.4 billion of the decline can be attributed to softwood lumber. But several other sectors not targeted for trade actions also saw declines, pointing to the impact of generally weaker economic conditions in the US and the rest of the world.

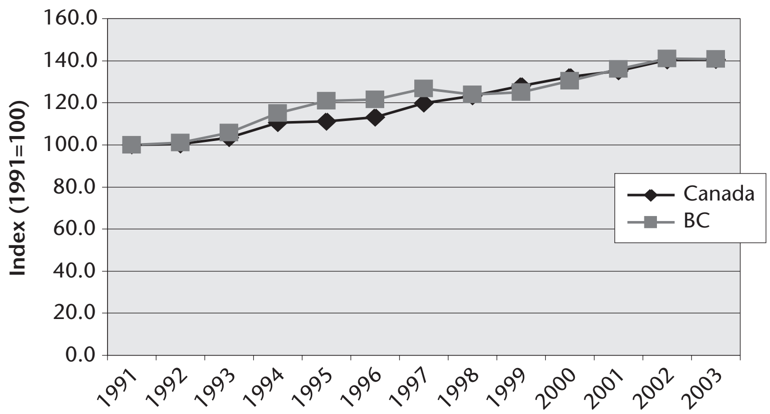
This becomes particularly problematic when BC's overall trade position is considered—both international and interprovincial. Figure 10 shows that through the 1960s and 1970s BC had a consistent trade surplus (exports in excess of imports) averaging 2.4% of GDP. This began to reverse in the 1980s. Since 1981, BC has had a trade deficit averaging 4% of its GDP, a large and troubling turnaround.

After showing some improvement in the trade balance in the late-1990s, BC's trade deficit has been growing this decade. Based on current projections, it is expected to reach 5.4% of GDP in 2004. The large trade deficit implies that BC is borrowing to finance current consumption. Provincial tax cuts could be a contributing factor to this increase, since BC imports a great deal of what it consumes.

The biggest factor behind the trade deficit is a steady increase in imports from other countries relative to GDP, while BC's exports to other countries have remained relatively steady at around 30% of GDP. BC still maintains a small surplus on *international* trade, but this is more than offset by a large deficit on *interprovincial* trade.

Personal Consumption

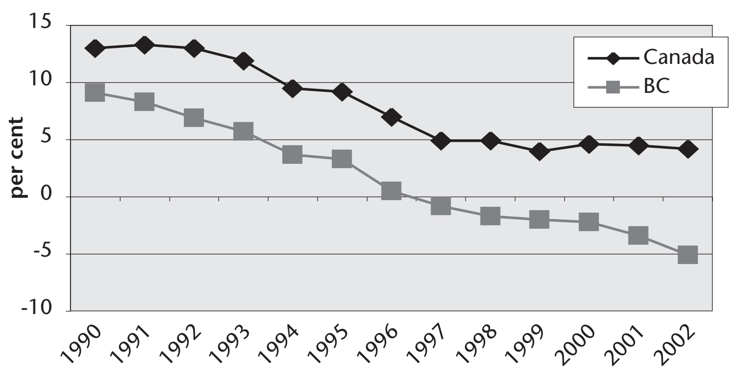
Figure 11: Index of Inflation-adjusted Retail Sales, BC and Canada



Note: Retail sales have been deflated by the consumer price index.

Source: Calculations based on Statistics Canada, CANSIM matrices V691789 and V692019, The Daily, April 21, 2004; BC Budget 2004; BC Stats, Consumer Price Index-Annual.

Figure 12: Personal Savings Rate, BC and Canada



Source: Statistics Canada, CANSIM matrices v692013 and v692019.

Figure 11 shows an index (1991=100) of retail sales, after adjusting for inflation for BC and Canada. From 1991 to 2003, retail sales in both grew by almost 41%. In the early 1990s, BC retail sales grew rapidly due to immigration. This slowed relative to Canada in the late-1990s.

BC caught up with the rest of Canada by posting a strong year in 2001. This likely reflects a combination of tax cuts and low interest rates. However, in 2002 and 2003, BC retail sales grew by less than the Canadian average. In 2003, inflation-adjusted retail sales fell slightly in BC.

Figure 12 shows a different side to the consumer equation, personal savings rates in BC and Canada. Both show the same downward trend, with BC at a consistently lower level of savings as a share of income than Canada. But the gap has increased between the BC rate and Canada's in recent years. Moreover, the BC rate turned negative in 1997 and has been increasingly negative up to 2002, a distressing trend. By 2002, British Columbians were borrowing about 5% of total personal income. Preliminary data from Statistics Canada finds that the savings rate fell to -8% in 2003.

A conclusion from these figures is that British Columbians have been keeping up with the rest of Canada in terms of personal consumption, but at a price of increased borrowing.

PART 5

Employment

Employment opportunities are a crucial factor in the standard of living for most people. In addition to the income provided by employment, having a decent job is an essential part of social inclusion—as anyone who has been unemployed for a prolonged period of time can attest to. In this section, we dissect a multitude of employment statistics to get at the state of employment in BC.

HIGHLIGHTS

- Employment growth improved in 2003, although it is still middle-of-the-road by historical standards.
- After two years of rising unemployment, the unemployment rate was down slightly in 2003. Youth unemployment remains persistently high.
- The employment rate, which acounts for changes in labour force participation, rose slightly in 2002 and 2003, but is still low compared to other provinces and BC's recent history.
- The quality of employment opportunities is increasingly characterized by greater self-employment and part-time work.
- On a regional basis, most employment gains have been concentrated in the Lower Mainland and Victoria.

Employment Growth

Figure 13: BC Annual Employment Growth Rate

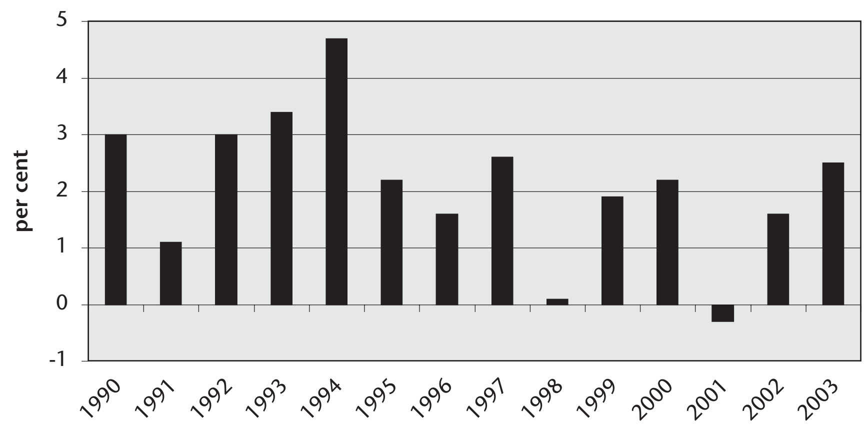
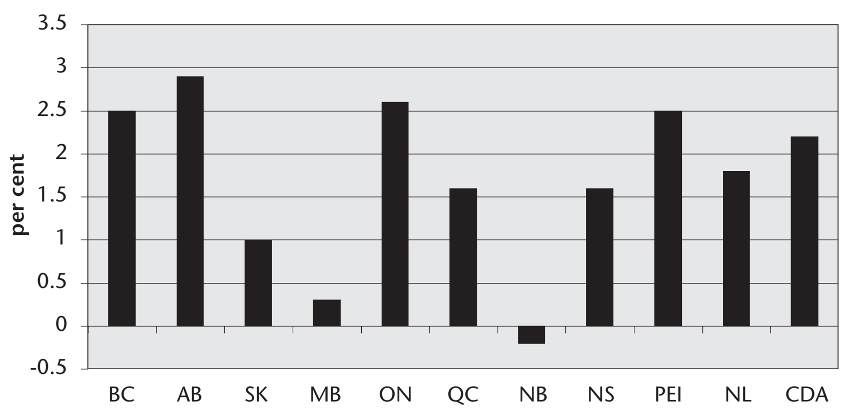


Figure 14: Provincial Employment Growth, 2003



Source: BC Stats, based on Statistics Canada, Labour Force Survey.

Just over 2 million people were employed in BC in 2003. Total employment grew 2.5% over 2002, the province's best showing since 1997. As Figure 13 shows, despite a strong employment performance in the early- to mid-1990s, overall employment growth has been middling in BC in recent years. Only three years saw employment growth greater than 2%, and none were above 3% from 1996 to 2003.

Figure 14 shows provincial comparisons for 2003. BC fared slightly better than the national average for employment growth in 2003. Although BC's employment growth was not spectacular by historical standards, only Alberta and Ontario outpaced BC (PEI was tied).

Unemployment Rate

Figure 15: BC Unemployment Rate

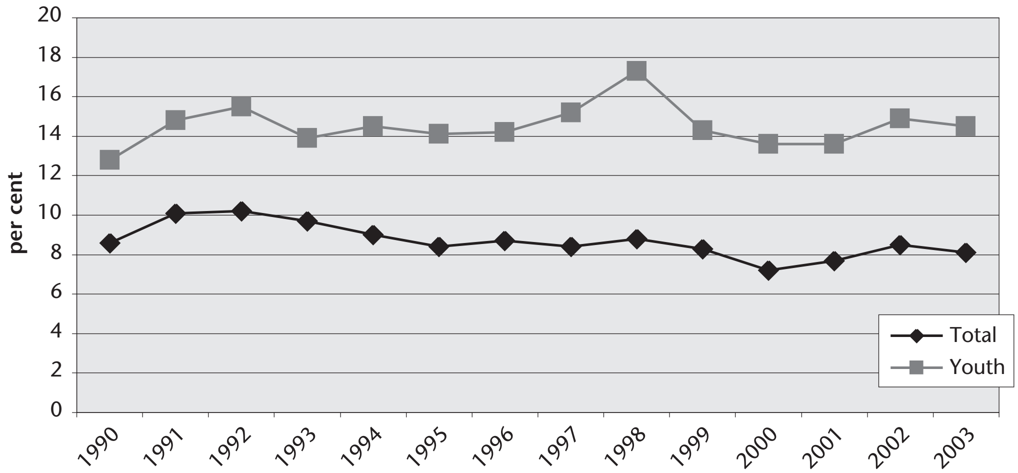
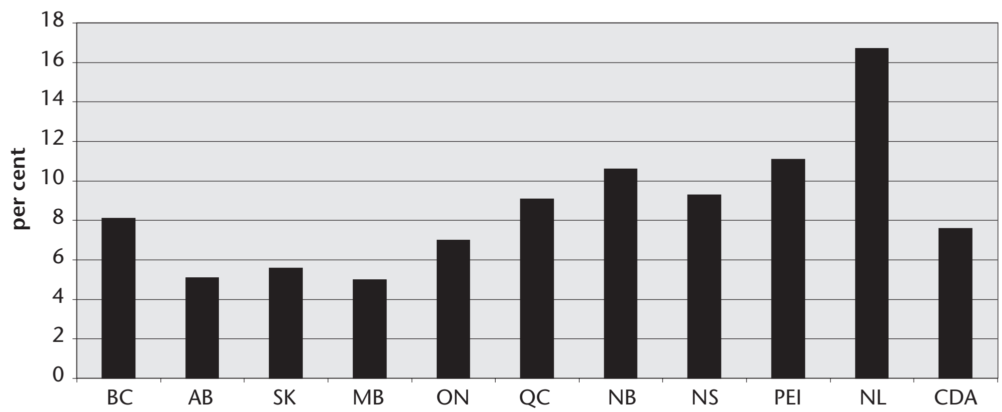


Figure 16: Provincial Unemployment Rates, 2003



Source: BC Stats, based on Statistics Canada, Labour Force Survey.

Figure 15 shows the unemployment rate for BC going back to 1990. The unemployment rate came down steadily during the 1990s, from a peak of 10.2% in 1992 to 7.2% in 2000 (the lowest unemployment rate over the 1990-2003 period, and lowest since the early 1980s).

The BC recession in 2001 and sluggish recovery in 2002 led to a rise in the unemployment rate. An unemployment rate of 8.1% in 2003 was a slight improvement over 2002, but is far from exceptional when compared to BC's historical experience or to other provinces in Canada.

Figure 15 also shows that youth unemployment rates are persistently higher than the overall unemployment rate. The gap has widened in recent years. While many youth do not participate in the labour market due to schooling, for those that do, 14.9% in 2002 and 14.5% in 2003 faced involuntary unemployment.

Figure 16 shows the total unemployment rate in 2003 compared to other provinces. BC's unemployment rate was lower than provinces east of and including Quebec, but was higher than Ontario, the Prairie provinces and Alberta.

Employment Rate

Figure 17: BC Employment Rate

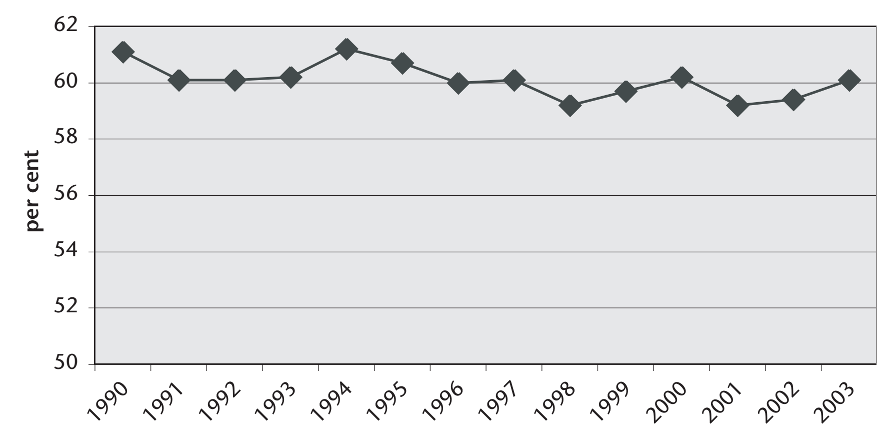
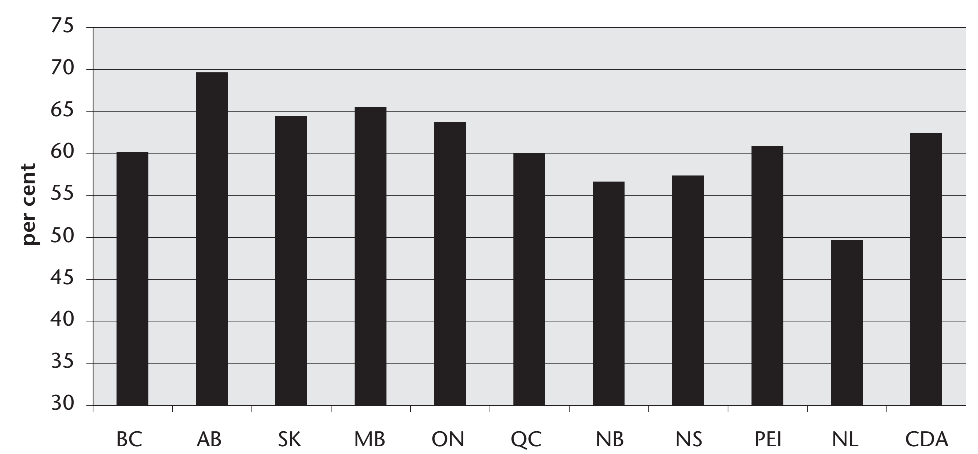


Figure 18: Provincial Employment Rates, 2003



Source: BC Stats, based on Statistics Canada, Labour Force Survey.

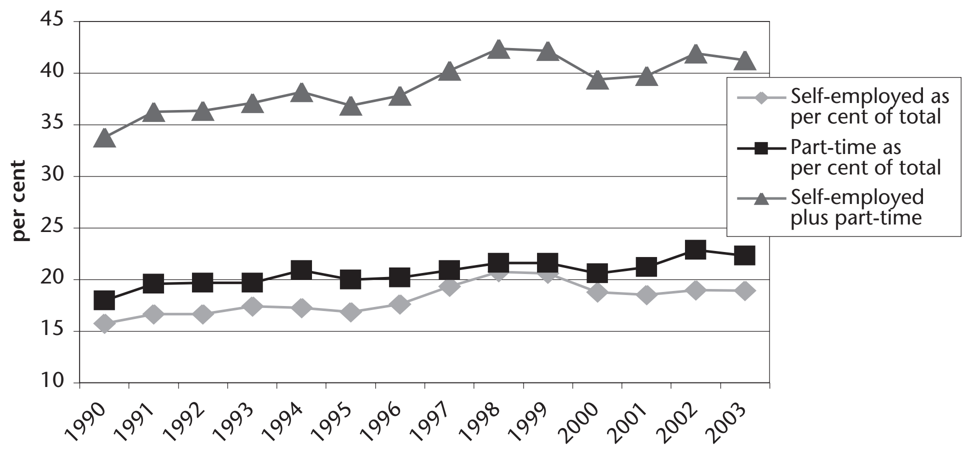
A slightly different perspective is provided by the employment rate. This is defined as the number of employed people divided by the working age population (whether or not they are in the labour force). This takes into account the fact that labour force participation has been trending downwards since the early 1990s.

The employment rate shows more of a cyclical pattern approximating changes in the overall provincial economy. Figure 17 shows the ebb and flow of the employment rate, which dropped to 59.2% in the slowdown years of 1998 and 2001, then increased in subsequent years. The 2003 employment rate of 60.1% is not exceptional in relation to the 1990s experience.

Figure 18 shows employment rates in 2003 for all provinces. This comparison shows that BC could be doing much better in terms of employment. Alberta may be exceptionally high, with an employment rate of 69.6%, as it is a destination for many workers seeking to get jobs in or around the oil patch. Still, other provinces have higher employment rates than BC. While Quebec was at about the same level as BC in 2003, only three provinces had lower employment rates.

Employment Opportunities

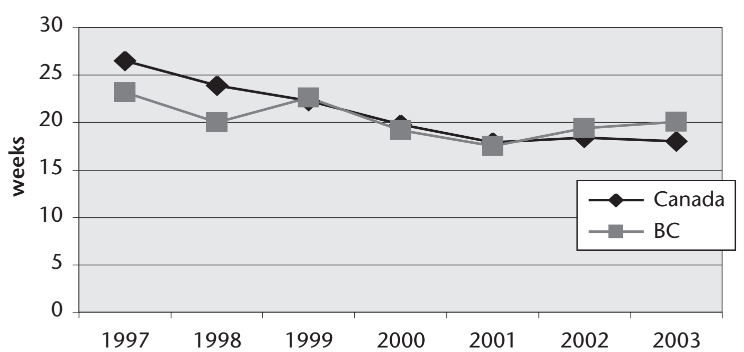
Figure 19: BC Part-time and Self-employment as a Share of Total Employment



Note: There is a some degree of overlap among part-time and self-employed, so the top line should be considered an approximate indicator of the extent to which there is a lack of opportunities for real productive work, rather than a specific percentage of the employed population.

Source: BC Stats, based on Statistics Canada, Labour Force Survey.

Figure 20: Average Weeks of Unemployment



Note: Figures are for all workers age 15+.

Source: Statistics Canada, CANSIM matrices v2349179 and v2352419.

Many people with jobs are in fact underemployed—they are not meaningfully employed to the extent they would like. This is a reflection of trends that have seen the labour market become more "flexible"—meaning a larger number of workers with a more tenuous and more contingent relationship to employers.

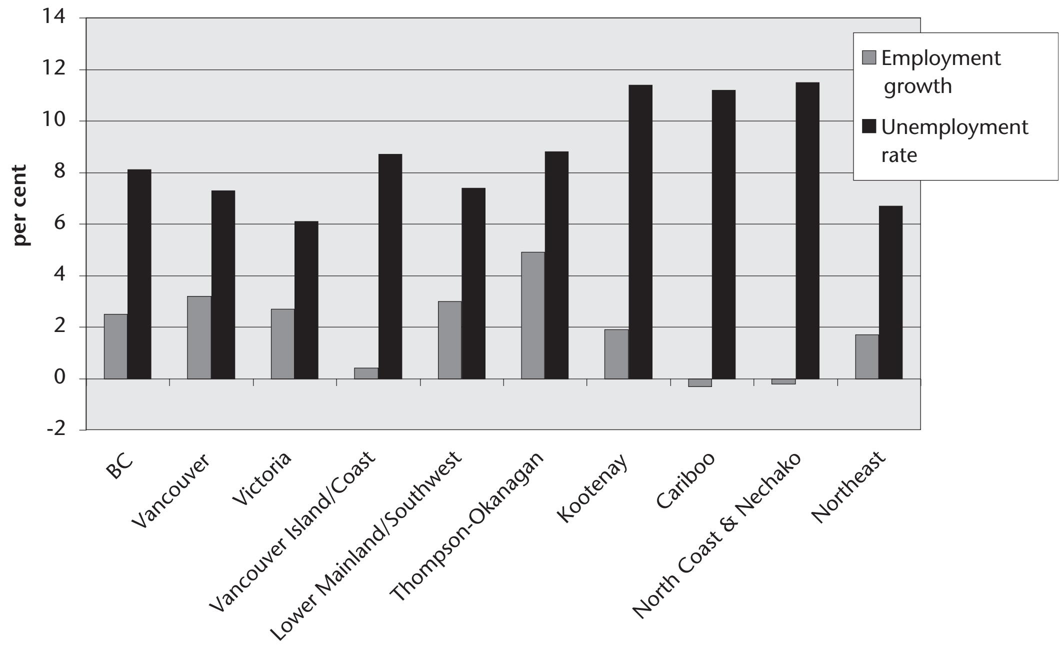
Figure 19 shows the percentages of the employed workforce working part-time and self-employed. Both have grown significantly since the early 1990s. Part-time work is at its highest levels since the early 1990s. Self-employment is slightly down from peak levels in the late-1990s but still quite high.

The top line in Figure 19 shows the combined part-time and self-employed as an indicator of underemployment (there is some overlap among these two categories for people who are both part-time and self-employed). That is, more precarious work has grown at a faster rate than full-time permanent jobs. Of course, some people choose to be self-employed or to work part-time. Nonetheless, the significant rise in both categories reflects sustained weakness in the paid labour market, due to involuntary part-time work and marginal self-employed work (see Jackson and Robinson 2000 for a discussion).

Figure 20 shows another dimension of the labour market: the duration of unemployment. For Canada, the average length of unemployment came down from over half a year (26.5 weeks) in 1997 to around 18 weeks in recent years, the product of stronger employment growth. BC workers experienced a longer average duration of unemployment in 2003, at 20 weeks.

Regional Employment

Figure 21: Employment Growth and Unemployment Rates, 2003



Source: BC Stats, based on Statistics Canada, Labour Force Survey.

On a regional basis, employment gains have not been distributed equally. As Figure 21 shows, employment growth has been stronger, and unemployment rates lower, in Vancouver and Victoria. Outside of these centres, employment growth has been very weak (in some cases, slightly negative), with higher unemployment rates, in particular for the Kootenays, the Cariboo and the North Coast.

An exception is the Thompson-Okanagan, which experienced stronger than average employment growth in 2003, albeit with a rather high unemployment rate. The Northeast is the opposite of the Thompson-Okanagan with a lower unemployment rate than average but slower employment growth.

PART 6

Earnings

Beyond having a job, workers must earn a decent income in order to provide for themselves and their families. Growing incomes lead to increased capacity for personal consumption or savings, and in addition support public services via increased taxes paid. This section considers a number of aspects of the earnings of British Columbians.

HIGHLIGHTS

- BC's hourly wages continue to be tops in Canada.
- Average hours worked continues to decline.
- Median income for economic families in 2001 (the last year for which we have data) was about the same as the national average, but BC leads Canada with regard to unattached individuals.
- Union coverage has been on a declining trend since the late 1990s.
- BC has the highest general minimum wage in Canada, but one of the lowest if the $6 per hour training wage is counted.
- The "social wage" provided by public services has been declining for more than a decade.
- Female earnings (full-year, full-time) have increased over the past couple decades to about 70% of male earnings.
- The percentage of British Columbians with low incomes after taxes and transfers was 12% in 2001.

Average Hourly Wage and Hours Worked

Figure 22: Provincial Average Hourly Wages, 1997 and 2003

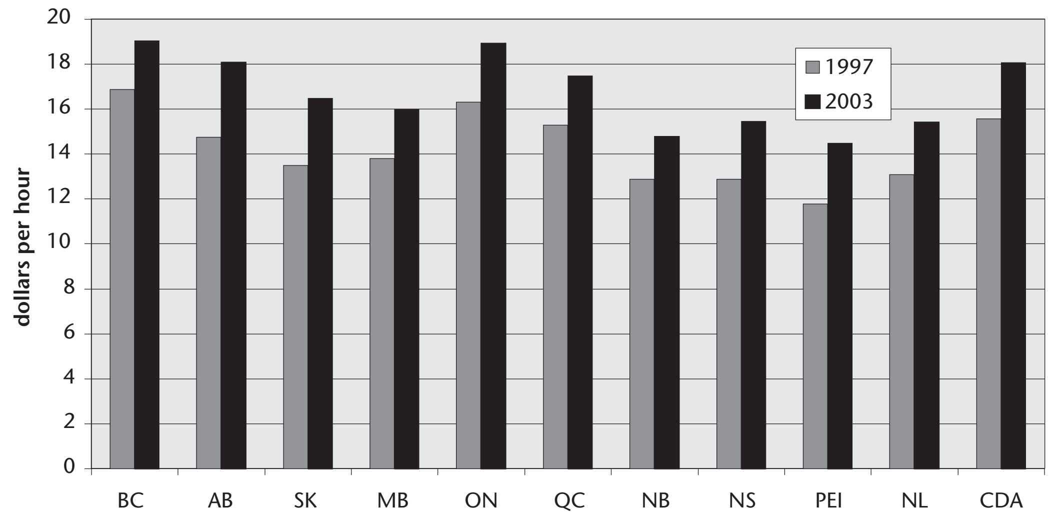
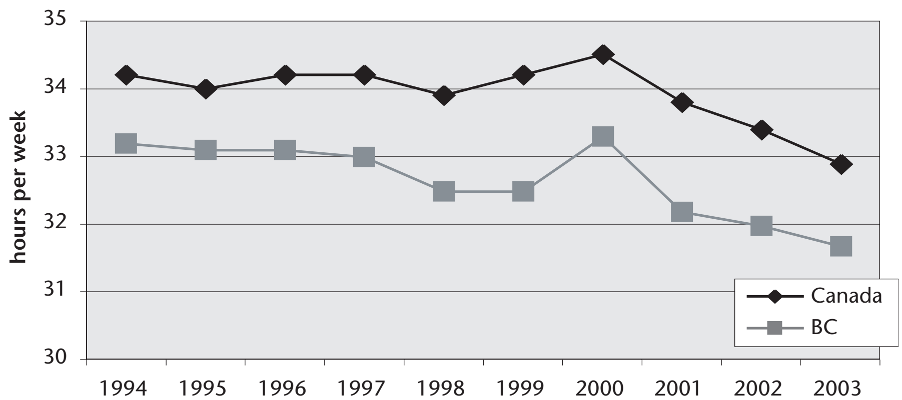


Figure 23: Average Weekly Hours Worked, BC and Canada



Source: BC Stats, based on Statistics Canada, Labour Force Survey.

BC has been a leader in Canada for several years in terms of high wages. Figure 22 shows that BC led all provinces in 1997 in hourly wages (current dollars), although Ontario tends to be very close and has overtaken BC for top spot depending on the year. In 2003, BC edged out Ontario for the highest average hourly wage in Canada.

British Columbians also work slightly less than their counterparts in the rest of Canada. As Figure 23 shows, the average British Columbian worked about one hour less than the Canadian average ten years ago, a difference that has persisted through to 2003. Both Canada and BC have seen a decline in hours worked in recent years.

Interestingly, one of the channels by which tax cuts are alleged to stimulate the economy is that people will work harder in response to higher take-home pay. The decline in BC hours since 2001, however, suggests this has failed to occur, and hours worked has continued to decline (this could actually be a *result* of the tax cuts, as people need to work less to earn the same after-tax income).

Median Income

Figure 24: Median Market Income, Economic Families, BC and Canada

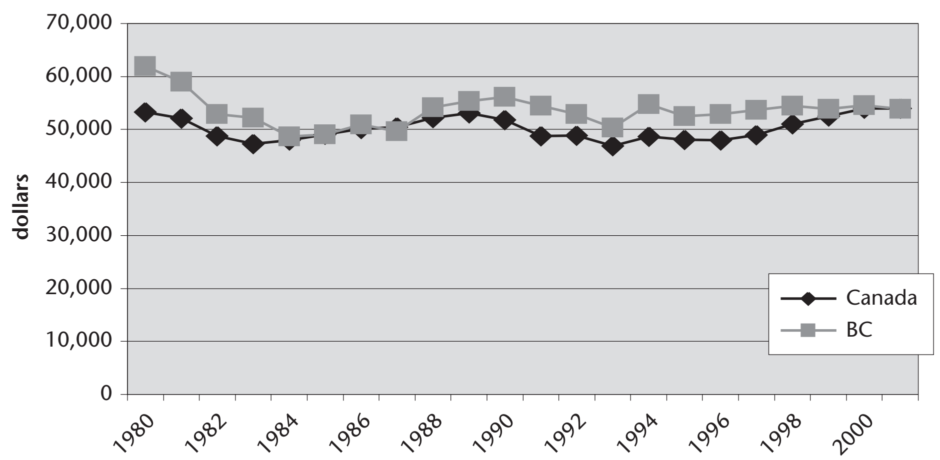
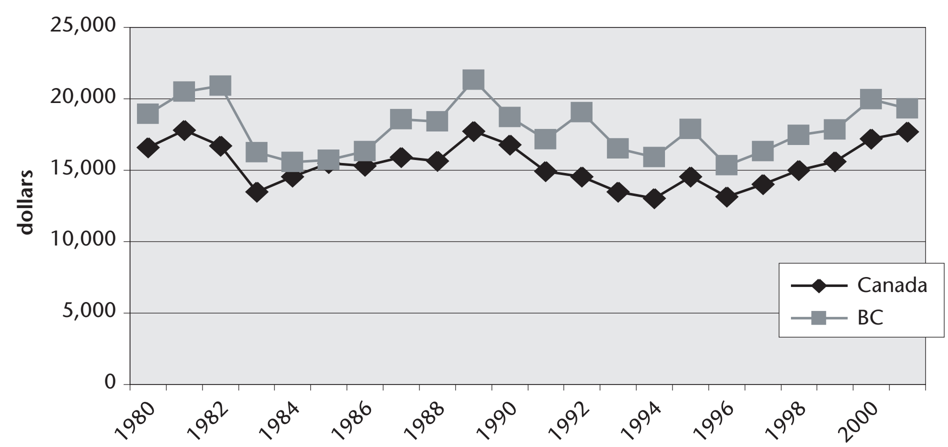


Figure 25: Median Market Income, Unattached Individuals, BC and Canada



Note: All figures in 2001 constant dollars.

Source: Statistics Canada, Income Trends in Canada 1980-2001 CD-ROM.

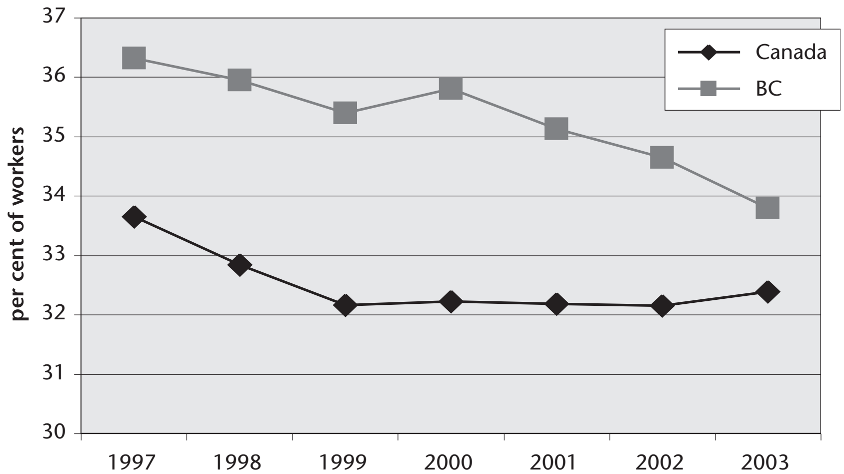
Median income is the income of the person or family exactly in the middle of the distribution—half of the group have greater incomes and half have lower incomes. Median income is a better indicator of the “typical” person or family because averages can be pulled up by gains exclusively at the top of the distribution. Unfortunately, we only have data on median income up to 2001.

Figure 24 shows median income (constant dollars) in BC and Canada for economic families. Median income, after accounting for inflation, has been stagnant in BC since 1988. Strong growth in the rest of Canada increased Canadian median income over the late-1990s to 2001 to about the same level as BC median income.

Figure 25 shows the same for unattached individuals. BC and Canada show a similar trend, with BC having consistently higher median income than Canada. Unlike economic families, BC median income for unattached individuals has been rising since the mid-1990s.

Unionization Rate

Figure 26: Union Coverage



Note: Union coverage means all employees covered by a collective agreement. This number tends to be slightly larger than union density, or all employees that are members of unions.

Source: Statistics Canada, CANSIM matrices v2113868/9 and v2130878/9.

The world of work is embedded in, and structured by, institutions that determine the distribution of income, working conditions and standards. Unions are institutional features of the labour market that ensure more income goes to workers on the bottom and middle rungs of the income ladder than would be the case in their absence. This is because individual workers have little bargaining power over their wages and working conditions.

Figure 26 shows union coverage rates for Canada and BC. In 1997, BC had a union coverage rate greater than the Canadian average. This was still the case in 2003, but the gap is now much smaller. BC's union coverage rate declined from 36.3% in 1997 to 33.8% in 2003. Some of this is due to growth of non-union work, but between 2000 and 2003, BC also lost 12,600 unionized jobs

Decreasing numbers of union jobs may be due to losses in the public sector and forestry. These results also accord with anecdotal evidence of decertification drives, facilitated by changes in the Labour Code.

Minimum Wage

Figure 27: Provincial Minimum Wages, 2003

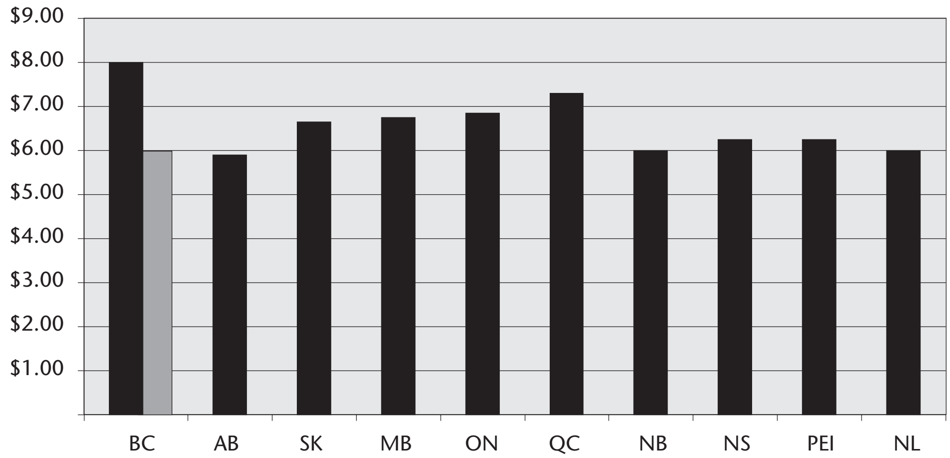
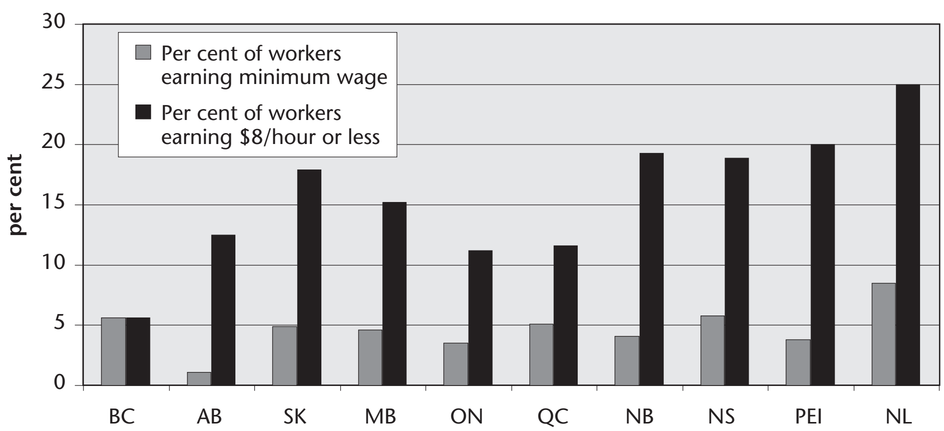


Figure 28: Minimum Wage Incidence, 2003



Notes: Some provinces have different minimum wages based on age or other criteria. BC's "training wage" of $6 per hour for the first 500 hours is shown beside the general rate in Figure 27.

Source: Sussman and Tabi 2004.

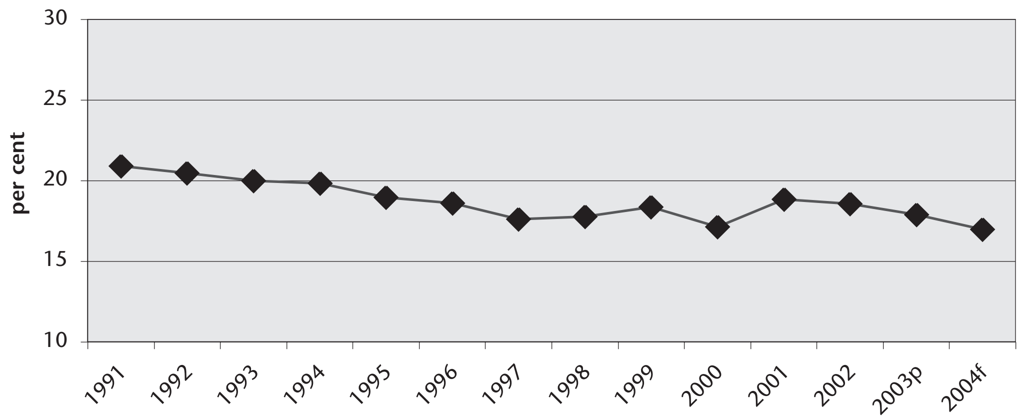
Some economists and business commentators consider minimum wages to be impediments to the smooth functioning of a labour market, causing unemployment. Empirical studies suggest that this is not the case, and that minimum wages do indeed increase the incomes of people in the worst jobs in the economy (Goldberg and Green 1999).

Comparative provincial minimum wages are set out in Figure 27. BC has the highest general minimum wage in the country at $8 per hour, although if we count the $6 per hour "training wage" BC is among the lowest in the country.

Figure 28 shows that the incidence of workers making minimum wage in BC is higher than most other provinces. But in terms of the total number of workers making $8 per hour or less, BC is by far the lowest in the country.

Public Sector Spending: "The Social Wage"

Figure 29: BC Government Expenditures as a Share of GDP



Notes: Expenditures represent Ministry expenditures in Consolidated Revenue Fund. Fiscal years for expenditures are matched with calendar years (e.g. 1991 GDP with 1991/92 expenditures). 2003 figures are preliminary, based on Third Quarter Financial Report. 2004 forecast based on BC Budget 2004.

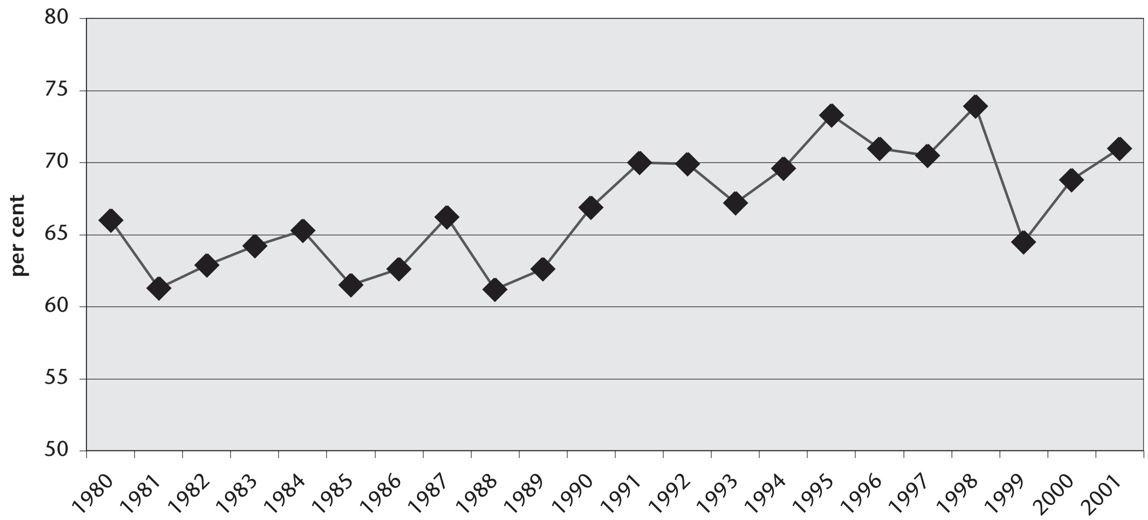
Sources: Author's calculations based on BC Economic Accounts; BC Financial and Economic Review 2003; and BC Budget 2004.

Paying less taxes increases the income available for private consumption. But the services taxes pay for also increase freedom in a variety of ways, such as the freedom to enjoy a public park, freedom from illness and disease, freedom to travel on public roads, and the freedoms and opportunities afforded by a good education. That is, the impact of public spending is to provide a "social wage" to all British Columbians, reflected in the quality of infrastructure, public services, social insurance and opportunities. While it is not easy to put a price on this social wage, one way of looking at it is the total size of public sector spending relative to BC's GDP.

Figure 29 looks at public spending relative to provincial GDP. The measure of public expenditures is the provincial Consolidated Revenue Fund, which captures Ministry expenditures but not Crown corporations. This shows a declining "social wage" through most of the 1990s, from a peak of almost 21% in 1991 to 17% in 2000. In other words, over this period the overall economy grew faster than the public sector. In the late-1990s public expenditures recovered somewhat, growing at a faster rate than GDP, but the downward trend resumed from 2001 to present (based on the most recent forecasts). Expected public expenditures-to-GDP in 2004 is 17%.

Male-Female Earnings Gap

Figure 30: Female-to-Male Earnings Ratio



Note: Figures are for full-year, full-time work.

Source: Statistics Canada, Income Trends in Canada 1980-2001 CD-ROM.

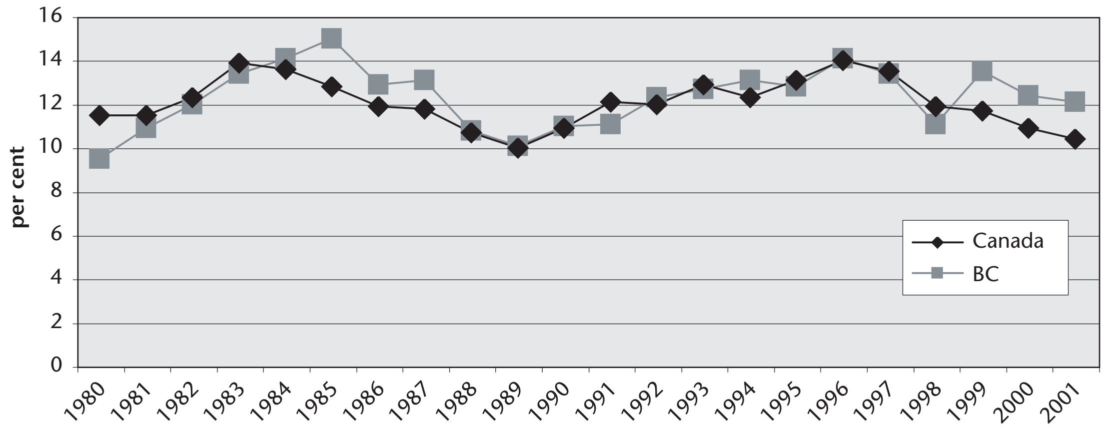
Although the average gap between male and female earnings has been reduced over the past couple decades, it remains significant. Through the 1990s, female earnings for full-time, full-year work fluctuated around 70% of male earnings (Figure 30). This gap represents a number of factors: differences in occupations; education level and field of study; work experience; hours of work (even among full-time workers); and, *de facto* discrimination.

Interestingly, most of the gap can be explained by factors that have some connection to child-rearing by women (Cleveland and Krashinsky 1998). Women are more likely to take lower-paying jobs in easy to enter/exit fields or that have more flexible working hours. Women are more likely than men to withdraw from the labour force due to child-rearing, which affects longer-term career prospects and income. One important means of addressing the remaining gap would be the establishment of a universal, high-quality child care program. This would increase the options women have for labour market participation.

In contrast, recent moves by the government to roll back pay equity gains in public sector collective agreements and downsize the public sector (a major source of high-paying jobs for women) by eliminating and outsourcing jobs, while using public dollars for the Olympics to stimulate work primarily done by men, suggest that the male-female earnings gap may be rising. Data for this indicator are only available up to 2001, which predates these government initiatives.

Low Income Rate

Figure 31: Percentage Below After-tax LICO, BC and Canada



Source: Statistics Canada, Income Trends in Canada 1980-2001 CD-ROM.

Figure 31 shows the percentage of people with income less than the low income cut-off. This measure is after taxes and transfers—or after the impact of government to reduce inequality. While this measure showed a growing incidence of low income in the early 1990s, this declined somewhat in the latter part of the decade.

While Canadian and BC low income rates track each other closely, the BC low income rate was higher from 1999 to 2001. And this gap was large: the BC rate was about three percentage points higher than the Canadian rate in each of these years. Unfortunately, more recent data are not available.

Distinct from low income is the degree of income inequality in BC. The most recent data for inequality are from 2001, but we do not consider them here because recent research suggests that the most common inequality indicators greatly underestimate both market and after-tax and transfer inequality (Frenette, Green and Picot 2004). The nature of provincial policy changes that have increased incomes at the top while reducing them at the bottom suggests that inequality is rising.

Conclusion

BC has experienced wide-ranging changes that have reshaped the province's public policy. These changes were deliberately brought in quickly with an aim of stimulating the provincial economy. A high price has already been paid in the pain and hardship inflicted on British Columbians, in particular the poorest and most vulnerable. Has it all been worth it? Has the provincial economy made the promised turn-around? The short answer is no.

We should be careful not to draw definitive conclusions from just a few years of data. Time will provide the data by which to make a more detailed assessment. We also need to control for all of the other factors, such as lower interest rates and a higher Canadian dollar, that affect macroeconomic performance, as well as long-term socioeconomic trends, to assess the real impact of tax cuts and other reforms.

Nonetheless, the early results suggest that there has been a lot of pain for very little gain. There is no reason to believe, based on the data available, that the economy has performed as advertised in response to the sweeping reforms made in recent years. While there are some positive signs of life, the statistics do not point to a boom on the horizon.

At the broadest level, economic growth has been unspectacular, both in comparison to the rest of Canada and compared to recent BC history. A big disappointment is continued weak capital investment outside of residential construction. The fact that investment has not responded to almost $1 billion in corporate tax cuts, $1.5 billion in personal income tax cuts and a slew of deregulation and other initiatives is a major indictment of the government's program.

In terms of employment, a low interest rate environment has perhaps been more beneficial to BC than tax cuts, specifically in regards to the role of low interest rates in stimulating the housing market and residential construction. Employment growth improved in 2003, although it is still middle-of-the-road by historical standards. Other employment indicators are little changed from pre-2001 patterns. Meanwhile, the quality of employment opportunities is increasingly characterized by greater self-employment and part-time work. On a regional basis, most employment gains have been concentrated in the Lower Mainland and Victoria.

BC's hourly wages continue to be tops in Canada. Employment and earnings indicators, however, suggest that there has been little response at a microeconomic level to the tax cuts. Hours worked have continued to decline (in line with recent trends), and the employment rate is little changed from levels in the 1990s.

These conclusions, while preliminary, suggest that the policy package advocated by business leaders does not deliver for ordinary people. That is, good businesspeople can make bad policymakers.

It is fairly obvious why business groups would support the government's policy agenda—it puts more dollars in their pockets. Whether these measures are actually good economic policy, however, is another story. The argument from corporate BC is that these measures create a supportive climate for investment that leads to economic growth and good jobs. These policies are known as

> The fact that investment has not responded to almost $1 billion in corporate tax cuts, $1.5 billion in personal income tax cuts and a slew of deregulation and other initiatives is a major indictment of the government's program.

"supply-side economics"—the presumption is that removing barriers to production will lead to higher output.

What tends to be missing is any consideration of the demand side—the consumers and their incomes necessary to purchase goods and services. Companies will only make investments if the demand for a product is robust, i.e. if they can sell product at a price greater than the cost of production. Without sufficient demand, the incentive to invest dissipates. And the problem with many of these supply-side policies is that they undercut demand in the economy (through lower minimum wages and welfare rates, public sector layoffs and contracting out). That translates into less income for local small businesses. While small business is enticed by the lure of tax cuts and cheaper labour, following these policies can do more harm than good.

At the end of the day, BC needs to be much more creative in developing an investment strategy, and must seek a made-in-BC approach, not some off-the-shelf, one-size-fits-all imported one. It must address the growing gap between the "hinterland" and the Lower Mainland, and must seek to further diversify the BC economy. This means getting beyond the resource mindset that permeates the province's business culture. And it has to be a multifaceted strategy that moves BC up the value chain and promotes investment.

The CCPA has suggested a number of ideas for an alternative economic development and investment strategy in our annual *BC Solutions Budgets*. These include measures to provide stronger incentives for private sector investment, but also a much stronger role for public investment in meeting the needs of British Columbians.

Despite the slew of criticisms about BC's economy, it is still a wealthy province, and is starting from a privileged position. But there is much work that desperately needs doing. Hoping that the private sector comes to the table in response to tax cuts and other supply side measures is a leap of faith. The provincial government should not sit on the sidelines cheering on the private sector; it must lead an economic strategy that is active and deliberate.

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