



# The hidden cost of ‘balanced’ budgets

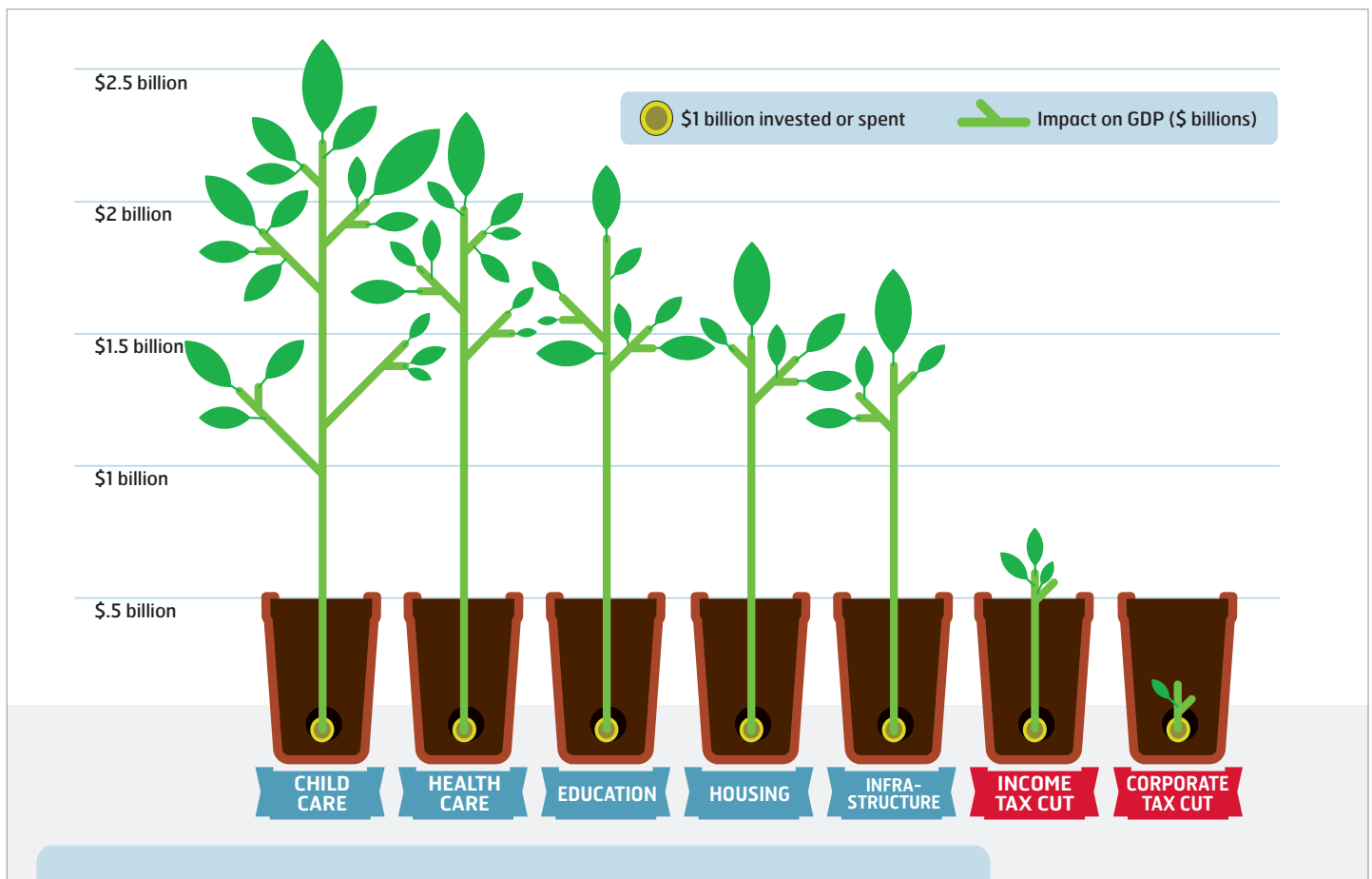
Lately, provincial politicians have been talking up the need for balance. They say we need to ‘streamline’ services and ensure ‘sustainable’ finances for the future. But they don’t talk about weighing the costs and benefits of cutting services compared to increasing borrowing or raising revenue through taxes. And they definitely don’t mention how tax cuts make “balance” even harder to achieve.

Fiscal balance is only one part of overall balance. We need to ask who pays the price when governments balance budgets by shifting costs onto people who rely on public services, workers who deliver public services, and the broader community.

There’s an assumption that balanced budgets are fiscally responsible. This is simply not true. It may sound like common sense that a government’s spending should not

exceed its revenues. But that’s a short-sighted, narrow approach. Government budgeting needs to be guided by long-term thinking that weighs many factors. For example, it makes sense for a government to run a deficit to invest in public child care that makes life more affordable for families and pays for itself as more women enter the workforce.

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**Public spending – not cutting – is the best way to grow our economy.**



# ECONOMIC BRIEFS

## St. John's living wage pegged at \$18.85

New research from the Canadian Centre for Policy Alternatives finds that a living wage in St. John's, Newfoundland and Labrador is \$18.85. That's \$7.45 higher than the current minimum wage of \$11.40. A living wage is what a full-time worker must earn to pay for basic household needs like food, clothing, shelter, and transportation in a specific community. The study used the basic needs for a family of four in St. John's, with two adults working 35 hours per week, to calculate the wage. More than 70,000 workers in the province earn less than \$15 an hour. Most of these workers are women. CUPE NL will use the information about the cost of living in St. John's to support our members in collective bargaining.

## Child care has impact on BC living wage

In British Columbia, a similar CCPA study found that affordable child care made a big difference in what workers needed to earn to cover basic expenses. The living wage for workers declined across the province thanks to provincial government investments in child care. In Metro Vancouver, calculations of living wage went down by almost \$3 an hour thanks to two provincial programs, the income-tested



Affordable Child Care Benefit and the universal Child Care Fee Reduction Initiative. This research highlights the important role that government policy and universal public services play in affordability and a higher standard of living for workers.

## Low-income debt linked to housing prices

New research from Statistics Canada examines household wealth and debt across communities and by income level, and how it has changed since the last recession. Researchers found that low-income households in

Vancouver and Toronto owed more than \$4 for every \$1 they earned. That's significantly higher than the Canadian average of \$1.75 for every \$1. Researchers also found that while most Canadian households have increased their level of debt compared to their income, the value of their assets also increased. This can partly be explained by the increase in home prices, especially in Vancouver and Toronto. For low-income families struggling to just get by, the solution starts with more affordable housing in urban centres where housing prices have skyrocketed.

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# ECONOMIC DIRECTIONS

## **Economic growth**

Canada's economic growth has been slower than expected this year, causing the Bank of Canada to downgrade expectations for 2019 to 1.2 per cent. The bank still expects growth to pick up in 2020.

## **Jobs**

Job growth continues to be strong, especially in Ontario and Quebec. The unemployment rate has remained near its 40-year low of 5.7 per cent.

## **Wages**

Average wage adjustments in collective agreements were 1.7 per cent in the first quarter of 2019.

## **Inflation**

Inflation is expected to reach 2.0 per cent by late 2019.

## **Interest rates**

The Bank of Canada kept its key lending rate at 1.75 per cent in May 2019. If economic growth remains sluggish, the next increase may not come until 2020.

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## Cuts hurt communities and economy

Short-term decisions to balance budgets can mean higher long-term costs for future governments or a less prosperous economy. Failing to maintain infrastructure like public transit is a good example. It leaves future governments with a bigger maintenance bill and makes it harder for people to engage in productive economic activity like getting to and from work.

In other cases, the impact is more immediate. Cuts in one area can increase costs for other government departments or levels of government. Or the cost can come directly out of people's pockets. An example is cuts to public health and preventative medicine. This will lead to more hospitalizations. Cuts to staff and

funding for hospitals, long-term care, and child care create more direct costs for families, as they struggle to fill in the gaps for their loved ones.

Public sector cuts have a ripple effect through our communities. The quality and availability of services decline, so people may pay more out of pocket for services they need. Laid-off workers have less money to spend, and provincial wage freezes leave public sector workers with stagnant wages. All of this means less spending in the local economy, leaving local businesses with less money to invest back in the community. This impact can be measured using tables from Statistics Canada that reveal how spending in specific sectors flows through the whole economy. CUPE Ontario used

this data to estimate that the cuts to government spending in the 2019 provincial budget would mean the loss of more than 50,000 jobs in Ontario.

A truly "balanced" budget needs to take more into account than the short-term fiscal bottom line. Governments must weigh many factors to ensure budgets are truly balanced. Currently the cost of public borrowing is historically low. There is solid evidence that government spending in many areas has long term social, environmental, and economic benefits that far outweigh the cost of borrowing.

The real bottom line? It is not just socially irresponsible to cut public services, it's fiscally irresponsible as well.

# Study highlights value of public services

We all rely on public services, and now Statistics Canada has put a number on exactly how much value we get from public spending on health care, education, and other public services like housing, recreation and culture. The study found the benefits of public services averaged \$12,500 per person in 2018.

It's the first time Statistics Canada has measured the value of government spending to households, as part of its household income and wealth data. This data, called social transfers in kind (STiK) will form part of Statistics Canada's overall picture of the economy. These figures will help give us a better understanding of the economic and social importance of public services for all Canadians.

Most of us get far more value from public services than we pay in taxes, and high-quality public services make life more affordable for everyone. Universal public services also help to reduce inequality and make it easier to weather difficult financial times.

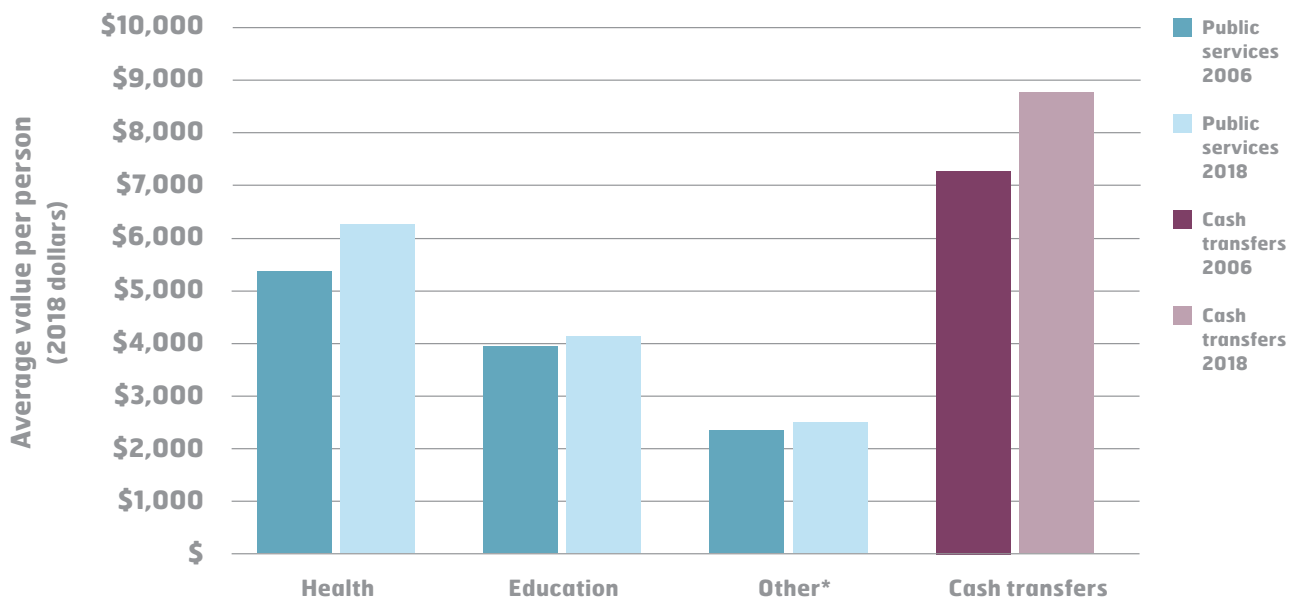
Ten years ago, the Canadian Centre for Policy Alternatives conducted similar research on the benefits of public spending, Canada's Quiet Bargain. The CCPA study used a slightly different methodology and included government transfers to individuals. It found that "for the vast majority of Canada's population, public services are, to put it bluntly, the best deal they are ever going to get."

Since Canada's economic accounts already factor in government transfers, Statistics Canada's STiK calculations only include public services. But the two studies come to the same conclusion. Adjusting for inflation, the value of public services calculated by the CCPA would be equal to \$13,500 per person, plus an additional \$7,220 in transfers (such as Employment Insurance, Old Age Security, and the Guaranteed Income Supplement), very close to the findings from Statistics Canada.

Breaking down the numbers from Statistics Canada (see table below) reveals that the value of public health care has grown the most since 2006, and accounted for nearly half of the total value of public services to Canadians in 2018. Education is the next largest component and has grown only slightly. The category of "other" public services changed very little. It includes government spending on services and programs like housing, recreation and culture, social services and environmental protection.

Interestingly, the average value of cash transfers to individuals has grown by nearly \$1,500 since 2006, more than the total increase in the value of public services which increased by \$1,200. This reflects the fact that recent governments have increased direct transfers such as the Canada Child Benefit, but have not invested in expanding the delivery of public services.

## The value of public services to Canadians



\* Government spending on services and programs like housing, recreation and culture, social services and environmental protection.

Sources: Statistics Canada tables 36-10-0588-01, 36-10-0112-01, and 18-10-0005-01