

# NEW SOLUTIONS FOR THE BC ECONOMY

A conference report and  
discussion paper

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# NEW SOLUTIONS FOR THE BC ECONOMY

## INTRODUCTION

The economy of British Columbia is faltering badly as unemployment rises and rates of economic growth trail far behind the rest of the country. After a year and a half in office, the provincial Liberal government still says the best course is to simply cut public services, reduce tax costs for business and then step away, leaving the economy and communities to respond as best they can. But is this really the most sensible course for a province like British Columbia? To help foster debate on the economic health of our province and as a first step towards a more comprehensive economic strategy, the B.C. Federation of Labour, on October 16<sup>th</sup>, hosted a conference in Vancouver entitled "New Solutions for the BC Economy: A Conference on Jobs, Investment and Sustainable Public Services". This report takes an overview look at the current state of the BC economy, summarizes the discussion at the conference and then makes some suggestions for further work on an economic strategy, based on the features of more successful modern economies elsewhere.

First, a snapshot of the BC economic problem.

### **Why does the economy need new solutions?**

- In 2000, BC enjoyed healthy growth (4.5 percent real Gross Domestic Product (GDP) per capita) and the lowest provincial unemployment rate in 20 years. By 2001, in swift contrast, the province suffered a recession and real economic growth actually declined 1.1 percent, the first time growth declined since 1982.
- While there has been some improvement this year, economic growth remains weak (Finance Minister Collins predicts 1.4 percent). BC is last among provinces in terms of economic growth and the TD Bank predicts we will be 10<sup>th</sup> out of 10 in 2003 as well.

*"The unemployment rate in the second quarter of 2002 was a staggering 15.1 percent in the North Coast/Nechako region (up five full percentage points in just one year). In the Cariboo region, the rate was 13.6 percent, up 3.1 percentage points."*

- According to BC Stats "While Sept. 11<sup>th</sup> obviously had an effect on the BC economy, employment during the year dropped more before this date than after it, with job losses concentrated in the first and the third quarters". (BC Stats Infoline, Feb. 15, 2002)
- Recent increases in job creation are only now catching up to the 85,200 jobs lost in 2001. Comparing second quarter 2002 to second quarter 2001, the provincial unemployment rate grew two percentage points to 8.8 percent from 6.9 percent. (BC Stats Infoline, August 9, 2002). The October unemployment rate was 8.3 percent.
- Unemployment rates are high all over the province but are disproportionately high in resource and interior regions. The unemployment rate in the second quarter of 2002 was a staggering 15.1 percent in the North Coast/Nechako region (up five full percentage points in just one year). In the Cariboo region, the rate was 13.6 percent, up 3.1 percentage points.
- The youth unemployment rate in BC in October was 15.3 percent up from 13.7 percent last October.
- Even though many mills have responded to the softwood lumber tariff by increasing production to protect market share, forest companies are also shedding jobs. At the end of August, the BC Central Credit Union reported in its Weekly Economic Briefing that "Jobs in BC's forest industry are falling at a 20 percent annual pace so far this year, with total jobs down by 8,000 to date and almost 30,000 jobs lost since the end of 2000".
- As of August 2002, the value of BC exports had declined 13.4 percent compared to the first eight months of 2001. In August, the value of BC exports fell 1 percent. According to BC Stats, "...the year over year drop in the value of exports (in August) was the sixteenth in as many months." (BC Stats Infoline, October 18, 2002). Forest product exports fell 8.1 percent in August while energy exports fell 2.3 percent.

- Nearly 75 percent of provincial economic production derives from the service sectors. Productivity growth in BC is poor, in part because of weak goods producing sectors such as forestry and our strong dependence on service sectors.
- One good way to improve productivity is for business to invest in new capital equipment, but there was actually a .4 percent decline in capital spending in BC in 2001 compared to a 3 percent increase for Canada as a whole. (Statistics Canada 'The Daily' July 24, 2002 'Private and Public Investment')
- Retail sales are weakening, declining in each of June, July and August after increasing for several months before that. Total BC retail sales dropped 1.7 percent from June to July (or 2.85 percent seasonally adjusted). The prime lending rate rose .25 percent in mid-July, perhaps a sign that interest rate increases slow retail sales.
- BC business bankruptcies are at historically high levels and were up a whopping 77.8 percent in December of 2001 from a year earlier. For Canada, the increase for that period was only 7.5 percent. (BC Stats Infoline, February 15, 2002)
- Motor vehicle sales fell 5 percent seasonally adjusted in August, the first decline since March.
- After huge tax cuts which disproportionately benefitted the wealthy and large corporations, BC now has the largest annual deficit in its history at between \$4 and \$4.4 billion this fiscal. Before the Liberals took office, there were three consecutive balanced or surplus budgets.
- BC has the highest average wealth in Canada, as well as the largest gap between rich and poor households. The wealthiest 10 percent of family units in BC hold 54.6 percent of the wealth while the top 50 percent hold 95.7 percent (leaving only 4.3 percent of wealth for the entire bottom 50 percent!) (Statistics Canada "Survey of Financial Security, 1999" and Canadian Centre for Policy Alternatives, "Behind the Numbers" November 28, 2001).

*"BC business bankruptcies are at historically high levels and were up a whopping 77.8 percent in December of 2001 from a year earlier."*

- Excellent housing sales and residential construction rates are helping to support employment creation this year, but recent interest rate increases can be connected to a reduction in retail sales. As housing sales are very sensitive to interest rates, further interest rate increases may slow the housing sector, which is one of our few bright spots right now.

## SINCE THE ELECTION

	May 2001	October 2002
Unemployment	6.8%	8.3%
Youth Unemployment ( <i>age 15-24</i> )	13.8%	15.3%
Employed ( <i>unadjusted</i> )	1,986.4 million	2002.5 million (+16,000 or .8%)
Help Wanted Index	130	90.3 (-30%)
EI Claims	2 <sup>nd</sup> quarter 2001 = 92,531	2 <sup>nd</sup> quarter 2002 = 103,844 (+12.2%)
Economic Growth Ranking Amongst Provinces	6 <sup>th</sup> of 10	10 <sup>th</sup> of 10
Annual real GDP per capita 2000 = 4.5% 2001 = -1.1% 2002 (projected) = 1.4%		

## THE CONFERENCE

The Federation's October 16<sup>th</sup> Economic Conference featured a range of differing viewpoints. Because the Conference was meant to inform and stimulate debate, a number of opinions were expressed which are not necessarily consistent with the B.C. Federation of Labour policies, but are interesting nonetheless. Here's a summary of what was said:

Barry Bluestone

The keynote opening speaker for the Conference was respected international economist Dr. Barry Bluestone of Northeastern University in Boston. Dr. Bluestone is one of the founders of the Economic Policy Institute in the US and a key economic advisor to former Democrat House Leader Richard Gephardt. Bluestone provided an overview analysis of the US economy over the last fifty years, contrasting the "Wall Street" prescription for the economy with his preferred "Main Street" approach.

His presentation was based on a recent book which he co-authored with Bennett Harrison entitled Growing Prosperity: The Battle for Growth with Equity in the Twenty First Century (University of California Press, May 2001). In brief, Dr. Bluestone's thesis is that the US economy was strongest in the period from 1947 to 1973 due to policies and factors which have been largely reversed during the last few decades. During the thirty years after the second world war the US enjoyed rapid GDP growth, a doubling of family incomes, significant improvement in income equality and declining unemployment. Dr. Bluestone attributes this to a consumer boom (due to pent up savings and demand after the war); an investment boom (as the US economy converted to civilian production); a government spending boom (urban renewal, the cold war, the national interstate highway system and the race to the moon); an export boom (e.g. the Marshall Plan); and an import implosion (given the shattered Japanese and German economies). Additionally, the three decades after the second world war saw wage and security led growth in the US as the rise of collective bargaining and the traditional workplace contract sharply increased rates of unionization.

Bluestone says the period from 1973 to 1995 was a time of diminished expectations in the US. Declining growth rates, rising unemployment and increasing inequality of incomes were all legacies of a period which saw government and consumer spending decrease, business investment decline, productivity fall, unionization rates decrease and imports grow.

The oil crisis of the 1970s reduced spending and there was little focus on productivity or innovation as innovating competitors such

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as Japan or Germany stepped forward with popular products that the US consumer began to import. Huge increases in imports to the US contributed to a collapse in manufacturing employment. Anti-union, anti-government policies during the Reagan era exacerbated the trend to income inequality, reduced disposable income for middle and lower-middle income consumers and further reduced unionization rates.

From 1995 to 2000, some of these trends began to reverse again. GDP grew, unemployment fell and there was a rebound in productivity which began in the 1980s due to new technology. Government spending for defence, the missile race and the space race was a major contributor to this technological innovation which in turn improved productivity growth.

Conventional wisdom from conservative economists and the corporate sector holds that high rates of unionization, strong employment standards protections and high taxes are all damaging to modern economies. As part of his analysis, Dr. Bluestone took a look at 20 different developed countries over four periods of time to try to ascertain whether or not the conventional conservative assumptions are true. He found that there is no higher unemployment in countries with high unionization rates, that there is lower unemployment when there is strong coordination of bargaining, that there is no reduction in economic growth in countries with high taxes or strong employment protections and that there is a slightly positive result for economies with strong employment insurance systems.

Dr. Bluestone's conclusion is that the US is most successful economically when labour standards are high, the public and private sectors work together to support basic research and development, improved labour force training is a priority and there is investment in public infrastructure improvements. He argues that joint public and private action to boost productivity, quality and innovation should be matched by public investment in basic research, infrastructure, education and training. Such a policy would not only spur economic growth but help to restore some measure of social equity.

**(a) BC's Economic Prospects: Two Views**

Following Dr. Bluestone's look at the US economy, the Conference next heard two different perspectives on the prospects for the BC economy.

Seth Klein and Marc Lee

Seth Klein and Marc Lee of the Canadian Centre for Policy Alternatives began this session with a presentation entitled The Long View of the BC Economy.

Klein and Lee argued first that the market for BC exports, particularly commodity exports, tends to have more of an impact on the BC economy than almost any other factor. BC's productivity in like industries is generally comparable to the rest of Canada, but we have an undiversified industry mix with too little manufacturing. We are also extremely dependent on export of resources and volatile commodity prices.

As a result, a policy of across-the-board tax cuts is particularly unwise for BC since ours is not primarily a consumer or manufacturing-driven economy. While such tax cuts do provide some stimulus in BC, they provide less than in other jurisdictions. There is also significant leakage of tax cut benefits in BC since consumers who use tax cuts to buy manufactured goods here actually end up stimulating economies in manufacturing jurisdictions such as Ontario.

There has also been a poor distribution of tax cut benefits here, since the tax cuts have disproportionately benefitted high-income earners and corporations. Favoring those with high incomes compounds leakage of tax cut benefits as high income earners may spend their tax cuts on things like vacations abroad or real estate investments in the US. To make matters worse, high income and corporate tax cuts have been matched with a shifting of costs to low and middle-income British Columbians. Medicare premiums have been increased 50 percent, costs for extended health requirements such as physiotherapy and podiatry have been shifted to patients and pharmacare deductibles have increased. Fuel taxes have been increased in the Lower Mainland, sales taxes rates were

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increased by half a percentage point and auto insurance rates have increased for most drivers. These and other cost shifts have wiped out any small benefit of tax cuts for most consumers and have increased already high income inequality.

Klein and Lee called for an industrial strategy for British Columbia that encourages diversification and moves production up the value chain. They urged that economic incentives not be blank cheques, but rather be targetted in support of specific economic objectives. Elements of their suggested strategy include: revenue neutral improvements to the corporate taxation system to broaden the base; reduced sales taxes for eco-certified products; redirection of some upper income and corporate tax cuts to spending increases; a ban on export of raw logs from Crown lands; a Resource Investment Bank capitalized by resource rents and export taxes; tax credits to support value added production; shifting forest tenure to support new investment; and public investment in needed services and infrastructure.

Jock Finlayson

Jock Finlayson, economist for the Business Council of British Columbia provided the next presentation on prospects. Mr. Finlayson projects that the near term outlook for commodities other than oil and gas is poor. Consumers in British Columbia are resilient (as they continue to spend on new housing, for example) but exports are weak. The US softwood lumber tariff will reduce provincial economic growth rates by 1 to 1.5 percentage points. Commodity prices should strengthen next year which may lead to modest gains in economic growth.

Finlayson confirmed that natural resources are the biggest contributors to wealth in our province and that there is poor diversification in our export profile. We have a growing trade deficit with the rest of the world.

Mr. Finlayson referred to a recent Science Council report on innovation which broke out economic growth data by census districts. The report identifies factors which contribute to economic growth in communities including educational and training institutions; innovation; and the capacity of a community to adjust to economic change. Mr. Finlayson feels that, in general,

*"Many of BC's economic problems can be traced to a lack of new investment, poor productivity growth, poor diversification and a mediocre level of innovation and research."*

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Mr. Finlayson recommended that an economic strategy for BC should focus on investments in human capital; a competitive tax structure; an efficient public sector; more wealth from the land base; improved transportation infrastructure; and diversified growth in sectors like high technology.

### **(b) Strategic Economic Partnerships**

#### Elaine Price

The lunchtime guest speaker at the conference was Elaine Price, President of the Newfoundland and Labrador Federation of Labour. Sister Price outlined the perspective of the Newfoundland and Labrador labour movement on its participation in a "Strategic Economic Partnership" with business and government.

The parties in Newfoundland and Labrador first formed a Study Group to "explore new models of strategic co-operation" and - in particular - to study strategic partnership models in Europe. Their main focus was on Ireland, which has seen its national unemployment rate fall from 16 percent in 1986 to under 4 percent in 2001 following implementation of an economic strategy developed jointly by labour, business and government. The group also studied other European models of strategic partnership in countries like the Netherlands and Denmark.

The group found that there are six core elements of European social dialogue:

1. acquisition of socio-economic data and analysis by an arms-length agency;
2. joint interpretation of socio-economic data by the partners;
3. dialogue among the partners towards consensus on challenges and strategy;
4. negotiation of collective bargaining guidelines and industrial relations policy at the national level;
5. monitoring of the economic situation and strategy implementation; and

*"Economic crises stimulated the creation of strategic partnerships."*

6. extension of strategic partnership principles to the sector, regional or firm level.

Key lessons from European partnerships include:

- economic crises stimulated the creation of strategic partnerships;
- to be effective, all of the partners need to take concerted actions to affect the economy;
- voluntary coordination of economic strategy in a market economy requires a common understanding of the facts;
- the leadership of all partners needs to be strong so there is a focus on factual evidence rather than rhetoric;
- fundamental economic changes take time;
- other than the Prime Minister, the role of politicians is generally minimized. A central agency coordinates the partnership;
- national partnerships are often unable to deal with regional or rural disparities, so partnerships need to be extended to the regional, local or firm level to be effective there;
- the non-profit sector and other portions of civil society are recognized as important contributors to social dialogue in Ireland and elsewhere in Europe; and
- conflicts between business, labour and government still occur within the context of strategic economic partnerships, but so long as all groups focus on the larger strategic perspective they can overcome disagreements on specific issues.

Sister Price emphasized that the strategic economic partnership in Newfoundland and Labrador does not deal with collective bargaining. Instead, the partnership focuses on broad strategic policy issues, capacity-building and the building of effective communication and trust. A Strategic Partnership Steering Committee composed of senior officials from each of the partners guides the ongoing work of the partnership. Twice yearly, the Premier chairs a meeting of a Strategic Partnership Forum for which labour, business and government each have nine designated seats. Finally, there is a focus on improved capacity-building for each of the partners. For labour, this is particularly significant since trade unions often need improved research and economic

*"The strategic economic partnership in Newfoundland and Labrador does not deal with collective bargaining."*

resources in order to effectively analyze economic data or to develop detailed alternatives.

Price noted that a tripartite Worker's Compensation Review had been handled successfully from labour's perspective and that so long as the new strategic partnership process was similar, labour saw potential benefits for its members and for the economy as a whole.

**(c) Skills, Training And The Search For New Opportunities**

*Michael Goldberg, Dileep Athaide and Philip Legg*

Dr. Michael Goldberg, Vice President, Academic International of the University of British Columbia next led a panel discussion on skills and training and was responded to by Dileep Athaide, Secretary Treasurer of the College Institute Educators' Association (CIEA) and Philip Legg, Director of Policy for the B.C. Federation of Labour. The context for the discussion is the emerging shortage of skilled and highly educated workers in British Columbia.

Dr. Goldberg emphasized the importance of credentials and of learners gaining an understanding of theory when also developing practical skills. A strong theoretical underpinning to training helps workers adapt to technological change and promotes innovation. Increasingly, we will need to develop "clusters" of businesses and skills in which trust and sharing of information will enable flexible responses to rapid market change. He is opposed to public policy designed to keep extant jobs "alive" and contends that elimination of longstanding jobs and industry can sometimes be useful in promoting innovation and creativity. His focus for the future is on how we can add value for customers.

Dileep Athaide raised concern about recent tuition increases and noted that insufficient government investment has meant that English as a Second Language (ESL) programmes are increasingly dependent on high tuition paid by foreign students. Although numerous reports have highlighted the importance of improved training for improved productivity and economic innovation, there is inadequate provincial government emphasis on this priority.

*"A focus on improved training and apprenticeship at the bargaining table is one way for organized labour to help resolve the province's looming skills shortage."*

Philip Legg noted that the provincial government's elimination of the Industry Training and Apprenticeship Commission (ITAC) (and the closure of ten ITAC offices around the province) is consistent with the rejection by the BC business community of bi-partite administration of quality training. Central business organizations have argued for a dilution of standards and a dilution of skills. In turn, access to education and skills training has been reduced. On a more optimistic note, the recent five year collective agreement between the Communications, Energy and Paperworkers Union of Canada (CEP) and Norske Canada includes strong joint commitment to new apprenticeships and better trades training. A focus on improved training and apprenticeship at the bargaining table is one way for organized labour to help resolve the province's looming skills shortage.

#### **(d) Adding Value In A Resource Economy**

Roger Stanyer and John Allan

Roger Stanyer is a former official with the Industrial, Wood and Allied Workers of Canada (IWA Canada), former CEO of Forest Renewal BC (FRBC) and currently a member of the Board of Doman Industries. His presentation reviewed some of the forest policies of the last decade with an eye to lessons for the future.

Land use planning processes such as the Commission on Resources and the Environment (CORE), the creation of FRBC and the **Forest Practices Code** occurred within the context of tight timber supply conditions in the US, a spike in prices, good Asian markets and the threat of international boycotts. Today, a number of those factors have changed. While there is still a continuing international interest in the sustainability of forest practices in BC, the US has increased its supply of wood, our Japanese and other Asian markets have fallen sharply, prices have fallen and many formerly Canadian forest companies have been bought out by multi-national firms like Weyerhaeuser. One lesson of these rapid changes is that forest policy development in BC needs to respond more quickly and effectively to changes in the market. While BC in the 1990s added important new values about economic democracy, sustainability and planning to forest policy, much of that change took a long time and a great deal of process. Future

forest policy in BC needs to be more cognizant of changing market conditions.

John Allan, former Deputy Minister of Forests and currently President of the BC Lumber Trade Council, responded to Roger Stanyer's presentation with a forecast about the future in the context of the US softwood lumber tariff. He predicted that spring or summer 2003 will be the time for meaningful negotiations to have the tariff removed. The low value of the Canadian dollar is our primary saving grace at this time. If the dollar increases significantly in value, things will be that much harder for our industry. Contrary to expectations based on normal supply and demand economics, lumber prices have fallen after the imposition of the 27 percent softwood tariff. This is in part because BC mills have taken steps to improve efficiency and are going flat out to try to ship as much product as possible. The tariff may be replaced with a border tax over the winter and there is now some support from the provincial government for marketing initiatives to help us diversify away from the US market. Mr. Allan concurred with Roger Stanyer's argument that forest policy needs to respond more flexibly to changes in market conditions.

*"Future forest policy in BC needs to be more cognizant of changing market conditions."*

## **Conference Summary**

The October 16<sup>th</sup> Conference provided useful information on growth with equity, BC economic prospects, strategic partnerships amongst business, labour and government, the importance of training and skills development and the future for our forest industry. It was also the beginning of a prospective dialogue with business and government. But while the conference provided some intriguing ideas to improve the economy, it was only a one-day meeting and not sufficient in and of itself for the development of a new economic strategy. As a further step along that road, we need to take a look at some examples of progressive alternatives from mixed market economies of other jurisdictions.

## **SOME OTHER JURISDICTIONS**

Economies in many other jurisdictions are performing better than BC. We can learn from their experiences. For example:

*"Denmark achieved its economic success while having one of the highest rates of taxation in the Organization for Economic Cooperation and Development (OECD), a very large public sector, one of the most generous unemployment insurance systems in the world, generous educational leaves, generous benefits for older unemployed workers and a unionization rate of 82 percent for non-management workers."*

### The Netherlands

The Netherlands changed drastically from "perhaps the most spectacular employment failure in the advanced capitalist world" in the 1980s to "a new economic model for Europe" by the end of the 1990s. Reduced work time has been the key. From the mid 1980s to the mid 1990s, the average workweek in Holland was reduced from 40 hours to 36.

Discrimination against part-time workers is prohibited. By law, both part-time and full-time workers in the Netherlands must be provided equal pay, benefits and employment opportunities.

Generous family and maternity leaves, minimum wages which are indexed to inflation and strong employment standards are also features of the Dutch model. Unemployment rates in the Netherlands fell to less than 3 percent after these and similar reforms were instituted.

### Denmark

Denmark was a major economic success story in the late 1990s. Unemployment rates fell to below 5 percent and economic growth averaged 3.1 percent during the last half of that decade. Like BC, Denmark is highly export-oriented but Danes have consistently invested in the public sector rather than cutting it.

Denmark achieved its economic success while having one of the highest rates of taxation in the Organization for Economic Cooperation and Development (OECD), a very large public sector, one of the most generous unemployment insurance systems in the world, generous educational leaves, generous benefits for older unemployed workers and a unionization rate of 82 percent for non-management workers.

### UK

The labour government of the UK has improved the British economy. The UK now has a lower unemployment rate than Germany, Japan, France or the US; the lowest youth unemployment rate in 30 years; an increase in apprenticeships from 20,000 in 1996 to 200,000 today; the first national minimum

wage in the nation's history; the biggest increases in health and education spending as a percentage of GDP of any country in the world; four weeks paid holidays for everyone; large ongoing investments in science; reduced hospital waiting lists and class sizes and increases in the training of nurses and teachers.

### Ireland

Ireland has seen its national unemployment rate drop from 16 percent in 1986 to less than 4 percent in 2001. Major European Union (EU) spending and protections under the EU social charter have contributed to this, as have strong export levels, tripartite social partnership and high union density levels.

### Manitoba

Manitoba's unemployment rate was 5 percent in 2001 and is 5.2 percent this year. GDP growth is projected to be 3.8 percent in 2002, at least double BC's rate. Manitoba has the most diversified manufacturing sector in western Canada. It sees the Kyoto Protocol as an opportunity, not a problem. There is no move to break up or deregulate Manitoba Hydro, in fact, new public hydro generation investments were recently announced. Manitoba actively promotes its hydro advantages through the "Power for Business" program.

### Oregon

Although slowing as part of the general US recession, Oregon's 6.8 percent unemployment rate in September is much better than the 13 percent levels of the early 1980s recession. There is buy in by various sectors to the "Oregon Shines" economic plan, which has seen diversification away from forestry and towards high tech. Oregon has strong land use planning and environmental laws. It was active in recruiting Western Star Trucks from Kelowna with training incentives and lease-back arrangements, while the BC Liberal government did virtually nothing.

*"Manitoba's unemployment rate was 5 percent in 2001 and is 5.2 percent this year. GDP growth is projected to be 3.8 percent in 2002, at least double BC's rate."*

*"When the Liberals took office, BC had the lowest unemployment rate in 20 years and healthy economic growth. During the year and a half that they have governed, unemployment has soared and growth has stagnated."*

### Washington

Washington has a project labour agreement for all state building construction and 15 percent of all workers on state projects must be apprentices. Strong research and development spending by the state has been matched by a Governor's Technology Workforce Summit which has put high level attention to training and skills development. At over \$10 Canadian (\$7.01 US) per hour, the Washington minimum wage is far higher than the \$6 and \$8 in BC. Employers looking for lower minimum wages than those required in BC will not find them in Washington.

### Summary

All economies are complex, but there are factors from these more successful jurisdictions which we might consider for BC. Active government, active unions, strong social standards, a commitment to training, joint economic planning, public enterprise and public investment are all important elements for high wage and high skill economies.

## **NEW SOLUTIONS AND DIRECTIONS**

The "hands off" approach to the economy is clearly not working. When the Liberals took office, BC had the lowest unemployment rate in 20 years and healthy economic growth. During the year and a half that they have governed, unemployment has soared and growth has stagnated. Both private and public sectors are suffering.

There's no doubt that BC has some very fundamental economic challenges, no matter who makes up the government, but the Liberals promised a big economic improvement. That improvement has not arrived and is unlikely to, so long as the only strategy from Victoria is to reduce taxes for businesses and the wealthy while slashing public services.

BC's working people need to speak out with their ideas for new economic solutions and a high wage, high skill economy. The October 16<sup>th</sup> Conference marks the beginning of a discussion in the

labour movement and the community towards a progressive economic strategy for BC. The B.C. Federation of Labour Conference, current economic conditions and experience from elsewhere, all point to the ways a modern economic strategy might be built. Here are some suggested elements for discussion:

▪ **JOBS:**

Good quality jobs are the cornerstone of a progressive economic policy. We need an economy in which sustainable good quality jobs are the priority. The majority of jobs created in recent months have been part-time so quality full-time jobs should be the goal. Reducing high rural unemployment and high youth unemployment are particularly important.

**TRADE AND DIVERSIFICATION:**

Trade and exports are crucial to the BC economy, so we need to ensure that our ports and transport systems function well. But we remain a small, open economy with only sub-national powers. Free trade policies have increasingly tied the hands of elected governments, but we nonetheless face a huge US tariff on softwood lumber no matter how many tribunals have ruled we don't subsidize.

We need to diversify our economy so we are less dependent on commodity price swings, less dependent on the US and more diversified in our trading patterns. We should look for ways to reduce imports and increase exports, especially of added value products.

▪ **PROMOTING AND PROTECTING BC JOBS:**

Planning and promotion of our assets is important, so the big cuts to the ministries and agencies which do that work are counter-productive. The need for active promotion was highlighted by the total failure of Minister Rick Thorpe to even show interest as more than a thousand well-paid manufacturing jobs packed up and left Western Star Trucks in Kelowna for Portland. He did next to nothing, in contrast to the Mayor of Portland and the Governor of Oregon who worked hard to attract those jobs south. We should avoid subsidies or reduced standards, but to be competitive we need creative incentives that are tied to creation of employment. Citizens expect the provincial government to be active in protecting BC jobs.

*"We need an economy in which sustainable good quality jobs are the priority."*

*"Without a stronger emphasis on training, provincial productivity will not improve."*

▪ **BETTER PRODUCTIVITY, BETTER TRAINING:**

Productivity growth has been slow in BC, largely due to slow growth in the goods sectors. Nearly three quarters of the province's total GDP originates in the service industries, but services don't provide the impetus for growth that goods industries do when the economy expands. For better productivity, improved training has to be a priority. The elimination of the Industry, Training and Apprenticeship Commission (ITAC) will make our looming skills shortages worse. The government and employers need to join with labour to develop quality apprenticeships, good training, better trades qualifications and meaningful, portable credentials. Without a stronger emphasis on training, provincial productivity will not improve.

▪ **TAXATION:**

We need a provincial taxation policy which is pragmatic, not ideological. Across the board tax cuts overwhelmingly benefit those with higher incomes and are not providing meaningful stimulus, in large part, because ours is primarily an export-driven economy. High income tax cuts have sharply reduced provincial revenue and helped to create the largest deficit in BC history. They have also exacerbated the already large income gap between the rich and poor in BC. That income inequality is not only bad for the general economy (as Barry Bluestone explained) but is also very bad for social cohesion. And it's simply unjust.

Quality public services and public investment need to be restored, so across the board tax cuts for those with high incomes and the corporations should be repealed. Lower and middle income British Columbians and locally-based businesses are much more likely to spend increased disposable income here at home, so if there are tax reductions they must be targetted there.

The Liberals have done exactly the opposite and have shifted costs to low and middle income citizens. That needs to change. One way to do that would be to eliminate medicare premiums (BC is the one of only two provinces which still charges medicare premiums). Another would be to reverse higher pharmacare deductibles and new user charges for extended health requirements like physiotherapy.

*"High income tax cuts have sharply reduced provincial revenue and helped to create the largest deficit in BC history."*

- **MORE JOBS AND ADDED VALUE FROM OUR FORESTS:**

While the unfair softwood lumber tariff has, in the short run, prompted many mills to become more efficient and to produce flat out to protect market share that will likely not last. There's no doubt the tariff has and will cost us many jobs. But the answer to that problem is not to privatize our forests and abandon the quest for higher value. In fact, we have to redouble our efforts to increase value from our forest resources, since the challenges facing our forest industry are much more fundamental than the softwood tariff alone.

Some forest executives have recently taken advantage of the softwood tariff problem to call for an end to any restrictions on raw log exports. This is precisely the opposite of the policy that is needed. We should implement a strict ban on export of any raw logs from Crown land.

We also need ongoing reinvestment in silviculture and the forest land base. Unfortunately, the Liberals have eliminated Forest Renewal BC and replaced it with a new Forest Inventory Account which will give over \$100 million in public money per year to forest companies, with no monitoring by public officials. Instead, tracking of these public funds has been privatized and turned over to Price Waterhouse Coopers and Forintek. This privatization should be replaced with some form of resource investment bank.

At the same time, the government is permanently closing 20 Forest Service regional and district offices in communities all over the province. The Forest Ministry faces a 35 percent cut in staff positions over three years.

There's a consensus right now that we need to diversify our forest markets so we are less dependent on the United States. The provincial government has allocated \$6.8 million to a fairly modest marketing campaign to try to rebuild former markets in Asia and elsewhere. An additional alternative is cooperative marketing of our products.

*"...we need policies which respond quickly to changing market conditions, while at the same time ensuring the sustainability of our forest resource."*

*"The provincial Liberals have put a massive brake on investment in provincial infrastructure despite the fact that most modern economies are doing exactly the opposite to stay competitive."*

BC needs to be very cautious about international boycotts of our forest products. "Self policing" of the new **Forest Practices Code** by forest companies, big reductions in public oversight of our forests and privatization of forest reinvestment monitoring are all risky steps in this regard. Instead, we need policies which respond quickly to changing market conditions, while at the same time ensuring the sustainability of our forest resource. All communities and interests with a stake in the forest resource need to be part of developing pragmatic solutions or the boycotts and international market pressure of the past will return.

- **JOINT ECONOMIC PLANNING AND ANALYSIS:**  
Joint economic strategy and analysis amongst business, labour and government should not extend to collective bargaining but British Columbia is a province which is in particular need of cooperation on the part of all economic interests. The current extreme and confrontational approach of the government (and - indeed - some parts of the business community) is potentially damaging to our international reputation. Given our high rates of unionization, the historic tendency to polarization within our political culture and the highly regional nature of our province, it only makes sense here to try to build consensus rather than conflict over economic facts and priorities. Provincial leadership in this regard is a must.
- **INFRASTRUCTURE INVESTMENT:**  
The provincial Liberals have put a massive brake on investment in provincial infrastructure despite the fact that most modern economies are doing exactly the opposite to stay competitive. As one example of the huge infrastructure slowdown, provincial service plans say the Province will reduce funding for highway capital expansion by 82 percent over three years from \$303 million in 2000/01 down to only \$52 million by 2004/05 (cutting staff at the Ministry of Transportation by 61 percent in the process). The government hopes to make up the gap with so-called "public-private partnerships", but this privatization will only succeed if there is either a big increase in tolling (i.e. new taxes) or if there are new subsidies to business in the form of "shadow tolls".

BC still enjoys the second lowest debt to GDP ratio in the country. The Liberal government's own Fiscal Review Panel and the Auditor General have both recently confirmed that we are in good shape with regard to provincial debt and well positioned to make strategic public investments. We need new investments in public transit, in hospital and school capital, at universities and colleges and for highways.

*"Provincial cuts have done disproportionate harm to women and the elderly."*

▪ **SUSTAINABLE PUBLIC SERVICES:**

Massive cuts to public service following the "dramatic" tax cuts are hurting British Columbians in all regions and are particularly damaging to rural BC. While it is important to keep the provincial budget as balanced as possible (as was done during the last three budgets before the Liberals took office), it is damaging to our economy and our quality of life to radically slash and burn public services as the Liberals are doing now. We need to train healthcare and education workers to reduce waiting lists and class sizes into the future.

Provincial cuts have done disproportionate harm to women and the elderly. Our senior citizens deserve quality public healthcare in their retirement years, not to be tossed out of their homes or separated from their families. Investments in social housing create construction jobs while providing economic hope to those in need of shelter. Quality public childcare likewise provides direct jobs and new economic options for women.

▪ **BC HYDRO - A HUGE COMPETITIVE ADVANTAGE:**

BC enjoys the third lowest electricity rates in North America through a system of reliable and environmentally positive hydro electric resources which are the envy of the continent. As prices skyrocket in deregulated jurisdictions like California, Alberta and Ontario, we here in BC benefit from low prices and a strong competitive advantage for businesses and consumers alike. That advantage is a publicly-owned, vertically-integrated BC Hydro.

Inexplicably, the provincial Liberals have said they intend to break up the component parts of BC Hydro and to increase electricity prices by 30 to 100 percent. Even the large industrial power users such as pulp mills and mines have told

*"BC Hydro needs to make new investments itself which will help it remain strong well into the future."*

the government that this plan makes no sense. We need to build on the assets we have at BC Hydro to create new jobs and opportunities. For example, the downstream benefit electricity returning to BC from the US can be used either to generate cash or to support new manufacturing investment.

At the same time, BC Hydro needs to make new investments itself which will help it remain strong well into the future. A need for hundreds of millions of dollars in new transmission investments has been identified. That construction could create many new jobs. BC Hydro enjoys a top credit rating and has been rapidly paying down debt in recent years. It is well positioned to make new transmission and generation investments as those are needed.

We also need to encourage private companies like Cominco and Alcan to use their public water resources to create manufacturing employment in their smelters, rather than for electricity trading as they have done in recent months.

BC Hydro paid \$727 million to the provincial and local governments last year including a dividend to the Province of \$333 million. These profits from BC Hydro helped to pay for vital services like healthcare and education and are an important reason why BC Hydro should not be broken apart.

▪ **REGIONAL DEVELOPMENT:**

The provincial Liberals have slammed resource and interior communities through massive public sector cuts, but have offered no solutions for the unique economic needs of our regions.

A successful model of regional development is the Columbia Basin Trust, a locally controlled economic and environmental investment agency for the Kootenays. Through joint venture investment that has made local hydro dams more efficient without flooding any new land, the Trust now has significant funds available for community investment decades into the future. Similar unique regional development agencies should be established for regions such as the Peace, the Northwest or the Cariboo.

- **FISHERIES:**

It's a serious concern that the provincial government is encouraging new fish farms just as our wild salmon stocks are at unprecedented risk. The province should halt the expansion of fish farms, encourage more fish processing and restore investment in wild salmon habitat enhancement.

- **MINING AND ENERGY:**

BC has many valuable mineral resources which can and should be developed, particularly in support of smelters and other processing facilities. It is important, however, that this be done in an environmentally sensitive way or BC's international reputation will suffer.

- **PENSION INVESTMENT:**

It is a competitive advantage for BC that we now have joint trusteeship of many public as well as private pension plans. Pension trustees must bear their fiduciary responsibilities in mind and must invest wisely, but at the same time prudent pension investments can be used as an economic lever for our province (as has been proven with the success of Concert Properties).

We should also explore ways to expand labour-sponsored venture capital funds such as the Working Opportunity Fund and should see if we can replicate some of the successes of the Quebec Solidarity Fund.

- **TELECOMMUNICATIONS:**

As Telus and other telecom providers have cut hundreds of jobs in recent months, the Province has done nothing. This despite the public sector procuring over \$800 million in telecommunications services each year. This spending could be used as a lever to prompt new telecom jobs and investment.

- **NEW TECHNOLOGY:**

BC made impressive gains in technology industries in the 1990s, but in line with world markets (and in spite of tax cuts) technology sector growth has now slowed. BC must increase spending on science and skills training if the technology sector is to pick up again.

*"It's a serious concern that the provincial government is encouraging new fish farms just as our wild salmon stocks are at unprecedented risk."*

*"The Liberal provincial government has eliminated many tools which were previously available to assist communities to overcome short term economic difficulties."*

*"Countries like France and the Netherlands have proven that reduced work time creates jobs."*

- **RESTORE PROVINCIAL ECONOMIC TOOLS:**  
The Liberal provincial government has eliminated many tools which were previously available to assist communities to overcome short term economic difficulties. They have eliminated or cut the Industrial Incentive Fund, Technology BC, Student Summer Works, the Grazing Enhancement Fund, Fisheries Renewal, the Job Protection Commission and many similar programs. Every single youth employment programme has been cut. It is baffling that the government wants to tie our economic hands behind our backs in this way. As was shown when the community and investors rallied to save Evans Forest Products in Golden a few years ago, these programs were crucially important. And as we saw when Western Star left the province after producing quality trucks for thirty years, if the province fails to involve itself in any way, it can be very damaging. We need to restore a range of provincial economic tools so the province can assist British Columbians to protect their communities.
  
- **ENVIRONMENTAL INDUSTRIES AND GREEN INCENTIVES:**  
Environmental industries have grown significantly in recent years and are a competitive niche for our province. Just as in Manitoba and Quebec, we here in BC should look at the Kyoto Accord as a potential opportunity, not a threat. Our clean Hydro resources, new public transit investments, extensive high technology industries and hydrogen fuel cell sector are all assets upon which we can build useful and sustainable jobs for the future. Similarly, there's much potential in a shift of incentives towards green rather than polluting sectors.
  
- **REDUCE WORK TIME, IMPROVE STANDARDS:**  
Countries like France and the Netherlands have proven that reduced work time creates jobs. Both at the bargaining table and in representations to the BC government, the trade union movement should make the case for reduced work time as a means of tackling unemployment. At the same time it's crucial to improve worker safety and employment standards. Damaging reductions to employment standards and job cuts at the Worker's Compensation Board (WCB) are putting worker safety at risk and should be reversed.

- **DIVERSIFY THE TOURISM ECONOMY:**  
 While the tourism sector is healthy in the Lower Mainland and Victoria, we need to diversify our tourism economy by encouraging more tourism outside of the urban southwest. BC Rail passenger service to the Cariboo and the North should be restored immediately. The new St. Eugene's resort (backed by the Columbia Basin Trust) is a model of tourism development which other small communities may be able to replicate. A second Amtrak passenger service between Seattle and Vancouver would offer an environmentally sensible means to attract more tourists from the US to our province.
- **FIRST NATIONS:**  
 Just settlement of treaties has now become urgent. Without it, there is uncertainty and further risk to the international reputation of our province. As part of such treaty settlement, there is a need to provide greater capacity to First Nations to control their own economic future. The Nisga'a Treaty, which said a lot about local control of resources and improved economic capacity, offers a model for other First Nations and the government to build on.
- **TRADITIONAL INDUSTRIES:**  
 Any sound economic strategy needs to enhance traditional BC industries such as shipbuilding, food processing and the handling of goods at ports. Ongoing lobbying of the federal government for BC's fair share of federal investment in new shipbuilding contracts and ports investments needs to be matched by local procurement by BC Ferries and improvements to provincial transportation infrastructure.
- **CONSTRUCTION:**  
 Washington State has a Project Agreement for construction of state buildings. There's no reason BC can't have one as well. The current abandonment of fair wage policies, the project agreement for highway construction and the slowdown in public infrastructure investment all bode poorly for the quality, safety and extent of construction in our province. Basic standards need to be restored in order to protect the reputation for quality of our construction industry.

*"Just settlement of treaties has now become urgent."*


*"Public medicare is a strong competitive advantage for BC employers and workers."*

*"BC's working people must be treated as full and equal partners in the economic development of BC."*

- **COMMUNITY ECONOMIC DEVELOPMENT:**  
BC's strong credit union and cooperative sector provides many opportunities for creative community economic development. Worker co-ops, social housing, promotion of small businesses, community planning and start up financing are all components of community economic development which need to be part of the labour movement's strategy for economic growth.
- **ARTS, CULTURE, FILM:**  
BC's natural beauty in combination with a well educated, multi-cultural population contribute to strong cultural industries. Thousands are employed doing cultural work, particularly film. BC needs this type of industry so cuts to cultural programs and film support are foolhardy.
- **REDUCE POVERTY:**  
It is bad for all parts of the economy when poverty grows. Homelessness is not only a blot on our community's record for justice, but is an impediment to business development and growth. Higher minimum wages, an end to the training wage, more social housing, pay equity for women and better employment and social standards for everyone increase job security while putting money in the hands of those who will spend it here at home.
- **MEDICARE A COMPETITIVE ADVANTAGE:**  
Public medicare is a strong competitive advantage for BC employers and workers. Employers in our province do not have to bear the costs of expensive private health insurance as they do in the United States. We should be promoting our cheaper medical costs when we promote our province abroad and we should abandon P3's and other privatization initiatives which will erode the quality and accessibility of good healthcare.
- **LABOUR MUST BE A FULL AND EQUAL ECONOMIC PARTNER:**  
BC's working people must be treated as full and equal partners in the economic development of BC. A pre-condition for such partnership is a **Labour Code** that continues to facilitate organizing and worker protection. The investment climate in our province will suffer if the government continues its confrontational approach with the workers of BC.

## CONCLUSION

**O**f course, this list is only indicative and not comprehensive. Nonetheless, it is the beginning of a framework around which a new economic strategy can be built. As part of the Federation's Action Plan for the next two years, we need to educate and engage British Columbians about our economy through a series of conferences, seminars and public meetings.

Working people and their community partners need to engage now, as never before, in a pragmatic and focussed discussion of the economic future of our province. Without active engagement on the economy, the province's future is clouded. With it, British Columbia can tackle its economic difficulties and emerge stronger and more diversified in the process. 

*"Working people and their community partners need to engage now, as never before, in a pragmatic and focussed discussion of the economic future of our province."*

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