



Budget 2017: For the Few, Not the Many





POVERTY FREE SASKATCHEWAN (PFS) is a network of individuals and organizations working toward poverty elimination including Canadian Centre for Policy Alternatives – Saskatchewan Office, Regina Anti-Poverty Ministry, Saskatoon Anti-Poverty Coalition.

Poverty Free Saskatchewan has published four documents analyzing poverty issues in Saskatchewan: **Let's Do Something About Poverty**, **Strategies to Eliminate Poverty in Saskatchewan** and **Communities Respond**. All these documents are available for downloading at Poverty Free Saskatchewan's website.

Budget 2016: Transformation or Austerity draws attention to the causes and effects of poverty in the province. It focuses on the failure of the provincial government to carry through on its decision to develop a comprehensive anti-poverty plan and it demonstrates the current and future changes occurring in the Saskatchewan labour force that will lead to more low income earners, weakened life chances, and more poverty.

Budget 2017: For the Few, Not the Many critiques the government's austerity programs and challenges the government to enact a tax and transfer system that creates a much fairer distribution of income.

We invite all those concerned with this issue to download our documents and distribute widely by visiting www.povertyfreesask.ca.

Those wishing paper copies of this document should contact us, and we can arrange printing.

Organizations and individuals wishing to contribute financially to PFS or provide other support are invited to contact PFS at povertyfreesask@gmail.com.



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Introduction

By 2015 the best days of the Saskatchewan economy had passed us by. After tax income of families had topped out in 2014 and a decline in real earnings was underway. Average weekly earnings in 2014 were \$975, but correcting for inflation fell to \$962 in 2016. Poverty rates were also beginning to increase. By April 2015 the unemployment rate was still low, a healthy 4.8 per cent, with 28,500 workers without jobs. By April 2016, however, the unemployment rate had reached 6.7 per cent and a new high of 7 per cent by April 2017 with 42,400 workers unemployed. Worsening the situation was the falling number of full time jobs from 473,000 in 2014 to 466,000 in 2016.¹ Oil prices during the same period had fallen precipitously and other resource prices were flat. Despite the growing negative economic news and a need for a budget which would stabilize and reverse the economic situation, the Wall government brought in two successive budgets with large scale spending cuts.

Saskatchewan's 2017 budget is a straight forward continuation of the cross-the-board cuts that were initiated by the Wall government in 2016. The so-called transformative budget of 2016 kicked off Wall's approach to austerity – broad based reductions in government expenditures and programs that supported low income earners. The most drastic cuts in the 2016 budget included:

School systems were forced to drawdown their emergency funds, run deficits or lay off teacher assistants, administrators and teachers.

- Social service benefits lowered and some clawed back. **The Saskatchewan Rental Housing Supplement** (SRHS) exemption in the **Saskatchewan Assured Income for Disability** (SAID) program was eliminated. Grandfathering for **Saskatchewan Assistance Plan** (SAP) and SAID clients who receive excess shelter benefits as a result of living in communities that previously had low vacancy rates was discontinued. The practice of exempting **Seniors Income Plan** (SIP) and **Guaranteed Income Supplement** (GIS) top-up benefits from SAP and SAID was discontinued. And the practice of grandfathering families with children aged 13 and over receiving the **Saskatchewan Employment Supplement** (SES) was also discontinued. All of the above mean that the poorest Saskatchewan citizens would have less income in future.
- \$1.8 million was slashed from the **Aboriginal Court Worker Program** and funding to the **Treaty Land Entitlement Program** was reduced.
- Provincial funding was eliminated to maintenance and development of parks in four major cities.
- Buffalo Narrows Correctional Centre was scheduled to be closed.
- With its tight fisted response to the needs of K-12 and post-secondary education the 2016 budget failed to incentivize human capital development and innovation, the keys to productivity. The 2016 budget ignored initiating measures aimed at increasing economic productivity, but continued its willingness to build very expensive capital projects on borrowed money. Local school boards were made responsible for paying for half of teachers' salary increase, which produced a number of layoffs across the province. Grants to post-secondary education institutions were frozen or reduced. Training program funding was lowered, notably the **Saskatchewan Apprenticeship and Trade Certification Commission and Apprenticeship Training Allowance**. The Commission's budget was reduced by \$10 million to just over \$22 million and the Allowance was reduced by \$500,000 to about \$2.7 million in 2016-17.

These cuts led to reduced enrollment caps at Sask. Polytechnic post-secondary education programs, fewer apprentices and jeopardized the financial stability of many K-12 school divisions. School systems were forced to drawdown their emergency funds, run deficits or lay off teacher assistants, administrators and teachers.²

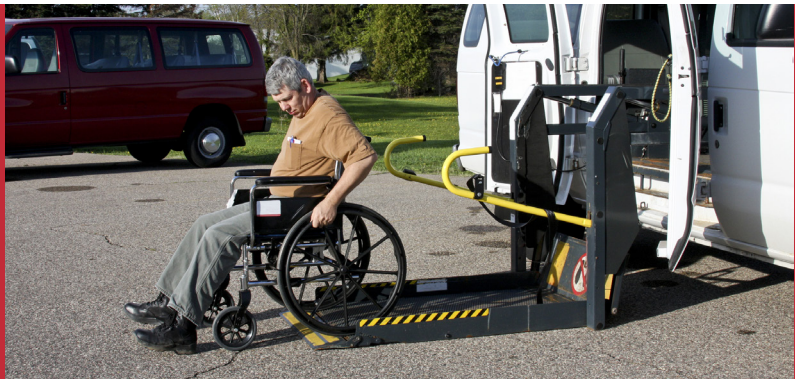
In 2017 prior to the budget Premier Wall declared "everything was on the table" and claimed that the budget deficit, which had reached an unprecedented level of \$1.2 billion, would be balanced in three years. His

announcement was followed by an even more austere budget featuring a number of petty and mean-spirited cuts, privatizations and tax increases. Total government spending of approximately \$14.1 billion (remember, one billion is a thousand million) was to be reduced by 4.3 per cent, an amount greater than \$400 million; and 474 government department jobs were to be eliminated. And in addition, all government employees are expected to take a 3.5 per cent wage reduction.³

The impact of the program cuts targeted largely the poor, marginalized and minorities as the following list shows.

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Program Cuts 2017



- Saskatchewan Assured Income for Disability (SAID recipients cut \$20/month)
- Transition to Employment recipients cut by \$20/month plus capped rates for utility costs
- Elimination of funeral coverage, home repair costs and school supplies for social assistance recipients and SAID recipients living in residential care
- Elementary and secondary schools budgets cut by 1.2 per cent and school divisions are expected to negotiate a 3.5 per cent wage decreases in local teacher collective agreements. As a result, for example, the Saskatoon School Board has announced job layoffs.
- Universities and post-secondary institutions cut by 5 per cent leading to program shutdowns with staff layoffs resulting
- The centralization of Regional Health Authorities into a single system will also undoubtedly create job cuts across the province, although the extent at this time is not known
- Student Summer Works Program eliminated (\$2.4 million)
- Adult Basic Education Program cut \$2.0 million. Funding eliminated for GED full time preparation.
- Provincial Training Allowance cut \$2.1 million
- Skills Training Benefit eliminated (\$2.4 million)
- University student aid and scholarships cut by \$8 million
- NORTEP (Northern Teacher Education Program) cut by \$3.4 million
- NORPAC (Northern Professional Access College) ended
- First Nations University cut \$200,000
- Pastoral care services cut by \$1.5 million
- Hearing Aid Plan cut by \$3 million
- Chiropractic services no longer covered (\$1.5 million)
- Special care home fees for residents increased by 50 per cent
- Meewasin Valley Authority cut by a further \$500,000 over 2016
- Regional Parks cut by \$500,000
- Grants-in-lieu to urban municipalities totally cut (\$32 Million) and then partially restored to rural jurisdictions after public opposition. Saskatoon and Regina have passed on these cuts to homeowners and businesses with large hikes to property taxes.
- Community Based Organizations budgets cut by 5 per cent
- Emergency stabilization shelter at Saskatoon Lighthouse facility cut

Elimination of funeral coverage, home repair costs and school supplies for social assistance recipients and SAID recipients living in residential care.

Privatizations

- Community pastures to be partially privatized
- Privatization of 250 government janitorial service jobs
- Saskatchewan Housing Corporation unrented units to be privatized
- Saskatchewan Transportation Company annual funding cut of \$16 million and privatized
- Saskatchewan Grain Car Corporation eliminated. Cars will be sold.
- 39 Sask. Government Liquor stores were sold in 2016

Tax Increases

- The Provincial Sales Tax was increased from 5 per cent to 6 per cent. (The PST is a flat tax that impacts low-income people most negatively because these families spend the greatest percentage of their income on housing, child care, food, and transportation.)
- The PST was made applicable on children's clothing, restaurant meals, prepared foods in grocery stores, insurance premiums and construction labour costs defined as repair, renovation and improvement of real property, to name a few.) (This change will undoubtedly lead to rent increases as owners will pass on the additional costs of housing renovations.)
- The government estimates that PST revenues will bring in more than \$800 million in 2017 budget year resulting in a substantial reduction in consumer aggregate demand and likely job losses in service industries as these tax increases pass through local economies.
- Used vehicle purchases are taxed for the first time
- Personal income tax credits for post-secondary education tuition eliminated
- Tobacco and liquor taxes increased by an average of about 5 percent
- Education property tax mill rate increased (\$54 million in additional government revenue)

Tax Reductions

Corporations were gifted a half point tax reduction worth an estimated \$67.5 million in two increments. Personal income tax of high income earners was reduced by two half point decreases. Taken in total the monetary value of these cuts would more than offset the funding reductions made to the social services and education sectors. Budget 2017 outcomes projected over the remaining years of the government's term will fall very heavily on people with lowest incomes, while the tax decreases to high income earners will benefit by an estimated \$25.3



annually. In effect, the budget will exacerbate the economic decline underway in 2015 and will lead to greater income and wealth inequality in the province at a time when family income had already started to decline.⁴

In economies how does the dynamic of concentration of wealth actually operate? What are the underlying conditions that produces such disparity for the bottom half of earners as compared to the top deciles?

Per Molander, in his 2014 book, *The Anatomy of Inequality*, provides an explanation of how certain governments pursue policies and programs that inevitably produce more wealth inequality rather than implement policies which protect the weakest.⁵ His logic track in part is as follows:

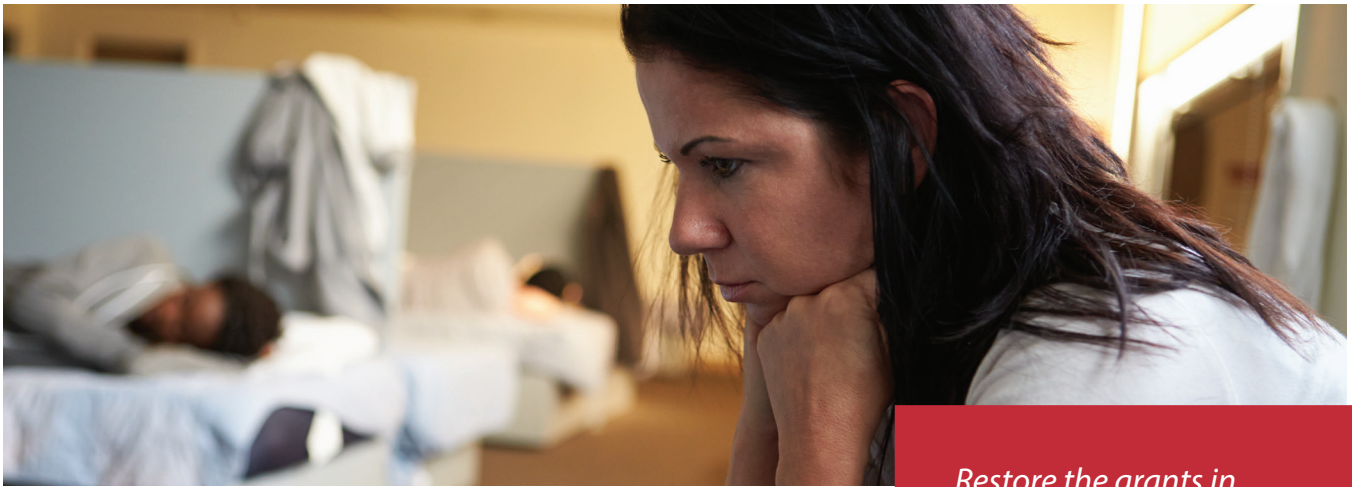
1. All human societies are marked by inequality, more than what would be expected from a normal assessment of personal differences and human capabilities.
2. Wealthier people get even more wealthy at each round of societal transactions and bargaining. This includes one of the most important bargains between citizens and its government – the budget process, which establishes fundamental tax and transfer legislation.

"There is no stable, egalitarian equilibrium in the bargaining game . . . There is no neutral ground-state in the economic arena, but that instead, it is inevitably characterized by an ongoing fight between rival groups, constantly changing conditions, and shifts in the balance of power."

(Molander, p. 164, 165)

3. There is no societal mechanism that keeps the wealthy's incomes within reasonable bounds. Wealth inequality rises and is reinforced over time. In 2015, an Oxfam study showed the 80 richest persons in the world owned as much as the poorer half of the population, 3.5 billion people. This cannot be explained by differences in productivity and effort. (Molander, p.11)
4. The mathematical concept, the Markov chain, explains that if one person has ten times the assets of the other, and both are equally skilled, the first person is ten times more likely to win a negotiating process. This has little to do with participant skill or effectiveness. It is a self-reinforcing mechanism that continues to operate over time leading to wealth concentration.
5. The player at the start of bargaining who has the most advantages/assets/resources will inevitably gain the greatest payoff. This player will always be able to take greater risks and utilize leverage during the bargaining, which is borne out by probability and game theory. Small differences in assets will be magnified over time and assets will become more concentrated. In progressive societies the state's role is to correct for sudden economic fluctuations. Personal effort on a societal basis eventually loses out. The ruling elite is always better connected and informed about economic issues, the law, governance, influential contacts etc. than the populace at large and will use this knowledge to their advantage.
6. "There is no stable, egalitarian equilibrium in the bargaining game ... There is no neutral ground-state in the economic arena, but that instead, it is inevitably characterized by an ongoing fight between rival groups, constantly changing conditions, and shifts in the balance of power." (Molander, p. 164, 165) The market and democracy generate real competitive behaviors. In the economic sphere special economic interest groups are always working toward their own agenda, and in the absence of corrective measures they will not hesitate to undermine the mechanisms needed for the market to function. ... Political intervention in the players' negotiations is necessary if you want to keep one player from exploiting the others. It is more a question of when the state's powers should come into play rather than if such powers should, especially regarding issues of income and wealth redistribution. (Molander p. 166)
7. Instability in an economy can arise, either spontaneously (e.g. mass migration or a fall in commodity prices) or by design (e.g. austerity programs). Instability must be managed. Constant monitoring of the system's status is required. Governments must adopt corrective mechanisms or else wealth disparity will worsen over time. Governments who draft rules without taking note of corrective mechanisms will allow the economy to drift toward unforeseen and undesirable consequences. To prevent inequality from worsening government **distribution policies must be deliberately created**. Tax and transfer systems can influence income distribution.





Restore the grants in lieu to all jurisdictions to prevent higher city taxes which will hurt low income people more than other homeowners.

Molander is not arguing that growing inequality is a certainty and occurs at all times and in all situations. Income inequality can fluctuate, for example, it declined during the 1940s and 1950s, because of very high government spending. His concern is about the growing trend toward increasing disparity in income since 1970 in most OECD countries, including Australia, Canada, Finland and Sweden, where inequality has increased by 16 per cent on average. (Molander, p. 47)

One can only conclude that the Wall government does not accept Molander's analysis, nor has much concern for poverty alleviation and income inequality issues. The government made a conscious choice to shift its taxation policy further away from oil and gas, potash and uranium industries and establish a new taxation regime falling on middle and low income earners, particularly when it chose a PST increase as a main revenue generator. Such a shift will lead to a further decline in employment, the availability of work hours, the lowering of family incomes. And undoubtedly greater wealth inequality in absolute terms will grow over time.

If we accept Molander's analysis of what causes rising inequality, then what alternatives did the Wall government have with respect to its budget choices? How could budget 2017 have kept inequality within more reasonable bounds, which Molander claims is the duty of governments?

Here are a number of policy suggestions that would reverse the most harmful effects of Budget 2017.

1. Ensure the PST increase does not apply on purchases of products that are critical to low income families. And increase the low income rebate much more than the \$34 million the budget promises. Focus policy instruments on low participatory social groups such as indigenous people to increase their education achievement levels.
2. Help make bad jobs better by increasing the minimum wage and providing more protection for workers performing precarious and contingent work.
3. Support good jobs and create more of them by cancelling cuts to the education sector and to the public service.
4. Restore the grants in lieu to all jurisdictions to prevent higher city taxes which will hurt low income people more than other homeowners.
5. Restore Saskatchewan Transportation Company service and protect other publicly owned properties.
6. Cancel the tax decreases to corporations and high income earners and lower government payments to arm's length agencies that exist simply as means of funneling grant money to businesses. These agencies include Saskatchewan Trade and Export Program, Innovation Saskatchewan and SaskBuilds.

Sources

1. See Statistics Canada, CANSIM series 206-0011, 206-0041, 282-0002, 282-0087, 281-0049 and 326-0021. Statistics Canada does not identify on reserve income and employment levels in its regular monthly report. As a result Saskatchewan income inequality and employment levels are likely higher than stated in the introductory paragraph.
2. Budget 2016: Transformation or Austerity? www.povertyfreesask.ca
3. Saskatchewan Budget 2017, Key Facts and Figures, <http://finance.gov.sk.ca/budget2017-18>
4. Ibid
5. Molander, Per (2014). *The anatomy of inequality*. Brooklyn, NY: Melville House
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POVERTY FREE SASKATCHEWAN: OUR BELIEFS

PFS is a network of individuals and organizations working to eliminate poverty in the province since 2009. The province has many other individuals, businesses and community organizations working to alleviate the harmful effects of poverty and address the root causes of poverty.

Working together more closely, we can eliminate poverty.

*Poverty has serious consequences. The Poverty Costs campaign estimated **spin off costs of poverty to be \$3.8 billion**, about five per cent of the province's gross domestic product.*

The guiding principles underpinning PFS's anti-poverty strategy are:

- A focus on vulnerable groups;*
- Community involvement carried out through meaningful province-wide engagement processes that hears from all vulnerable groups and includes them in planning and implementation of strategies and programs;*
- Anti-poverty targets timelines for achievement and performance indicators to be met; and*
- Adoption of government accountability mechanisms that are clearly set out in a Saskatchewan Anti-Poverty Act.*

PFs strategies to eliminate poverty were developed and have been communicated to the public and government. These strategies must cut across key issue areas and be supported by investments in the following:

- Housing access and affordability;*
- Income security for vulnerable groups;*
- Innovation in education, training and early childhood learning programs;*
- Enabling and rewarding work and participation in our communities including support for a living wage;*
- Improving access to quality services for low income people; and*
- Promoting health and preventing illnesses among vulnerable groups, including food security initiatives.*





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