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NEO-CONSERVATISM AND STATE  
FISCAL POLICY IN BRITISH COLUMBIA

by

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A THESIS SUBMITTED IN PARTIAL FULFILLMENT OF  
THE REQUIREMENTS FOR THE DEGREE OF  
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## **ABSTRACT**

The study analyzes the postwar development of provincial state strategy for the promotion of economic growth in British Columbia up to the mid-1980's. It also examines the role played by provincial fiscal policy within this strategy with a particular focus on fiscal changes made in the early 1980's. It argues that the advent of a major economic crisis in British Columbia in 1981 provided a pretext for state efforts to re-orient the province's economic strategy and fiscal policy. This re-orientation saw the abandonment of Keynesian-type approaches to state fiscal management and their replacement with a corporate-inspired agenda drawing heavily on policies of the new right. Between 1981 and 1986, provincial fiscal policy emerged as the central force driving changes in the orientation of state strategy while other areas of provincial policy initiative were given reduced priority. Aspects of this change included the centralization of state fiscal authority, the imposition of state sector wage controls and the use of these controls to buttress spending cuts in the fields of health, education and social welfare. Expenditure reductions in these "social reproductive" fields were then used to fund increases in areas deemed more pertinent to the promotion of economic growth and capital accumulation. These areas included improvements in provincial transportation infrastructure and efforts to facilitate further a corporate-centred model of resource development. Through this same period, the relative burden of state revenue generation was also shifted from resource revenue and corporate profit taxation to an increased reliance on taxes paid by workers and consumers. Together, these fiscal

changes enhanced the provincial state's ability to extend concrete economic relief to depressed corporate profit margins in the province. At the same time, they reflected the beginning of a longer-range effort to render the functioning of the provincial state more amenable to the interests of corporate capital operating within B.C. In following this course, provincial state fiscal policy came to share broad similarities with neo-conservative programs adopted elsewhere in the developed capitalist world, in particular those found in the United States under the Reagan administration and the United Kingdom under Margaret Thatcher.

## **Acknowledgements**

I would like to thank my wife Marion whose love, patience and understanding helped ensure this thesis' long and arduous journey reach its intended destination.

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## **Chapter I: Introduction**

### **A. The Setting**

In July of 1983, the Social Credit government of British Columbia tabled a budget and accompanying legislative package that touched off the province's most serious political crisis of the entire postwar period. The budget and legislation initiated a series of measures designed to slash government spending and services, to strengthen a system of state sector wage controls, to weaken a range of social citizenship rights and to deregulate the functioning of private sector capital. These measures reflected a bold right-wing shift in provincial social and economic policy. At the same time, they combined to constitute a concerted frontal assault on the rights and living standards of various classes and strata of British Columbia society. In the weeks and months that followed, B.C. was brought to the verge of a general strike as social and political forces in the province polarized in reaction to the state's sudden and aggressive shift to the right.

Characterized as measures of budgetary "restraint", the government's actions steered administration of the provincial state over onto a crisis footing. Municipal and regional levels of government found their planning responsibilities and zoning powers curbed drastically. The self-governing status of college and hospital boards was replaced with a system of centralized cabinet appointment. In a similar way, the budgetary and administrative responsibilities of local

## Chapter I: Introduction

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school boards were radically curtailed. De-centralized venues of rights adjudication — in areas as diverse as industrial relations, human rights and tenants' protection — faced either outright abolition or a drastic circumscription of their effective powers. In all of these areas, the provincial state moved quickly to centralize the exercise of effective power and to use its broadened fiscal and administrative reach to roll back an extensive range of social services, living standards and citizenship rights.

The July, 1983 measures did not occur in a political and economic vacuum. Rather, they followed in the wake of a series of earlier initiatives aimed at placing limits on the escalation of costs associated with the delivery of state programs. Yet, the broader significance of earlier spending cuts could only be discerned as the province's continued slide into deeper economic recession helped catalyze further changes to state policy. A dawning "new reality" of toughened international competition, it was argued, had placed B.C.'s economy in an untenable position. For this reason, state "restraint" policies could no longer be confined to piecemeal limitations on expenditure; rather, the entire institutional edifice of the provincial state required a major realignment, one ultimately mandated by global processes of societal transformation and economic restructuring.<sup>1</sup>

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<sup>1</sup> The foregoing paraphrases arguments set forth in The Economy in a Changing World, a B.C. Ministry of Finance document released in March, 1985 "to provide British Columbians with a broad overview of the provincial economy and the considerations that have provided the



**B. The Argument**

The question emerges how these changes can and should be interpreted. Can they, for example, be seen as a set of logical and rational responses to an externally-constituted imperative for social and economic change, an interpretation actively propagated by provincial government politicians?<sup>2</sup> One problem with this type of conception is that it neglects to analyze the important reality of provincial class and economic structure. Owing to this shortcoming, the full nature and implications of the changes overtaking provincial state policy is not confronted, in particular their impact in restructuring the social and political bases of class power within the province. Alternately, the changes might be interpreted as the outcome of misguided policy or the mean-spirited zeal of provincial state politicians, an approach favoured by certain groups and individuals active in the field of policy analysis.<sup>3</sup> The problem with the latter approach is that it fails to situate policy shifts in B.C. within a larger, more global political and economic context characterized by the ascendancy of neo-conservative perspectives and the gravitation of capitalist state authorities to these perspectives.

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foundation for economic policy in the province over the past three years." p. 1.

<sup>2</sup> For a detailed exposition of this view, see the document cited in footnote 1 above.

<sup>3</sup> At the risk of some over-simplification, this was an approach used in much of the analysis prepared by the University of B.C.'s Economics Policy Institute as well as in the British Columbia Central Credit Union's publication Economic Analysis of B.C.

For this reason, there is an obvious need to develop an analytical framework capable of comprehending these two areas and, on this basis, of providing a foundation for more detailed examination of specific provincial policy initiatives. This study proposes one method of meeting that need. It argues that changes in the structure and exercise of provincial state power in British Columbia between early 1982 and the midpoint of 1986 — the period of acute economic slump in the province — followed the lead established by other western capitalist countries in implementing a neo-conservative agenda for social and economic restructuring. Further, it accords primary importance to the role played by revenue and expenditure policy in analysing the nature of B.C.'s specific variant of a neo-conservative agenda through this period. The changes to emerge in the provincial fiscal arena were, for the most part, of a dual nature. On the one side, they encompassed a range of selective expenditure cuts in service and programme areas of benefit to workers. On the other, they involved efforts to shift the burden of provincial revenue generation away from capital. Moreover, this combined process of "fiscal transference" followed a discernible time sequence, running from initial attempts to centralize administrative control across the state sector to reductions in public service staffing ratios and in costs associated with the delivery of state social services and finally to the implementation of far-reaching reductions in corporate taxes. In the final analysis, the

logic of provincial fiscal policy in this period emerges as one of translating the financial "savings" yielded by staff cutbacks, wage controls and expenditure reductions into measures of tangible economic benefit to a capitalist class caught in the throes of an economic crisis and facing a serious decline in rates of profit over the short to medium-term.<sup>4</sup>

In more of a general way, the study takes as a point of theoretical and analytical departure the dramatic rise of neo-conservative ideology and administrative practice out of the past two decades' experience with international capitalist growth and crisis. Taken in total, neo-conservatism increasingly redefined the social and economic thrust of state policy in countries such as the United Kingdom and the United States if not across the spectrum of the entire capitalist world.<sup>5</sup>

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<sup>4</sup> The extent of the post-1981 profit crisis in B.C.'s main resource sectors is documented in B.C. Central Credit Union, Socio-Economic Profile: Provincial Summary, September, 1985, p. 32 and 38.

<sup>5</sup> To Gamble, neo-conservatism represented a novel synthesis of classical liberal and conservative doctrine given impetus in the early 1970's by the crisis in social democratic practices of economic and state management. Its distinctiveness therefore resided in its "combination of a traditional liberal defence of the free economy with a traditional conservative defence of state authority." Andrew Gamble, The Free Economy and the Strong State, (Basingstoke: Macmillan, 1988) p. 28, 54ff. For Therborn, the mass appeal of neo-conservatism centred on it being "little attached to traditional properties and symbols of authority, and therefore also attractive to sectors of the working class and the middle strata cut loose from their communal neighbourhoods and their cultural and political traditions." Goran Therborn, "The Prospects of Labour and the Transformation of Advanced Capitalism", New Left Review, No. 145, May/June, 1984. p. 33ff.

Within the province of British Columbia, neo-conservative doctrines took as their principal target the inherited role of the provincial state, a role that through the early postwar period had revolved around the *de facto* elaboration of Keynesian-type fiscal policies capable of sustaining growth in provincial incomes, investment and employment. Rejecting the logic of this role, provincial state policy under the aegis of neo-conservative ideology came, in the early 1980's, to focus on a push to increase rates of corporate profit through a reversal of labour and social citizenship rights and through forced reductions in services and programs of primary benefit to the province's working class. For this reason, the shift in provincial state policy reflected a fundamentally new departure in the regulation of social class relations, unique within the Canadian context to the extent that it sought to revitalize dominant processes of capital accumulation at the direct expense of an inherited network of rights, services and living standards. For this reason, B.C.'s neo-conservative embrace saw the province emerge as a litmus for the subsequent implementation of neo-conservative austerity measures across the spectrum of the Canadian federal system.<sup>6</sup>

The overall contours of this approach emerge more clearly when evaluated in the light of other detailed interpretations of B.C.'s 1980's

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<sup>6</sup> The rightward re-orientation of federal state policy after 1984 with the embrace of monetarism, privatization, de-regulation and continentalist "free trade" is examined in John Warnock, Free Trade and the New Right Agenda, (Vancouver: New Star, 1988).

experience. In a recent study, Keith Brownsey and Michael Howlett set the evolution of early 1980's provincial policy into the context provided by a larger analysis of the class determinants of state strategy over the past half-century.<sup>7</sup> Brownsey and Howlett's analysis focuses primarily on what they see as the lines of continuity connecting state policy directions in the period running up to 1982 with those elaborated in the wake of the subsequent recession. In this context, the authors counterpoise the dominant economic role played by large-scale capital with the pre-eminent political but dependent economic role of the provincial petty bourgeoisie. Arguing that provincial "restraint" was necessary to sustain longstanding class allegiances underpinning the Social Credit party's continued political hegemony, they view the 1983 budget and legislation as representing a process of change largely "incremental in nature."<sup>8</sup> Accordingly, the steps taken to restrict state spending, to fire state sector workers and to eliminate a range of public programs after 1982 did not, in their view, signal a fundamental break with state strategy of the previous period; rather, they argue, the province was following a consistent approach to the promotion of monopoly capitalist interest dating back at least a decade with additional lines of continuous evolution traceable

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<sup>7</sup> Michael Howlett and Keith Brownsey, "The Old Reality and the New Reality: Party Politics and Public Policy in British Columbia, 1941-1987", Studies in Political Economy, No. 25, Spring, 1988.

<sup>8</sup> Ibid. p. 162.

back as far as the 1940's. Based on this argument, Howlett and Brownsey conclude that,

"the 'New Reality' must be seen as a continuation, albeit in heightened form, of the social conflicts inherent in the government's long-term economic policy of promoting capitalist resource development coupled with the short-term need of the government to maintain its electoral coalition."<sup>9</sup>

Brownsey and Howlett's argument draws strength from the fact that it consistently frames its analysis of postwar state policy in terms of the underlying reality of British Columbia political economy and class structure. At the same time, however, the authors' interpretation encounters problems in asserting a continuity in the elaboration of provincial policies maintaining the hegemony of large-scale capital. Within this framework, the authors' presumption of an unbroken continuum of postwar state policy and administrative practice ultimately renders their analysis incapable of grasping the specificity of B.C.'s early 1980's crisis and the latter's impact on provincial state strategy. At the same time and in their eagerness to exorcise the ghost of "neo-conservative ideology", Brownsey and Howlett lose sight of the inescapable reality of the provincial state's turn to neo-conservative experimentation, reflected both in key social policy changes as well as in provincial recourse to fiscal measures intended to ease capital's profit crisis.

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<sup>9</sup> Ibid., p. 147.

## Chapter I: Introduction

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A stronger sense of the need to identify and analyse the impact of the early 1980's crisis on the B.C. state emerges from a recent study by W.K. Carroll and R.S. Ratner.<sup>10</sup> Carroll and Ratner frame their approach to this area specifically in terms of a theory of the class basis of political power, drawing heavily on Gramsci's theory of "hegemony" as well as a body of contemporary "regulation" analysis of the dynamics of capital accumulation. As with Brownsey and Howlett, their examination of Social Credit policy in the 1980's attempts to discern the matrix of class forces underlying state efforts to maintain class hegemony within the contemporary crisis. However, unlike the former, Carroll and Ratner cast their argument directly in terms of the relationship between the economic crisis after 1981 and what they see as the eruption of political or hegemonic crisis at the provincial state level. To these authors, B.C.'s austerity program attempted to roll back gains established over the course of decades of struggle surrounding the postwar transition to "Fordist" class relations and Keynesian practices of welfare state administration in the province.<sup>11</sup>

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<sup>10</sup> W.K. Carroll and R.S. Ratner, "Social Democracy, Neo-Conservatism and Hegemonic Crisis in British Columbia", Critical Sociology, Vol. 16, No. 1, Spring, 1989.

<sup>11</sup> The concept of Fordism is used by the authors in a manner consistent with that of French "regulation school" analysis — as a regime of capital accumulation based on the dominance of assembly-line mass production, the generalization of mass consumption patterns and the institutionalization of collective bargaining arrangements to ensure that gains in wages match in increases productivity and prices. See the discussion of these elements in Andrew Gamble, op. cit., p. 5ff.

They argue that the period running from the initial budget cutbacks and administrative reorganization up to the 1983 assault on social and citizenship rights represented a disjointed collection of "rightist measures" lacking overall design or coherence.<sup>12</sup> Support for this interpretation rests on the argument that state measures taken through this period steered away from any direct assault on welfare state entitlements and from any fundamental attempt to restructure the legal rights and prerogatives of the province's organized working class.<sup>13</sup> Only in the wake of 1987's "Bill 19" and "Bill 20" offensive, they argue, does the state develop a new and more "expansive" hegemonic project geared to the reconstitution of capitalist dominance in the face of a provincial working class weakened by the effects of economic crisis. Hence,

"(W)hereas the 1983 austerity program was in many ways a tactical response to a conjuncture of economic crisis, the 1987 legislation constituted a more strategic intervention, aspiring to an organic restructuring of the entire complex of state, capital and labour relations. It marked a Thatcherite break from the system of industrial relations that had formed a basic element of the Fordist regime...."<sup>14</sup>

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<sup>12</sup> W.K. Carroll and R.S. Ratner, *op. cit.*, p. 38.

<sup>13</sup> *Ibid.*, pp. 43ff.

<sup>14</sup> *Ibid.*, p. 43. The authors' position here runs parallel to that articulated by John Shields, British Columbia's New Reality: The Politics of Neo-Conservatism and Defensive Defiance, (University of British Columbia, Ph.D. Thesis, Department of Political Science, 1989) although Shields disputes the notion that neo-conservative initiatives in the labour relations arena are capable of securing a new capitalist



## Chapter I: Introduction

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In conceptualizing the 1980's crisis as a crisis of capitalist class hegemony, Carroll and Ratner's analysis is better suited to examining its impact in redefining the B.C. state's economic and social roles and, for this reason, their argument is able to avoid the pitfalls of assuming unbroken administrative continuity in this area. Secondly, their analysis highlights elements of the provincial state's labour relations agenda and the latter's place in the broader evolution of British Columbia's neo-conservative program. At the same time, however, the authors' approach to the periodization of state strategy and, in particular, their effort to categorize the measures taken between 1982 and 1987 as elements of *ad hoc* "crisis management" suffers from less-than-complete documentation. In essence, the problem at this juncture relates to inadequate specification of the fiscal components of state policy in the period following the early 1982 spending cuts. Carroll and Ratner's analysis contains little reference to the elaboration of state practice in respect of the logic, scope or duration of budget cuts and later shifts in revenue policy, nor any attempt to relate such fiscal initiatives to a larger strategic context. They neglect to give key policy developments such as the establishment of provincial wage controls, the accompanying centralization of state fiscal control, the acceleration of expenditure increases in high

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hegemony. The argument also bears similarities to positions presented by Leo Panitch and Donald Swartz, *The Assault on Trade Union Freedoms*, (Toronto: Garamond, 1988). pp. 40-43 and 104-108.

priority areas, the imposition of expenditure cuts in key social fields or the implementation of corporate tax reductions their real due. Yet, in the absence of sufficient acknowledgement of these factors, their claim that the pre-1987 measures of fiscal "restraint" represented little more than exceptionalist crisis-management in face of the more "far-reaching" 1987 transformation of state strategy has to be seen as resting on a selective reading of the available evidence.<sup>15</sup>

This study argues that B.C. state policy did indeed undergo rupture as a political response to the perceived exigencies of the 1980's economic crisis. A new strategic departure emerged from this break which, while intensifying overall commitments to the servicing of corporate capital accumulation, increasingly brought a new and decisive component to the fore: the provision of concrete subsidies for depressed rates of capitalist profit through a transfer of social and fiscal costs associated with the economic crisis onto the shoulders of the province's working classes. In this undertaking, provincial fiscal policy for the period before 1987 emerged as *the* critical lever in state efforts to reconstitute the requisite social and political conditions for a

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<sup>15</sup> The authors' argument also abstracts its analysis of Bill 19 — the Industrial Relations Act — from the larger context of provincial Labour Code restructuring set in motion after 1975. Several of the limitations on union certification procedures, union governance, secondary picketing and the conduct of "political" strikes were either initiated or clearly prefigured in the lesser-publicized Labour Code revisions of 1984, yet these important legislative antecedents are not fully acknowledged in their article.

revitalization of capital accumulation processes mired in the doldrums of profit crisis. In this sense, the "new reality" of provincial state policy reflected an initial phase in the implementation of a new right-wing agenda for British Columbia, a fact overlooked in any assumption of political and administrative continuity. At the same time and for an analysis of the evolution of provincial state policy and its relationship to the 1980's crisis to be complete, an acknowledgement of the pivotal role played by state fiscal initiatives in the early implementation of this agenda has to be made.

It is important also that B.C.'s agenda be examined in an appropriate international context. The changes overtaking provincial state policy through this period bore a striking resemblance to a range of new conservative programs emerging throughout the advanced capitalist world from the early 1970's forward and, for this reason, it is important that B.C.'s experience not be appraised in isolation from the international evolution of a neo-conservative policies and programs. However, for B.C.'s experience to be seen as a clear example of this latter tendency, some effort must be made, first of all, to specify in greater detail the nature of contemporary neo-conservatism and secondly to establish whatever concrete parallels exist between the policy directions inherent in neo-conservative theory and the goals and priorities of the B.C. state in the early 1980's.

### **C. Neo-Conservative Connections**

Setting forth the nature of contemporary neo-conservatism takes as its point of departure a review of the impact of global economic change in the 1970's. This was a period marking the winding down of capital's postwar "Fordist" boom, growing problems in extending if not maintaining social democratic practices of state economic management and, finally, the growth of Third World struggles against the power of international finance capital. The latter development elicited the rise to prominence of supra-national organizations like the International Monetary Fund as instruments for the application of corporate financial leverage against the spread of Third World radicalism. Graduation of the IMF into this role — with its standard policy prescription centring on currency devaluation, public spending cuts, the abolition of price controls on staple items and restrictions on bank credit — can be viewed as an important signpost in the elaboration of co-ordinated international capitalist responses aimed at countering the emergence of Third World assertiveness and at securing continued corporate dominance of the world economy.<sup>16</sup> In any event, the IMF's role in this regard was not confined to

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<sup>16</sup> "Since its founding at the end of World War II, the IMF has been the chosen instrument for imposing imperialist financial discipline upon poor countries under a facade of multilateralism and technical competence." Cheryl Payer, The Debt Trap: The International Monetary Fund and the Third World, (New York: Monthly Review, 1974) p. x. See also Riccardo Parboni, The Dollar and Its Rivals, (London: Verso, 1980), pp. 113-116.

underdeveloped regions of the periphery; by the mid-1970's, the Fund's reach had extended into the heartlands of developed capitalism as the agency dictated terms of compliance on the extension of standby credit to a number of European governments caught in post-OPEC balance of payments problems.<sup>17</sup> Developments of this nature foreshadowed increased awareness, by international capital, of the potential for transforming state fiscal and administrative policy across the breadth of the entire capitalist world in ways deemed more amenable to the fulfillment of corporate needs and interests.

Yet, if any singular development gave real ideological expression to the maturation of a developed corporate agenda for the social and economic restructuring of advanced capitalist societies, it was the formation of the Trilateral Commission in 1972, an organization comprising leading representatives from international capital, state agencies and academic institutions. In 1975, the Commission presented a research report — entitled The Crisis of Democracy — dealing with the problem of "ungovernability" within advanced capitalism.<sup>18</sup> The report called for limits on the extension of democratic rights and reductions in the growth of social welfare claims on the state in the interest of removing barriers to the maintenance of economic growth. The importance of these

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<sup>17</sup> Riccardo Parboni, The Dollar and Its Rivals, pp. 113-116, and Andrew Gamble, Britain in Decline, (London: Macmillan, 1981).

<sup>18</sup> Michel Crozier, Samuel Huntington and Joji Watanuki, The Crisis of Democracy, (New York: New York University, 1975).

perspectives lay in the fact that they took direct aim at the legacy of postwar social democratic state management with the latter's reliance upon an expansion of Keynesian welfare state entitlements. Also, the perspectives gave voice to a growing corporate concern with a so-called "overloading" of expectations on the state, a broadening of social rights, distributional claims and welfare entitlements increasingly at odds with the longer-term health and vitality of capital accumulation processes.<sup>19</sup>

In a practical sense, however, implementation of a full-blown neo-conservative agenda for the restructuring of capitalist social and economic relations had to await the aftermath of the 1979 election of the Thatcher government in the United Kingdom. Over the succeeding decade, Thatcher's political and economic "revolution" saw the introduction of measures aimed at dismantling welfare state services, at privatizing state enterprises and at destroying the power of Britain's trade union movement.<sup>20</sup> In this way, Thatcherite policy

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<sup>19</sup> The theme of state "overloading" receives more detailed treatment in George Gilder's Wealth and Poverty, (New York: Basic Books, 1981) and in Mancur Olsen's The Decline of Nations, (New Haven: Yale University Press, 1982), both key texts in the intellectual consolidation of American neo-conservative perspectives under the Reagan administration. The latter was also influential in the inspiration of B.C.'s austerity program. See Allen Garr, Tough Guy: Bill Bennett and The Taking of British Columbia, (Toronto: Key Porter Books, 1985), pp. 94-96.

<sup>20</sup> The nature and direction of Thatcherism is examined in Stuart Hall and Martin Jacques, eds. The Politics of Thatcherism, (London: Lawrence and Wishart, 1983), Andrew Gamble, The Free Economy and the Strong State, and Stuart Hall, The Hard Road to Renewal:

centred on a strong and highly explicit critique of the legacy of social democratic and Keynesian practices of state management. Part of the rejection of this legacy saw Thatcherism bring a new policy ingredient to the forefront of the emergent neo-conservative agenda: state reliance upon high interest rates and control of the money supply as the dominant levers of macro-economic regulation.<sup>21</sup> The latter foreshadowed a fundamental shift in the social and political logic of postwar state policy by showing how far capital's new right-wing agenda had come in forcing a break with the institutional inheritance and policy prescriptions of the Keynesian welfare state, in particular the latter's reliance upon rising levels of state expenditure and its role in extending social reproductive entitlements.

The following year saw the articulation of a neo-conservative agenda gather major new momentum with the election of the Reagan administration in the United States.<sup>22</sup> In key respects, America was

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Thatcherism and the Crisis of the Left (London: Verso, 1988). Thatcherism also borrowed, from the American new right, the image of an increasingly entrenched and self-interested public sector bureaucracy, one propelling expansion of the state into new spheres of regulatory involvement and intervention. "The main threat here was posed by the growth of the 'new class', the army of public sector professionals and ideologues whose tentacles reached into every corner of the modern state and who exerted enormous influence on the way the politically practicable and the politically desirable were defined." Andrew Gamble, *op. cit.* p. 58.

<sup>21</sup> *Ibid.*, pp. 98-103.

<sup>22</sup> To Mike Davis, Reaganite neo-conservatism centred around the political mobilization of a "have" coalition with a program promising the upward redistribution of wealth, power and influence. Mike Davis, Prisoners of the American Dream, (London: Verso, 1975), Chapters 4

the intellectual birthplace of modern neo-conservatism, original home to the doctrines of monetarist theory, contemporary libertarian philosophy and supply-side economics. More specifically, however, Reaganism's significance to the elaboration of a contemporary neo-conservative agenda centred on two major factors. First was the attempt to marry a substantial upgrading of American military capabilities to the imposition of major funding austerity on the nation's social security system. Accelerated militarization of the American economy and the launching of the "Second Cold War" forced abandonment of the traditional conservative preference for balanced budgets and trade flows. Yet, the coexistence of a high cost military buildup with cuts to the nation's social security system underscored a commitment to fiscal initiatives increasing direct state support for the promotion of capital accumulation. From this vantage point, Reaganism helped broaden and extend a series of policy prescriptions pioneered by Thatcher's government in the U.K. Secondly, Reaganism developed an explicit conception of state economic strategy centred on stimulation of capitalism's "supply-side" through a combination of reduced levels of corporate and personal income taxes, the lowering of

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and 5. The impact of Reaganism in the trade union field, in particular, its effect in lowering wages and in eliminating the presence of trade unions in key economic sectors, is discussed in Sam Rosenberg, "Reagan's Social Policy and Labour Force Restructuring", Cambridge Journal of Economics, No. 7, 1983.



environmental standards and business sector de-regulation.<sup>23</sup> From these developments, American conservatism came to focus clearly on the role the state was capable of playing in clearing institutional barriers and regulatory impediments to the progress of capital accumulation.<sup>24</sup> These initiatives also reserved a high priority for the role played by the restructuring of fiscal policy in reordering the state's political and economic priorities.

Brief as it is, the foregoing allows for a summary of the major tenets of contemporary neo-conservative ideology. In a general way, the emergence of neo-conservatism in the 1970's represented a process of political reaction against the record of postwar social democracy, in particular the latter's perceived role in undermining the social and economic bases of state authority and capitalist prosperity. To counter the Keynesian inheritance of runaway inflation and declining growth, neo-conservatism offered its version of a deflationary "cold shower" centring on high lending rates and

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<sup>23</sup> The theory of supply-side economics is examined in Paul Sweezy and Harry Magdoff, "Supply-Side Economics", Monthly Review, Vol. 32, No. 10, March, 1981 and in Lester Thurow, Dangerous Currents, (New York: Vintage, 1984) Chapter 5.

<sup>24</sup> The hold of neo-conservatism spread in the early 1980's to social democratic countries — the most prominent example being France. See George Ross and Jane Jensen, "Crisis and France's 'Third Way'", Studies in Political Economy, No. 13, Summer, 1983 and Mark Kesselman, "Lyrical Illusions or a Socialism of Governance: Whither French Socialism?", in Ralph Miliband, Marcel Liebman, John Saville and Leo Panitch, eds. Socialist Register, 1985/86, (London: Merlin, 1986).

restrictive monetary growth targets. In the fiscal arena, neo-conservatism pushed for measures aimed at reversing the growth of social welfare entitlements and at reprioritizing state policies for the stimulation of economic growth and capital accumulation. Neo-conservative strategy also emphasized the need to reestablish an effective central state power and to reassert traditional lines of social and political authority. Constitution of a "strong state" would help cement the political will and resolve needed to break the power of trade union monopolies, challenge the power and influence of a "new class" of state sector professionals holding an interest in the further proliferation of welfare state functions, return state enterprises to the private sector marketplace and further de-regulate business sector activity. And, in so doing, it would preside over the elimination of state interference in a range of social policy areas more properly left to the control and responsibility of individuals, families, churches and communities.

Many of these perspectives and directions find clear reflection in specific policies undertaken by the British Columbia state in the early 1980's. In the latter context, forced layoffs and state sector wage controls helped the state spearhead new assaults on the rights and living standards of workers and professionals across the spectrum of the provincial public sector. At the same time, fiscal policy initiatives matched major cuts in health, education and social service spending

and staffing ratios with major reductions in the tax burden placed on capital. In the social policy arena, B.C.'s "restraint" program emphasized the need to withdraw the state from its acquired responsibility for the provision of services to tenants and consumers, women and children, the handicapped and the mentally ill, under the guise of an ideology emphasizing the need to vest administrative control with voluntary agencies in the communities. Similarly, state policy justified the dismantling of human rights protections by seeing the latter as an unwarranted intrusion in the functioning of the private sector marketplace. And finally, state policy inaugurated a process leading to the cumulative privatization of a range of public sector programs and services. Taken together, these developments confirm a substantial identification of B.C. state policy with the social and economic priorities of the neo-conservative right. Indeed, the provincial state's program after 1981 bore a striking resemblance to policy positions long advocated by the Vancouver-based Fraser Institute, Canada's leading neo-conservative think-tank.<sup>25</sup> From its inception in 1974, the Fraser Institute had pioneered the application of international neo-conservative perspectives to a range of public

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<sup>25</sup> At the time of the 1983 re-election of the Social Credit party, the Fraser Institute's neo-rightist prominence rested on a membership base comprising 65 of the 100 largest corporations operating in Canada and 20 of the largest 25 corporations headquartered in B.C. See John Malcolmson and Cliff Stainsby, "The Fraser Institute, the Government and a Corporate Free Lunch", (Vancouver, Solidarity Coalition, 1983).

policy fields in Canada. Of major importance in this latter regard were the areas of state regulatory initiative — the National Energy Program and marketing boards — state tax and expenditure policy and the bargaining power of Canada's trade unions, primarily those in the public sector. Given these areas of ideological interest, the Institute was by the early 1980's well suited to playing the role of mentor to the province's neo-conservative program and of public relations gadfly in the subsequent battle for its defence.<sup>26</sup>

From its opening stages forward, B.C.'s foray into the realm of neo-conservative policy was justified ideologically as the only programmatic response appropriate to the onset of both economic as well as state fiscal crisis.<sup>27</sup> On the economic level, the palpable reality of B.C.'s post-1981 rapid descent from the heights of economic boom — its visibility in the closure of mines and mills, the surge in business bankruptcies, the loss of employment and the increased demands on state welfare services — lent broad plausibility to the argument that

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<sup>26</sup> Institute activities centred on building bridges to connect neo-conservatives perspectives in the academic world to the formation of Canadian public opinion. "(T)he general public is increasingly exposed to the work of the Institute, directly in their purchase of our books and indirectly via the exposure that our ideas have received on radio talk shows and in the popular press across the country. Perhaps the most important feature of the coverage that we have received is that much of it is 'off the business page' - we are not just speaking to the converted." Fraser Institute, Annual Report, 1982.

<sup>27</sup> Although articulated publically throughout the course the provincial "restraint" program, this argument was first presented formally in B.C. Ministry of Finance, The Economy in a Changing World, *op. cit.*

radical measures were needed to redress the province's diminished economic standing. Indeed, most relevant economic indicators for the period in question — from the sudden loss of provincial economic growth and in levels of employment, to declines in rates of corporate profit and in rates of capital investment — confirm the extent of the deterioration in provincial economic performance as one reflecting the emergence of major economic crisis. At the same time, however, the provincial state's justification of spending and program cuts and the "downsizing" of staffing levels required more than confirmation of the existence of purely economic crisis; it required acceptance of the argument that the downturn had led to a major state fiscal crisis requiring concerted efforts to streamline state sector administration and cut costs associated with the delivery of state services. Support for this position centred around the fact that the period after 1981 had ushered in B.C.'s first multi-year succession of budgetary deficits in three full decades.<sup>28</sup>

Yet, despite evidence of real financial deterioration, there are good reasons to question the state's early 1980's claim to the existence of major fiscal crisis. The same three postwar decades had seen strong provincial economic growth driven by a boom in resource commodity

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<sup>28</sup> Following on the heels of a period of accumulated fiscal surpluses, net provincial deficits for the fiscal years 1982/83 to 1985/86 totalled \$4.4 billion. This compared with cumulative surpluses of \$532 million in the 1970's. B.C. Ministry of Finance, Financial and Economic Review, (various).

exports and prices. This boom had left provincial state finances in a relatively sound position, one strong enough to withstand even serious revenue reductions without the threat of entrenching an ongoing fiscal shortfall.<sup>29</sup> Indeed, a comparison of B.C.'s net fiscal position in the 1980's with that of other provinces confirms this point and, in so doing, weakens the case for accepting the state's argument as to the reality of near-catastrophic fiscal breakdown.<sup>30</sup> Alternatively, the evidence suggests that the state exaggerated the nature and degree of provincial fiscal deterioration after 1981. The reasons for this exaggeration, it can be argued, derived specifically from the provincial state's need to provide ideological justification for its adoption of a neo-conservative agenda targeting the state's overall administrative role and the structure of its inherited fiscal commitments.

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<sup>29</sup> In the main, the University of British Columbia's Economics Policy Institute adopted this line of analysis. A representative example is Gideon Rosenbluth and William Schworm's "The Illusion of the Provincial Deficit", reprinted in Warren Magnusson et. al., eds., The New Reality: The Politics of Restraint in British Columbia, (Vancouver: New Star Books, 1984).

<sup>30</sup> Even after a string of sizeable budgetary deficits through the 1980's, the percentage of current provincial revenue devoted to debt servicing charges was by the end of the decade 4.0 per cent in B.C., the lowest provincial figure in Canada and only a third the all-province average of 11.8 per cent. Data cited in Department of Finance, Canada, The Budget, Chart A.2.3, February 20, 1990. p. 126. State arguments purporting to demonstrate the existence of real fiscal crisis in early 1980's British Columbia are scrutinized in greater detail in Chapter IV.

**D. Conceptualizing Provincial State Fiscal Policy**

The peculiarities of B.C.'s experience in the latter regard raise the need for closer examination of the nature and dynamics of provincial state fiscal policy. Recent theoretical research in this field underscores a need to acknowledge the role played by state fiscal policy in two predominant areas.<sup>31</sup> On the one side, state fiscal policy can be seen as furthering development of the social forces of capitalist production and therefore of facilitating capital accumulation. Examples of this activity would include the provision of services in areas like road and rail construction, hydro electric grids and communications infrastructure. On the other side, fiscal policy can also be seen as geared to the reproduction of dominant class relations through the extension of fiscal commitments in areas that include health care, educational services, housing and social welfare. These

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<sup>31</sup> Fiscal policy research retains a debt to basic formulations set forth in James O'Connor's seminal The Fiscal Crisis of the State. (New York: St. Martin's Press, 1973). O'Connor's analysis centred around the dialectical interplay of the state's promotion of capital accumulation on the one side and the state's push to secure capitalism's "legitimization" on the other. Examination of this latter area has been developed in "regulation school" analysis of the postwar "Fordist" restructuring of capitalist society and its impact on the state's role in securing the dominance of established class relations. Here De Brunhoff has argued that Fordism provided an opening for the growth of state social welfare responsibilities for the material and social reproduction of the contemporary working class. Suzanne de Brunhoff, The State, Capital and Economic Policy, (London: Pluto, 1978). Part 1. On the relation of Fordism and capitalism, see Michel Aglietta, A Theory of Capitalist Regulation, (London: New Left Books, 1979). A discussion of areas of similarity and of difference in the work of O'Connor and that of regulation theorists is taken up in the next chapter.

initiatives secure the "social reproduction" of dominant class relations on terms reflective of ongoing variations in economic conditions and patterns of capital accumulation. Indeed, through the early postwar, the Keynesianization of state fiscal administration throughout the developed capitalist west ensured that this reproductive process would occur on terms amenable to a partial accommodation of subordinate class interest in the extension of these types of services.

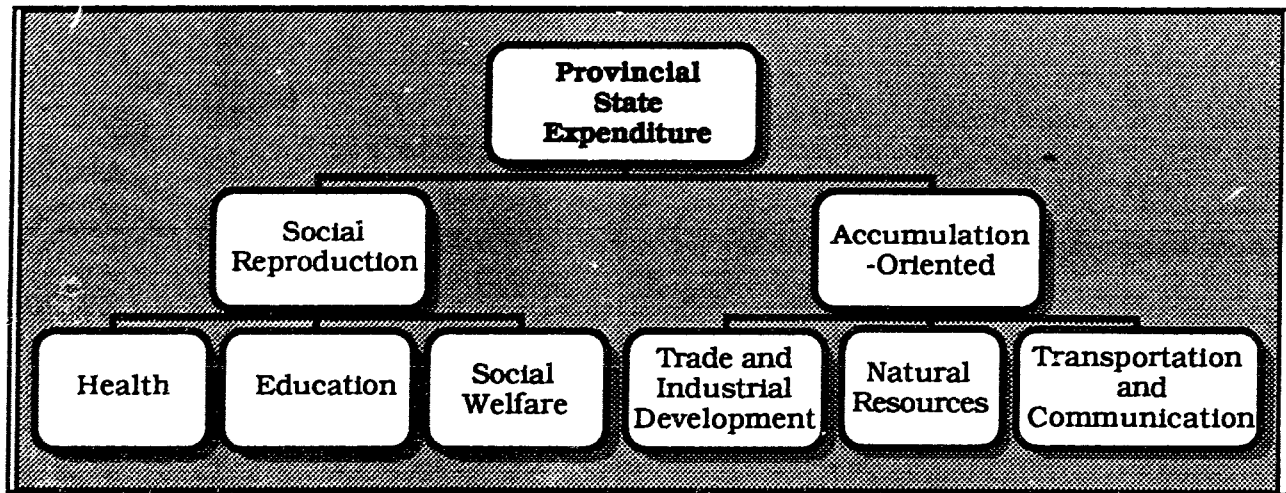
The inherent character of state expenditure practice — support for the expansion of productive forces on the one side, and support for a solidification of established class relationships on the other — helps establish why state fiscal policy has increasingly, in a context of recurrent economic crisis, emerged as a key venue for the crystallization of class struggles. Within this context, capital's turn to neo-conservative policies according heightened fiscal priority to the promotion of capital accumulation represents an attempt to deal with the implications of these crises. At the same time, this turn leads to a direct downgrading of fiscal commitments related to growth of the Keynesian welfare state and geared to the social reproduction of dominant social relations. State efforts to increase the subsidization of capital accumulation, therefore, have the effect of forcing a restructuring of these relations, the latter evidenced in the declining fiscal priority accorded health, education and social welfare. The nature of this relationship goes considerable distance in explaining the



logic and direction of the particular variant of fiscal neo-conservatism to occur in British Columbia in the early 1980's. Provincial neo-conservatism centred foremost on the use of revenue and expenditure policy initiatives to free up and redirect state fiscal resources from labour to capital. The immediate goal of these initiatives was one of helping to offset declines in rates of corporate profit brought on by the early 1980's economic crisis and thereby of assisting capital in its preparations for a return to conditions of profitable capital accumulation.

On the basis of the foregoing conceptualization, Chart 1.1 sets out a conception of the general structure of provincial state expenditure. This conception segregates provincial "social reproductive" spending — in the areas of health care, education and social welfare services — from spending geared to facilitating capital accumulation. The latter comprises expenditure in areas such as transportation, utilities, economic development, communications and material infrastructure, areas of direct and substantial relevance to capital's ability to exploit the province's forest and mineral resource base.

**Chart 1.1: Components of Provincial State Expenditure\***



\* This division accounts for about 85 per cent of the total state expenditure with the balance made up by area such as debt servicing, general government and law enforcement for which there are no clear method of categorization.

The study argues that the period running from early 1982 to mid-1986 saw the provincial state implement policies that shifted expenditures away from the social reproductive field while increasing levels of fiscal support for the promotion of capital accumulation. Owing to the peculiarities of provincial fiscal administration, the full impact of the shift in expenditure did not materialize until after 1984; nonetheless, the following two year period saw a cumulative transfer of several hundred million dollars from programs in support of social reproduction to areas subsidizing capital accumulation as well as to other expenditure functions, notably provincial debt service. This shift was evidenced dramatically in the impact of expenditure cutbacks, wage controls and staff layoffs set in place after 1982 as well as in the move to increase the expenditure priority accorded areas

such as transportation, the promotion of industry and the development of provincial natural resources.

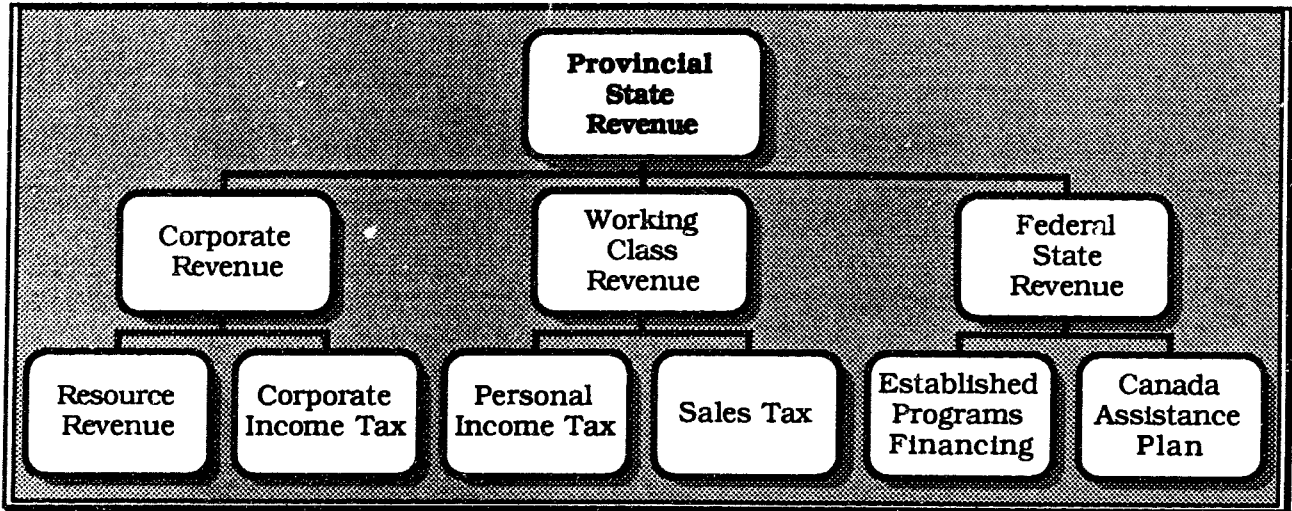
At the same time, the period after 1981 also saw important changes overtake the area of provincial revenue policy. Recent theoretical debates regarding the nature of state revenue policy have focussed on relations linking the state's appropriation of revenue to the reproduction of dominant class relations and, in particular, the role played by revenue policy in influencing the class distribution of income.<sup>32</sup> O'Connor's early 1970's research into the relationship connecting the appropriation of state revenue policy and the division of income between social classes played a major role in orienting subsequent study in this area. In recent times, elements of this orientation have resurfaced in Calvert's review of Canadian federal state finance and in Shaikh and Tonak's analysis of the fiscal underpinnings of the American social welfare system. With this theoretical orientation in mind, a balance can be drawn on changes to the class burden of provincial revenue in the 1980's. Chart 1.2 proposes a method of categorizing the basic sources of provincial state revenue. Revenues derived from the corporate sector — resource revenue, corporate income or profit tax — are distinguished from

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<sup>32</sup> See James O'Connor, op. cit., John Calvert, Government Limited, (Toronto: Canadian Centre for Policy Alternatives, 1984) and Anwar Shaikh and E.A. Tonak, "The Welfare State and the Myth of the Social Wage", in the Union of Radical Political Economics, eds. The Imperiled Economy, (New York: URPE, 1987).

those supported by the individual income and sales tax revenues, revenues borne predominantly by the working class.<sup>33</sup>

**Chart 1.2: Components of Provincial State Revenue\***



\* These three sources account for about 80 per cent of total revenue with the rest made up by contributions from government enterprises, miscellaneous taxes, permits, fees and lottery funds.

This study argues that provincial revenue policy in the 1982 to 1986 period followed a "supply-side"-type strategy seeking to lower the social overhead costs accruing to capitalist enterprise within B.C. As subsequent analysis will demonstrate, provincial revenue policy through the early 1980's presided over a more than \$2 billion

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<sup>33</sup> For 1983, "Wages and Salaries" and "Supplementary Labour Income" together accounted for 71.3 per cent of net domestic income in B.C. (B.C. Ministry of Industry and Small Business Development, British Columbia Economic Accounts, 1964-1983, 1985, Table 2), a figure indicating that it is the working class which paid a sizeable majority of total income tax as well as sales tax (the latter paid predominantly from personal income). For this reason, it is legitimate to characterize these revenue source as being borne preponderantly by workers.

reduction in the tax burden falling on capital. These efforts went hand-in-hand with corresponding and commensurate increases in levels of effective taxation placed on the working and subordinate classes of provincial society. In effect, the logic of state revenue policy emerges here as one of using this revenue shift to offset the deleterious impact of the economic crisis on rates of corporate profit and, in so doing, reinforce expenditure-based initiatives aimed at promoting capital accumulation.

#### **E. Conclusion**

Such completes, in outline form, presentation of this study's central thesis. Developing this argument necessitates detailed analysis of a range of pertinent theoretical issues as well as the examination of empirical trends in the area of provincial state fiscal policy. The following chapter examines more fully theoretical concerns related to the emergence of a contemporary neo-right-wing agenda for dismantling Keynesian-oriented fiscal commitments in the social reproduction arena. Through this analysis, it establishes a more developed theoretical foundation for examining how B.C.'s own neo-conservative experiment came to focus on a series of state fiscal policy changes aimed at subsidizing the progress of provincial capital accumulation.

Analysis of the nature of these changes, as they affected provincial fiscal policy and strategy in the 1980's, requires that significant effort

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be devoted to examining the nature of provincial fiscal administration in the preceding period, the period of postwar "Fordist" boom and the corresponding establishment of Keynesian fiscal relationships at the provincial state level. Chapter III, therefore, takes the theoretical orientation developed in the preceding chapter and applies it to an examination of the postwar evolution of provincial state fiscal policy. In so doing, it demonstrates how a combination of accumulation processes, class relations and state responses — both federal and provincial — helped pave the way for the consolidation of both Fordist class relations and Keynesian policies of fiscal administration in early postwar British Columbia. Following on this analytical foundation, Chapter IV extends the discussion to B.C. state fiscal policy into the 1980's economic crisis, showing how the expansive provincial fiscal policies and practice of the early postwar gave way, in the face of this crisis, to a new conservative orientation aimed at subsidizing capital accumulation through direct cuts in social reproductive services and rights and through reductions in levels of taxes placed on capital. Chapter V — the conclusion — ends with a discussion of the overall nature and direction of B.C.'s experiment, its relationship to the tide of neo-conservative change overtaking much of the developed capitalist world and to other elements of the state's strategic initiative. In this connection, it confirms the key role played by pre-1987 provincial fiscal policy in the implementation of a neo-conservative

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agenda aimed at furthering state commitments to the subsidization of capital investment and accumulation.

## **Chapter II: State Fiscal Policy and Neo-Conservatism: Theoretical Considerations**

### **A. Introduction**

In the preceding chapter, B.C.'s turn in the 1980's to policies of selective expenditure cuts and tax restructuring was presented as part of the implementation of a neo-conservative agenda for the province. This approach rested on a particular conception of the role of state fiscal policy where fiscal policy was seen to promote the accumulation of capital largely through provision of material assistance in the development of economic infrastructure. At the same time, fiscal policy was also viewed as having a major role in consolidating dominant relations of production through provision of health, education and social welfare services — what were collectively termed practices of "social reproduction". In developing this approach, the introduction argued that the early 1980's in B.C. brought a subordination of provincial state social reproductive priorities to the promotion of capital accumulation and that, within this policy context, fiscal initiatives played a key role in implementing a neo-conservative agenda for the province.

Examining this approach more closely raises a number of relevant theoretical questions. First of all, what factors account for the rapid and sustained expansion of the state's fiscal role through the postwar period, in British Columbia as elsewhere in the western capitalist



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world? Secondly, what forms did this process of fiscal expansion take? Thirdly, what developments lay behind the crisis in fiscal policy orientation to emerge in the late 1970's and early 1980's? Fourthly, what fiscal policy changes were developed in response to the crisis? And finally, how can the latter changes be related specifically to the emergence of a neo-conservative agenda for the transformation of capitalist society? Analyzing these questions can help in examining the role played by state fiscal policy in assisting the postwar transition to a new set of state responsibilities in the social and economic arenas. It can also assist with an understanding of the changes made in these responsibilities in the wake of the neo-conservative ascendancy of the late 1970's and early 1980's. In trying to clarify these areas in particular, this chapter hopes to provide a needed theoretical foundation for the detailed empirical analysis of British Columbia state fiscal policy that follows.

To reflect theoretically on the development of capitalist state fiscal policy, it is important to establish an appropriate social and historical context capable of relating changes in the state's fiscal role to broader currents of social, economic and political transformation. In many respects, the history of contemporary state fiscal policy dates from the immediate aftermath of the Second World War. The postwar period in particular saw major changes overtake the state's social and economic role within western society, changes driven by an accelerated penetration of capitalist productive relations into all spheres of social

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existence. This latter process saw workers increasingly separated from more traditional structures of community existence and from the forms of social, cultural and generational reproduction rooted in these structures. The dissolution of these relations, in turn, opened a space for the extension of state responsibilities in areas such as housing, health care, education and social welfare.<sup>1</sup> Henceforth, a broad range of issues generally relating to the "social reproduction" of a labour force for participation within capitalist economic structures became direct objects of state policy and state intervention.<sup>2</sup> Postwar transition to the expansive and typically Keynesian methods of fiscal management needed to support this process can therefore be seen to have complemented and consolidated the on-going restructuring of dominant productive relations.<sup>3</sup> Within this context, state fiscal policy presided over major extensions to public services, helped maintain

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<sup>1</sup> This process is commonly referred to as the advent of "Fordism". See Suzanne de Brunhoff, The State, Capital and Economic Policy, (London: Pluto, 1978) and Kees van der Pijl, The Making of An Atlantic Ruling Class, London: Verso, 1984). p. 21ff.

<sup>2</sup> This area is analyzed in the context of the history of Canadian social welfare in Bob Russell, "The Politics of Labour-Force Reproduction: Funding Canada's Social Wage, 1917-1946", Studies in Political Economy, No. 13, Spring, 1984.

<sup>3</sup> On the relationship between Fordism, capitalist restructuring and Keynesian techniques of state policy, see Joachim Hirsch, "The Fordist Security State and New Social Movements", in Kapitalistate, No. 10/11, 1983. pp. 83-87 and in Andrew Gamble, The Free Economy and the Strong State, (Basingstoke: Macmillan, 1988), p. 5ff. The general theory of Fordist restructuring is examined in Michel Aglietta, A Theory of Capitalist Regulation, (London: New Left Books, 1979).

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levels of near-full employment and contributed to broadening the compass of social citizenship rights.

This process also brought into existence newer forms and practices of class struggle centring on redistribution of the increasing portion of the social product taken over by the state. For Offe, state fiscal policy in the postwar period increasingly took on the character of a "peace formula" aimed at the regulating class relationships through an on-going if partial accommodation of subordinate class interest.<sup>4</sup> Democratic politics within postwar capitalism evolved as a system that allowed subordinate social classes and groups to press claims for the reallocation of fiscal resources appropriated by the state.<sup>5</sup> Clearly, in this type of analysis, fiscal policy had increasingly acquired a role in "processing" class conflict in ways amenable to the continued dominance of capitalist productive relations. As subsequent analysis will try to demonstrate, such trends would continue if not increase in importance especially once a winding down of the postwar

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<sup>4</sup> Claus Offe Contradictions of the Welfare State, (London: Hutchinson, 1984), pp. 147-150.

<sup>5</sup> Adam Przeworski and Michael Wallerstein, "Democratic Capitalism at the Crossroads," Democracy, July, 1982, p. 54. Elsewhere, capitalist democracy is described as "the institutionalization of surplus as the form in which a part of the product becomes withheld from the immediate producers and forms the basis for somewhat indeterminate struggles over the distribution of product." Adam Przeworski, "Towards a Theory of Capitalist Democracy", (mimeo), 1977. p. 7. (cited in Leo Panitch, "Trade Unions and the State", New Left Review, No. 125, January/February, 1981).

economic boom in the 1970's began to place added pressures and demands on inherited modes of state fiscal practice.<sup>6</sup>

In a general way, the foregoing helps frame the approach to be taken in addressing questions regarding the orientation of state fiscal policy in the period after 1945. Dominant directions in postwar fiscal policy emerged amidst an accelerated restructuring of social and economic relationships. Within this framework, fiscal policy helped consolidate the dominance of newer social relationships in ways that extended state responsibilities in the arena of social reproduction.

### **B. The State and Fiscal Policy: The Raising of Public Revenue**

These developments helped condition the course taken by early fiscal policy analysis. Critical analysis of state fiscal policy found its origins in an early 1970's context of major capitalist change and in the latter's role in rekindling interest in Marxian approaches to the study of political economy. Within this framework, early fiscal policy analysis preoccupied itself with the elaboration of categories and approaches deemed consistent with the rigours of Marxian value theory.<sup>7</sup> Where

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<sup>6</sup> The overall character of the early 1970's crisis dynamic is examined in Paul Armstrong, Andrew Glyn and John Harrison, Capitalism Since World War II, (London: Fontana, 1984) and in Ernest Mandel, The Second Slump, (London: Verso, 1980). Its implications at the level of state fiscal policy are discussed in Gilles Margirier "The Eighties: A Second Phase of the Crisis?", in Capital and Class, No. 21, Winter, 1983, pp. 61-86.

<sup>7</sup> A summary of positions taken in these debates is offered in Ben Fine and Laurence Harris, Rereading Capital, (London: Macmillan, 1979), Chapter 6.

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the analysis did seek engagement with the real world was in connection with interpreting signs of economic crisis in the early 1970's. This period brought a slackening in growth rates across the developed capitalist world, problems with rising inflation, heightened labour militancy as well as mounting anti-imperialist challenges to the global hegemony of capital. These tendencies, in turn, had major implications for the development of state fiscal policy largely because of the way capitalism's contradictions found direct reflection in a generalized crisis of state policy and, in particular, a crisis in established modes of state fiscal practice.

Nowhere is the impact of crisis developments in the early 1970's on fiscal policy analysis more clearly expressed than in the examination of state revenue practice. Here, the financing of state programs and initiatives represented a deduction from the social mass of surplus value potentially available for accumulation by private capital. For theorists like Yaffe, Fine and Harris, particular state initiatives might reallocate fiscal resources to bolster rates of profit, increase the productivity of labour or boost fiscal subsidies to capital. Yet, such actions were, of necessity, narrowly circumscribed by the logic of an economic system dependent on the continued accumulation of capital as capital.<sup>8</sup> In the variant of this argument offered by Mattick,

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<sup>8</sup> See David Yaffe, "The Crisis of Profitability", New Left Review, No. 80, July/August, 1973, pp. 51ff., and Ben Fine and Laurence Harris, "State Expenditures in Advanced Capitalism: A Critique", New Left Review, No. 98, July/Aug., 1976 and Rereading Capital, Chapter 6.

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expansive Keynesian fiscal policies of the early postwar represented only a temporary palliative in the face of longer-range tendencies leading to falling rates of capitalist profit. The cumulative growth of state revenue claims obstructed a necessary destruction of capital values while offering little real solution to contradictions inherent in the normal course of capital accumulation. For this reason, the extension of state fiscal responsibilities came at the expense of longer-term restrictions on the ability of capital to maintain conditions of viable accumulation.<sup>9</sup>

In a general way, perspectives developed by way of this orientation did help lay the groundwork for subsequent research in the area, mainly by virtue of efforts made to apply Marxian categories to the study of fiscal policy. Yet, these perspectives largely neglected the fact that state fiscal policy might usefully be construed in terms broader than those limited to the dynamics of capitalist rates of profit. As important as this latter variable was in any analysis, the actual course of postwar fiscal policy development and in particular its rapid expansion into a range of health, education and social welfare fields, clearly pointed to the unfolding of a larger social and political dynamic.

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<sup>9</sup> "(G)overnment interventions in the economy are necessarily limited by the need to secure the profitability of dominating private capital. When these limits are reached they will cease countermanding the capitalist crisis." Paul Mattick, "Monopoly Capital", in Anti-Bolshevik Communism, (London: Merlin, 1978), p. 209. See also the latter's analysis in Marx and Keynes, (London: Merlin, 1974), Economics, Politics and the Age of Inflation, (London: Merlin, 1978).

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Initial forays into the field of Marxian state fiscal policy analysis did not acknowledge the scope of this dynamic and, hence, fell short of establishing necessary links between the elaboration of state fiscal policy and the emergence of new social and economic norms governing the state's role in regulating class relations. This limitation, in turn, obscured the need to analyze the nature and impact of class struggles regarding the logic and direction of particular state policies. In place of this, early fiscal policy research gravitated in the direction of increasingly scholastic debates regarding issues such as the "productive" or "unproductive" nature of state expenditure or the relevance of fiscal policy development to the interpretation of capitalism's general "laws of motion".<sup>10</sup>

Alternate theoretical approaches to the analysis of state fiscal policy did sometimes manage to avoid these deficiencies, largely by focussing on the implications of class struggle politics for the elaboration of concrete fiscal policy directions and outcomes. James O'Connor's analysis in The Fiscal Crisis of the State in many respects straddles the divide separating early "falling rate of profit"-type conceptions of fiscal policy and the evolution of conceptions centring on the state's role in the social reproductive sphere. For O'Connor, the need to finance expansion of state social welfare responsibilities brought transition to a mass, income-based structure of taxation and a

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<sup>10</sup> The tendency is clearly expressed in Ben Fine and Laurence Harris, Rereading Capital, pp. 127 to 132.

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significant lessening of the tax load placed on capital.<sup>11</sup> The end product was a tax system maintained increasingly by way of levies on workers and consumers. Implicit in this approach was a rejection of the view that state revenue be construed simply as a deduction from the mass of surplus value available for appropriation by capital; rather, the analysis pointed to a conception of state fiscal policy as an ensemble of practices situated on a field of class struggle and carrying major implications for the social distribution of income. All the while, however, O'Connor's analysis leaned to the view that state fiscal policy be seen as generally functional to the "needs" of a monopoly capitalist system. For this reason, his analysis had major similarities with the perspectives advanced by Fine and Harris.<sup>12</sup> Consequently, his approach tended to fall short of acknowledging fully the implications of class struggle for the on-going articulation of state fiscal responsibilities.

Research by Anwar Shaikh and E.A. Tonak has more recently extended this approach in ways that provide added insight into the class implications of state fiscal policy and, in particular, the latter's relevance to the prosecution of a contemporary neo-conservative

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<sup>11</sup> James O'Connor, The Fiscal Crisis of the State, (New York: St. Martin's Press, 1973) pp. 221ff.

<sup>12</sup> It also reflects the influence of Paul Baran and Paul Sweezy's largely functionalist perspective on the role of the capitalist state in "absorbing the economic surplus" in their book Monopoly Capital. (New York: Monthly Review, 1966), Chapters 6 and 7.



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agenda for social and political change.<sup>13</sup> Shaikh and Tonak categorically reject a "social wage" conception of state fiscal policy arguing there is little basis for the claim that workers derive any net fiscal advantage from the provision of state programs in the social welfare arena. Their analysis of the redistributive implications of state revenue and expenditure policy shows that it is the working class, obvious beneficiaries of extensions to social, educational and health services provided by the state, who are obliged to bear the cost of these services in the form of increased rates of taxation. Shaikh and Tonak also demonstrate that, in times of capitalist crisis, changes in fiscal policy relationships and directions show the area to be one of significant state initiative aimed at reapportioning the income shares accruing to various social classes. The authors' primary empirical focus here is fiscal policy under the Reagan administration where they measure revenue policy-induced changes in the class distribution of national income shares against trends in the evolution of federal state expenditure. Their conclusions underscore the role played by neo-conservative revenue policy in transferring income away from workers, consumers and the poor in the interest of augmenting the profitability of corporate capital. From this argument, Shaikh and Tonak contend that changes in state revenue policy formed an integral component of

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<sup>13</sup> Anwar Shaikh and E. A. Tonak, "The Welfare State and the Myth of the Social Wage", in the Union of Radical Political Economics, The Imperiled Economy, (New York: URPE, 1987).

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the "supply-side" recasting of American fiscal policy in the 1980's and of a neo-conservative agenda aimed at a more far-reaching process of social and economic transformation.

The foregoing discussion helps address questions regarding the directions taken by state fiscal policy in the 1970's and 1980's period of economic crisis. In particular, the analysis shows the close connection linking the elaboration of state revenue policy with the course of social class struggles. Further, as the analyses of O'Connor and Shaikh and Tonak indicate, capitalist crisis in the late 1970's and early 1980's and the ascendancy of a new conservative politics brought changes in fiscal policy that saw the latter play a major role in restructuring the class distribution of income. In the final analysis, this latter development underscored the increased focus of state fiscal policy on problems associated with reactivating crisis-ridden processes of accumulation and with assisting in a reconstitution of capitalist class power on the strengthened footing provided by the implementation of neo-conservative policies. From the vantage point of this study's central focus on British Columbia fiscal administration in the early 1980's, these insights go a considerable distance in helping situate revenue policy changes, the political logic driving the changes and the conflicts these changes engendered in their appropriate social and economic context.

**C. The State and Fiscal Policy: Expenditure**

To this point, the analysis has focussed on the field of state taxation and revenue. While this area has major relevance for the disposition of class struggles regarding fiscal policy orientation, it cannot by itself exhaust the full range of state fiscal policy and practice. Clearly, theoretical attention also must be focussed on the parallel arena of state expenditure policy. The first major effort to conceptualize theoretically the reality of contemporary state expenditure policy from a critical perspective is to be found in the work of James O'Connor. O'Connor argued that the postwar growth of state expenditure derived from a need to service costs associated with the expansion of capitalist economic power and control.<sup>14</sup> To O'Connor, this growth shed light on the emergence of what he termed the state's "accumulation function" — the totality of state efforts aimed at securing and maintaining a socio-economic climate conducive to the profitable investment and growth of capital.<sup>15</sup> O'Connor viewed expansion of this role as a by-product of changes in dominant relations of economic and political power occasioned by the postwar rise of monopoly capital and by the progressive consolidation of this sector's control over the wellsprings of capitalist profit.

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<sup>14</sup> This is what O'Connor characterized as "the private appropriation of state power for particularistic ends." James O'Connor, *op. cit.* p. 9.

<sup>15</sup> *Ibid.*, Chapter 1.

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At the same time, O'Connor's theory also gave recognition to the pressures for fiscal growth that emanated from what he termed the state's "legitimization function", in particular, the burgeoning field of postwar social welfare expenditure. In assuming part of the system's social costs, state fiscal involvement in the social welfare arena helped, in O'Connor's mind, guarantee mass acceptance of capitalism's class inequities.<sup>16</sup> In effect, "legitimization" reflected the social cost of maintaining the dominance of capitalist ideology, the burden and extent of which necessitated its being assumed and financed at the level of the state. To O'Connor, the dichotomization of state expenditure policy into the parallel components of "accumulation" and "legitimization" brought competition for access to limited state fiscal resources. This competition grew more acute during periods of economic crisis when growing restrictions on the state's ability to raise revenue together with increased demands for state expenditure led to the advent of "state fiscal crisis". Faced with mounting cost pressures and limitations on revenues, the state increasingly restricted or abandoned its social welfare commitments. The strains of this increasingly "zero-sum" relationship brought shifts in state expenditures away from areas pertinent to the legitimization of the system, something that ushered in a reality of aggravated class conflict.

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<sup>16</sup> Ibid., pp. 6 ff.

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Coming when it did, O'Connor's theory helped frame subsequent approaches to the study of state finance largely because of its attempt to situate expenditure policy at the confluence of competing demands on state fiscal resources.<sup>17</sup> In this sense, the theory's overall approach and in particular its emphasis on the reality of contradiction at the level of state expenditure goals and commitments are of major relevance to the objects and goals of this study. Despite this, O'Connor's analysis was limited by his acceptance of a primary conceptual distinction between the dual functions of "accumulation" and "legitimization", a distinction which focussed attention on contradictions associated with the need to harmonize the state's respective roles in the economic and ideological fields. Emphasis on the concept of "legitimization" served to orient the analysis of state practice away from a focus on material requirements inherent in the reproduction of class relationships, and in the direction of the normative bases of the state's claim to authority.<sup>18</sup> The outcome of this approach was a theory of state finance largely incapable of relating the varied economic initiatives subsumed under the rubric of the

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<sup>17</sup> In particular, O'Connor's work laid the groundwork for Erik Wright's analysis of the impact of state policy in transforming the forms and dynamics of late capitalist crisis. See Erik O. Wright, Class Crisis and the State, (London: Verso, 1979), Chapter 3.

<sup>18</sup> O'Connor's theoretical framework reflected a less-than-explicit effort to incorporate elements of Weberian analysis and, for this reason, it dovetailed with aspects of the "legitimation crisis" perspective of writers such as Habermas and Offe.

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"accumulation function" to the real fabric of class relations, struggles and interests.<sup>19</sup>

Alternate approaches to the study of state expenditure have helped redress some of these inadequacies. De Brunhoff's analysis of state social reproductive involvement, as one example, emphasizes how fiscal policy assisted the postwar transition to Fordist social and economic relationships. Here, state social welfare practice defines a field in which labour-power, an "external prerequisite of capital", is the subject of an active policy of reproduction by the state, one necessarily situated within and conditioned by constraints inherent in the need to preserve capitalist discipline and insecurity in the market for labour.<sup>20</sup> For de Brunhoff, state involvement in this field reflects the adoption of practices that actively regulate the norms and conditions of labour force reproduction within capitalist society.<sup>21</sup> Movement of the state onto this terrain comes as a product of the dissolution of traditional forms of "social security" wrought by the

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<sup>19</sup> It is not surprising therefore that, by the author's own admission, the conceptual framework presented in The Fiscal Crisis of the State fails to provide a coherent basis for the identification of the component elements of state expenditure. "...nearly every state expenditure serves these two (or more) purposes simultaneously, so that few state outlays can be classified unambiguously." Ibid., p. 7.

<sup>20</sup> Suzanne de Brunhoff, op. cit., p. 10.

<sup>21</sup> "(C)hanges in the norms of workers' consumption, their access to certain guaranteed rights and the formation of new public institutions, with their own peculiar characteristics, are all components of the history of the transition 'from pauperism to social security'." Ibid. pp. 24ff.

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progress of Fordist restructuring and out of a need for the state's to assume reproductive responsibilities vital to the maintenance of the system as a whole.<sup>22</sup> Similarly, Gough's analysis relates the evolution of postwar state fiscal policy to a growth of state assistance in consolidating the dominance of capitalist relations of production. Here, state expenditure on health, education and social welfare programs is seen less from the vantage point of the maintenance of systemic "legitimization" and more for its material role in furthering the process of social reproduction. Among other things, this approach draws attention to the state's broadened participation in the maintenance of the contemporary working class through provision of services in a range of social reproductive areas.<sup>23</sup> In a parallel vein, Ginsberg analyses postwar growth of a distinctive "social policy" orientation by the capitalist state, viewing the latter as a function of the collision of opposing class interests at the state level. Gradually, in his view, and under the impetus of working class political pressure, an expanding compass of state social welfare programs and expenditure helps shift the burden of societal reproduction from the level of the

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<sup>22</sup> "The management of a part of the value of labour-power could not be taken over either by capitalists or workers: if one side or the other attempted to do so it ran the risk of adopting practices associated with class interests, which would contradict the goals of social security." *Ibid.* p. 31.

<sup>23</sup> Ian Gough, The Political Economy of the Welfare State, (London: Macmillan, 1979).

family to the level of the state.<sup>24</sup> Similarly, for Therborn, the development of new modes of working class reproduction in the early postwar constitutes the defining feature of state involvement in the regulation of capitalist society.<sup>25</sup> Here, cumulative increases in levels of state expenditure give expression to the evolution of state regulatory involvement in this area. By virtue of the state's expanded presence in the field of social reproduction, fiscal policy comes to bear primary responsibility for shifting the locus of contemporary class struggles to the terrain of state policy.<sup>26</sup>

Apart from the alternative perspectives they provide regarding the state's early postwar fiscal role, social reproductive analyses have also played a part in interpreting the impact of capitalist crisis on later evolution of the state's fiscal responsibilities. Within this context, Therborn's argument that state reproductive activities emerge out of the interplay of two distinct processes — state representation of dominant capitalist interest, and state efforts to mediate relationships between ruling and subordinate classes — helped set the course for

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<sup>24</sup> Norman Ginsberg, Class, Capital and Social Policy, (London: Macmillan, 1979), Chapter 1.

<sup>25</sup> Goran Therborn, "Classes and States: Welfare State Developments, 1881-1981", in Studies in Political Economy, No. 13, Spring, 1984, pp. 28ff.

<sup>26</sup> Once "the machinery of class compromise", postwar Keynesian fiscal policy to Offe becomes "the object of class conflict.", Claus Offe, op. cit., p.149. On this, see also G. Esping-Anderson, R. Friedland and Erik O.Wright in "Modes of Class Struggle and the Capitalist State", Kapitalstate, No. 4/5, 1976, Part II.



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this analysis by reaffirming the centrality of class struggle to the evolution of state fiscal policy during periods of social and economic crisis.<sup>27</sup> For de Brunhoff, the turn to capitalist crisis in the early to mid-1970's reinforced the imprint of capitalist market relations on the logic and direction of state policy. From this dynamic came a push to restructure the state's role in the social reproductive field, to adapt it to the consolidation of capitalist class dominance in the face of an accelerated restructuring of dominant social and economic relationships.<sup>28</sup> In a more specific vein, Wright's analysis of class struggle dynamics in a period of late capitalist crisis pointed to the emergence of capitalist class pressure for a shift in state expenditure priorities — from areas pertinent to reducing the "reproduction costs of labour-power" to areas able to contribute more directly to the enhancement of capitalist "productivity".<sup>29</sup>

Overall, the foregoing analysis underlines the need for a dual-pronged conception of state expenditure policy. On the one side, as O'Connor and Wright's research clearly indicates, state expenditure targets for the promotion of capital accumulation, a priority evidenced empirically in the rapid growth of state fiscal commitments to the

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<sup>27</sup> Goran Therborn, What Does the Ruling Class Do When It Rules?, (London: Verso, 1979) p. 164-175.

<sup>28</sup> Suzanne de Brunhoff, op. cit. Chapter 4.

<sup>29</sup> Erik Wright, op. cit., pp. 156, 162.

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development of industrial infrastructure, to research and development, to the subsidization of rates of capitalist profit. On the other side, as the analysis of de Brunhoff, Therborn, Gough and others indicates, state expenditure has to be seen as helping secure the social reproduction of dominant class relations within capitalist society. In the early postwar period, this latter process functioned in ways amenable to the accommodation of the distributional claims of a working class caught in the throes of an accelerating Fordist dynamic of social and economic restructuring. In the ensuing period of capitalist crisis, this *de facto* accommodation began to break down, paving the way for the emergence of neo-conservative agendas emphasizing a reassertion of capitalist class power and a reordering of state fiscal priorities in support of this objective.

### **D. Theoretical Outcomes**

Our attempt to analyze the series of questions posed at this chapter's outset has uncovered important areas of theoretical overlap and consensus in approaches to the field of state fiscal policy. On the revenue side, the perspectives of O'Connor, Shaikh and Tonak show how revenue policy emerges as a major area of state initiative during periods of economic crisis on two levels. First is an effort to reduce the level of taxes placed on capital in the interests of stimulating capitalism's "supply-side". The hallmark of neo-conservative agendas in the United States, the United Kingdom and in Canada as well, this

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policy gives expression to the state's fiscal effort to countermand the effects of economic crisis through efforts to increase subsidies in support of capital accumulation. The second form represents the obverse of corporate tax reductions: increases in levels of taxation placed on workers, consumers and the poor. Seen from a larger vantage point, neo-conservative "supply-side" reductions in taxes placed on capital have to be "bought" at the expense of significant increases in taxes placed on the subordinate social classes. In effect, implementation of neo-conservative priorities leads to a process of what can be termed "fiscal transference" — shifts in the class allocation of state fiscal resources in support of larger neo-conservative priorities and objectives.<sup>30</sup>

As the discussion indicates, this dynamic is also in clear evidence on both the revenue and expenditure sides of state fiscal policy. With state expenditure policy, the analysis presented by O'Connor shows the critical importance of state fiscal policy in helping sustain the accumulation of capital. In the historical experience of developed capitalist countries like Canada, state expenditures have typically played a major role in financing the development of industrial infrastructure — roads, rail lines, communication facilities, port

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<sup>30</sup> As subsequent analysis will show, the main areas of British Columbia state fiscal policy affected by revenue reductions were rates of corporate income tax as well as revenue paid to the provincial state for access to crown-held resource products while the two principal areas hit by revenue increases were personal income taxes and sales taxes.

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facilities, hydro electric grids, etc. From a general theoretical vantage point, those elements of state fiscal policy in support of these initiatives can be viewed as mechanisms that organize the allocation of fiscal resources to promote development of society's forces of production. Clearly, the reality of this involvement and the direction taken by contemporary neo-conservative agendas for changes in this involvement have to receive significant emphasis in any attempt to situate fiscal policy within the context of the state's overall approach to the regulation of capitalist social and economic relations.

At the same time, other perspectives have, in different ways, drawn attention to fiscal aspects of the state's involvement in the provision of social reproductive services and programs. In so doing, these perspectives clearly differentiate this role from that of state support for the maintenance of capital accumulation as a distinctive form of state fiscal involvement geared to solidifying dominant class relations. In Canada as elsewhere, increased state involvement in areas such as health, education, social welfare and housing came to represent an important venue for the elaboration of social reproductive initiatives in the fiscal arena. Historical growth of state fiscal responsibility for the provision of these services helped ensure the social reproduction of a working class able to sell its labour power to capital. At the same time, an examination of neo-conservative agendas in the 1980's underscores capital's quest for significant reductions in costs associated with the maintenance of programs and

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services in this area. To the extent that these cuts coincide with the increase in priority accorded areas of accumulation-related expenditure, the cuts can be conceptualized as an exercise in the redirection of state fiscal resources into increased subsidies for rates of capitalist profit. The same logic of fiscal transference operative at the level of state revenue policy can thereby be discerned in the evolution of state expenditure policy.

This conceptualization of state fiscal policy — as practices geared to the expansion of society's productive forces and to the solidification of class relations — allows for an alternate theoretical approach to the concept of fiscal crisis. Historically, the dynamic of state fiscal policy development to issue from the interplay of these elements emerges as a contemporary manifestation of the classical Marxian dialectic of forces and relations of production. In periods of rapid accumulation and buoyant economic growth, forces and relations of production join in a virtuous and self-reinforcing configuration, something the postwar experience with Fordist-style accumulation and Keynesian state fiscal policy would appear to confirm. Within the latter context, state fiscal policy supported both extension of services in accumulation-related and social reproductive areas with the coexistence of these growth trends underwritten by the expansionary dynamic of Fordist restructuring and growth. Alternately, the onset of economic crisis brings these elements into open contradiction, i.e., into real or threatened fiscal crisis. Here, state efforts to reactivate crisis-ridden

processes of capital accumulation lead to a transformation of the state's role in regulating society's productive relations. This dynamic takes the form of a restructuring of state fiscal policy priorities to effect the transfer of fiscal resources away from social reproductive commitments to areas deemed more pertinent to the support of capital accumulation. On the revenue side, these changes find expression in initiatives that reduce the tax load placed on capital while increasing levies placed on workers. On the expenditure side, they take shape in the articulation of new fiscal priorities centring on the direct promotion of capital accumulation and the downgrading of social reproductive expenditure commitments. The resultant change in state priorities and strategies emerges in the form of a reallocation of state fiscal resources able to provide added subsidy to rates of corporate profit. What emerges is a basic complementarity of change on both the expenditure and revenue sides of the fiscal equation, one geared to effecting "fiscal transference" of the scale needed to assist capital in countermanding the impact of the crisis on rates of profit. In the final analysis, then, both revenue and expenditure policy emerge as important venues for the prosecution of neo-conservative policies aiming to provide a more propitious environment for the promotion of capital accumulation.

### **E. Conclusion**

In recognizing the role played by state fiscal policy in the regulation of capitalist class relations and in the promotion of capital accumulation, the analysis of this chapter has sought to situate the development of this role within the context provided by the postwar boom and secondly by the unravelling of the boom in the 1970's and early 1980's, decades that saw the eclipse of Keynesian economics by the social, political and economic doctrines of the new right. The task at hand is therefore one of developing empirically the analysis of B.C.'s 1980's austerity experience on the basis of this theoretical foundation. The study therefore proceeds in the following chapter with an examination of the postwar development of state fiscal policy in British Columbia in the period leading up to the emergence of full-blown economic and political crisis in the early 1980's.

## **Chapter III: B.C. Fiscal Policy and State Strategy to 1980**

### **I. Introduction**

The preceding chapter set forth a general theoretical approach to the study of state fiscal policy which identified the state's parallel fiscal responsibilities in facilitating both capital accumulation and social reproduction. It argued that the postwar Fordist restructuring of advanced capitalism brought the need for state authorities to embrace expansive state fiscal policies, policies which, in turn, led to significantly increased state involvement in the field of social reproduction. Following this, the chapter maintained that capitalist crisis in the early 1980's weakened the economic underpinnings of this policy orientation, bringing a series of major fiscal policy changes into play as a driving force in the implementation of neo-conservative agendas for social, economic and political change.

The purpose of this chapter is to take this theoretical framework and apply it to an analysis of the specific forms of state fiscal policy and practice accompanying the development of postwar British Columbia society. An early post-World War II period of rapid economic growth saw the province move to finance major extensions of services in the fields of health, education and social welfare. Development of this fiscal orientation did not occur in isolation; rather it came as a by-product of larger changes overtaking the fiscal structure of Canadian federalism. There is a need, therefore, to examine how evolution of



the province's fiscal role was conditioned by the broader evolution of fiscal responsibilities at the Canadian state level. At the same time, however, the transformation of B.C. fiscal policy has to be placed in its proper socio-economic context. Fiscal developments after 1945 worked to complement an incipient restructuring of British Columbian society by easing the transition to Fordist class structures and relationships; in this respect, the growth of social reproductive involvements at the provincial level can broadly be seen as the outcome of a larger process of economic restructuring mandated by the dynamic of Fordist change.

This growth process accompanied further development of the provincial state's more traditional role in facilitating the progress of capital accumulation, the latter through major fiscal commitments for the provision of transportational infrastructure, a province-wide hydro electric grid and other services geared to promoting corporate exploitation of B.C.'s resource base. Parallel evolution of provincial state responsibilities in each of these major areas was financed largely by way of increased state revenues accruing from the process of resource-led economic expansion in the postwar. This policy orientation, in turn, laid the foundation for the emergence of a modern fiscal regime in the province, one geared to expanding and accommodating state responsibilities in both major areas. Understanding the origins of this regime, its relationship to underlying processes of social and economic change and its

connection with a larger dynamic of federal state fiscal restructuring, is the central objective of this chapter. In examining factors responsible for the evolution of this regime, the chapter demonstrates how postwar practices of Keynesian fiscal policy came to be established in British Columbia. In so doing, it lays the groundwork for subsequent analysis of fiscal dynamics and outcomes surrounding the growing obsolescence of this orientation in the face of later economic crisis.

## **II. The Social and Historical Context of Early Provincial State Finance**

The starting point for this analysis is a brief overview of the historical emergence of provincial state fiscal policy, one set in the context of the distinctive character of B.C. political economy. Throughout the early phase of its development, provincial state fiscal policy in B.C. closely reflected the economic orientation of the province, an orientation bound up with the extraction and export of primary resource products. From the period of early European settlement up to the post-World War II acceleration of provincial rates of growth, B.C.'s economy depended closely on the fortunes of various staple orientations — the opening of the coastal fishery, the gold rush of the mid-nineteenth century, the development of an indigenous logging industry or the expansion of lode mining in the provincial interior.<sup>1</sup> This dependency resulted in the formation of distinct class

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<sup>1</sup> Because of the preponderant role played by the resource industries in the province's economic development, "staple theory"

relationships leading, by the beginning of the 20th century, to the generalization and consolidation of capitalist relations of production across the spectrum of the province's economy.<sup>2</sup> In turn, these developments brought a succession of provincial political structures into being with the latter giving form and expression to the earliest manifestations of provincial state fiscal practice.

The history of early British Columbia state finance is a subject which remains largely obscured owing to a lack of detailed factual and statistical data. What information is available shows this history to revolve around the province's transition to relations of relative fiscal

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explanations have figured largely in analysis of B.C.'s economic history. Examples of this orientation include Harold Innis, "Settlement and the Mining Frontier", in W.L. Mackintosh and W. Joerg, eds. Canadian Frontiers of Settlement. (Toronto: Macmillan, 1936) Volume IX, W. Carrothers, "Forest Industries of British Columbia", in A.R.M. Lower, ed., The North American Assault on the Canadian Forest, New York: Greenwood Press, 1968, Philip Resnick, "The Political Economy of British Columbia: A Marxist Perspective", in P. Resnick and P. Knox, eds., Essays in B.C. Political Economy, Vancouver: New Star, 1974), Pat Marchak, Green Gold, (Vancouver, U.B.C. Press, 1983) and Ronald Shearer, "The Economy of British Columbia," in R. Shearer, J. Young, and G. Munro, eds., Trade Liberalization and a Regional Economy: Studies of the Impact of Free Trade on British Columbia, Toronto: University of Toronto Press, 1971).

<sup>2</sup> The consolidation of capitalist productive relations in the province gained real momentum following completion of the Canadian Pacific Rail line in the 1880's, the expansion of interior lode mining and the beginnings of early corporate control over large forest land holdings. This process, along with its impact on the provincial state, is examined in John Malcolmson, Resource Development and the State in Early British Columbia, (Simon Fraser University, Masters' Thesis, Department of Sociology and Anthropology, 1980), Chapters III and IV.

self-sufficiency. For its first seven decades, the province was chronically unable to generate revenues sufficient to meet on-going expenditure obligations. The primary reason for this lay in the assumption, first by colonial authorities and later by provincial state structures, of major responsibility for the development of a communications and transportation infrastructure required for the promotion of economic development.<sup>3</sup> In the particular case of British Columbia, inherent tendencies in the direction of fiscal shortfall were exacerbated by the high cost of maintaining government services in a land of rugged terrain and sparse population combined with the absence of a developed base of capitalist industry capable of

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<sup>3</sup> While the presence of imbalances between the province's ability to raise revenue and the growth of expenditure obligations contributed to the growth of state debt, it is important to recognize the degree to which debt accumulation was indelibly inscribed in the logic of provincial state finance within Confederation. As Creighton has argued, provincial governments in the early years of Confederation looked on public finance "as the link which would maintain the essential connection between government on the one hand and industry and expansion on the other. The obstacles imposed by geography and political boundaries, coupled with the insufficiency of population and private capital, had placed, and continued to place, upon the governments of British North America a peculiarly large part of the burden of providing communications and promoting provincial prosperity." Donald C. Creighton, British North America At Confederation, A Study Prepared for the Royal Commission on Dominion- Provincial Relations, (Ottawa, 1963), p. 65. In view of the limitations on revenue raising, the only alternative for the meeting of growing expenditure commitments was recourse to rapid increases in state debt. See the above, pp. 75ff. and D.V. Smiley, The Rowell/Sirois Report, Book 1. (Ottawa: Carleton Library, 1963, pp. 45-48.

generating increased state revenue.<sup>4</sup> As a result, B.C. remained in a financially over-extended position for the first half-century of its existence as a province, heavily dependent on receipt of a variety of federal state subsidies.<sup>5</sup> The beginnings of more large-scale capital investment and of the consolidation of capitalist productive relations in the forest and mining sectors in the late nineteenth century did, however, lay the basis for a change in this situation as the provincial state gained access to the increasing sources of direct resource revenue.<sup>6</sup> As a result, the early 20th century saw the province's ability to sustain growing expenditure commitments independent of federal state subsidy increase in a slow but steady manner. By the end of the 1930's, the beneficial impact of regional resource development on the

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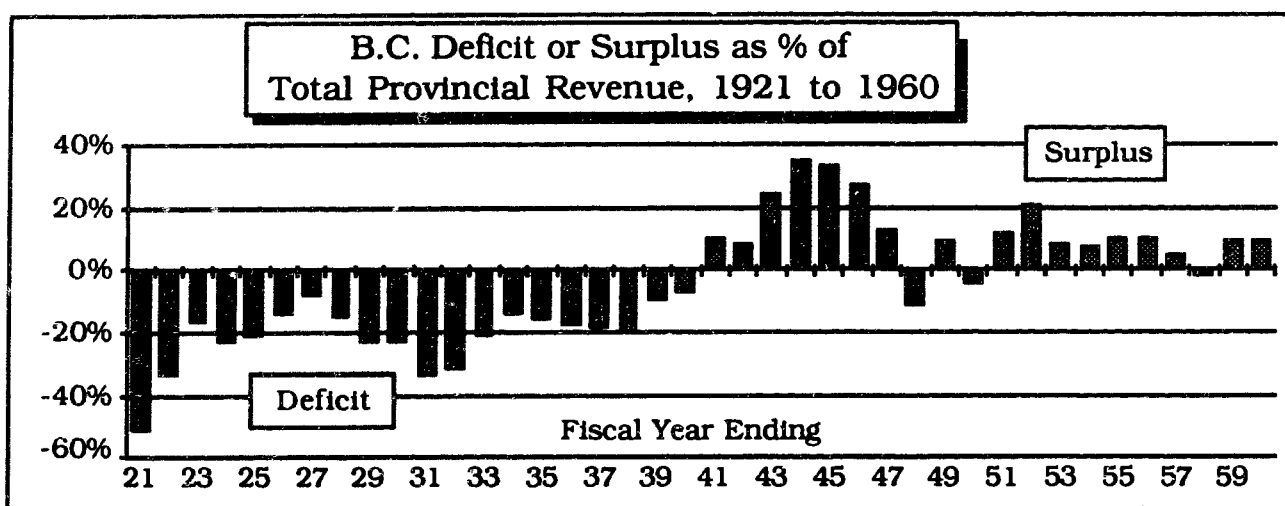
<sup>4</sup> Between the province's entry into Confederation in 1871 and the start of World War I, the province ran 11 surpluses and 33 deficits resulting in a net fiscal shortfall of \$7.4 million. Over the course of the next 25 years leading up to the start of the Second World War, the province ran an uninterrupted string of deficits to accumulate further debts of \$142.9 million. All tolled, the first 70 years of provincial status witnessed five times as many deficits as surpluses. W. Irwin Gillespie, "B.C. Expenditure, Revenue and Budget Deficit, 1871-1968", Canadian Tax Journal, Vol. 36, No. 4, July/August, 1988. pp. 935-36. See also D.C. Creighton, op. cit., Section XII for a discussion of B.C.'s relative debt load upon entry into Confederation.

<sup>5</sup> For its first two decades as a province, "unconditional transfers" by the federal government underwrote about 40 per cent of B.C.'s financial requirements. W. Irwin Gillespie, op. cit. pp. 938-941.

<sup>6</sup> Changes in provincial land tenure regulations in the 1908 to 1910 period made for the enhanced security of large corporate tenure thereby triggering a substantial influx of large scale investment capital and sizeable increases in net resource revenues for the province. See John Malcolmson, op. cit.

province's ability to raise revenue was well established. The following chart depicts the progress of the transition to fiscal self-sufficiency, showing the province's movement out of the mire of chronic budgetary over-expenditure and deficit shortfall into a position of net annual surplus by the start of the Second World War.

**Chart 3.1: B.C.'s Net Annual Fiscal Position, 1921 to 1960**



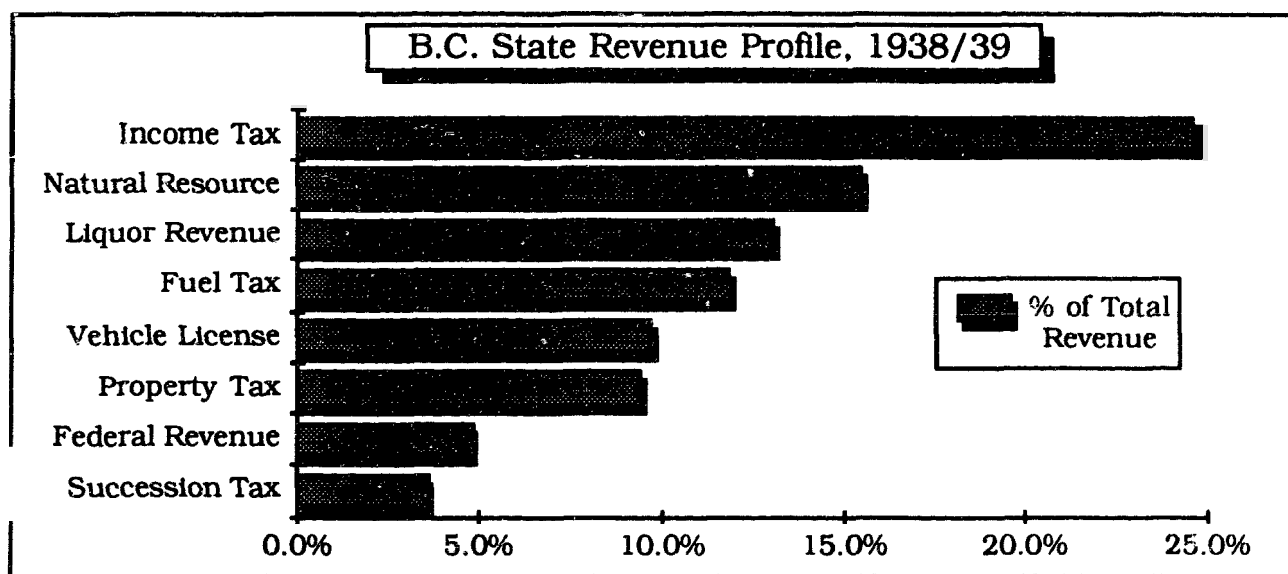
Source: Calculated from data in W. Irwin Gillespie, "B.C. Expenditure, Revenue and Budget Deficit, 1871-1968", *Canadian Tax Journal*, Vol. 36, No. 4.

The above series reveals the immediate pre-war period as a significant watershed in development of the province's fiscal capacity. In spite of the economic crisis of the 1930's and the latter's impact in exacerbating levels of provincial indebtedness, the fall-off in provincial revenue receipts through this decade proved to be a temporary fiscal set-back. By the start of World War II, British Columbia was moving from a position of net fiscal deficit and shortfall to one of near-consistent surplus. The primary factor behind this transition was the

## Chapter III: Fiscal Policy and State Strategy to 1980

acceleration of provincial rates of growth — a development closely related to the increase in demand for provincial resource exports — and the beneficial impact of this increased growth on British Columbia's ability to raise revenue.<sup>7</sup> Chart 3.2 documents percentage breakdowns in provincial revenue receipts at the start of this transitional process — fiscal year 1938/39. It confirms, at this juncture, the degree to which the generation of provincial revenue had come to centre on resource-related incomes, both direct and indirect.

**Chart 3.2: Provincial Revenue Shares, 1938/39**



Source: B.C. Department of Finance, A Review of Resources, Production and Government Finance, 16th Edition, 1956.

<sup>7</sup> While statistical measures of provincial "Gross Domestic Product" are unavailable until 1952, growth in manufacturing "value-added" in the province accelerated to a real annual rate of increase of 10.7 per cent for the period 1945 to 1959. Statistics Canada, Catalogue 11-516E Historical Statistics of Canada, Series R145 to R147 and K172.

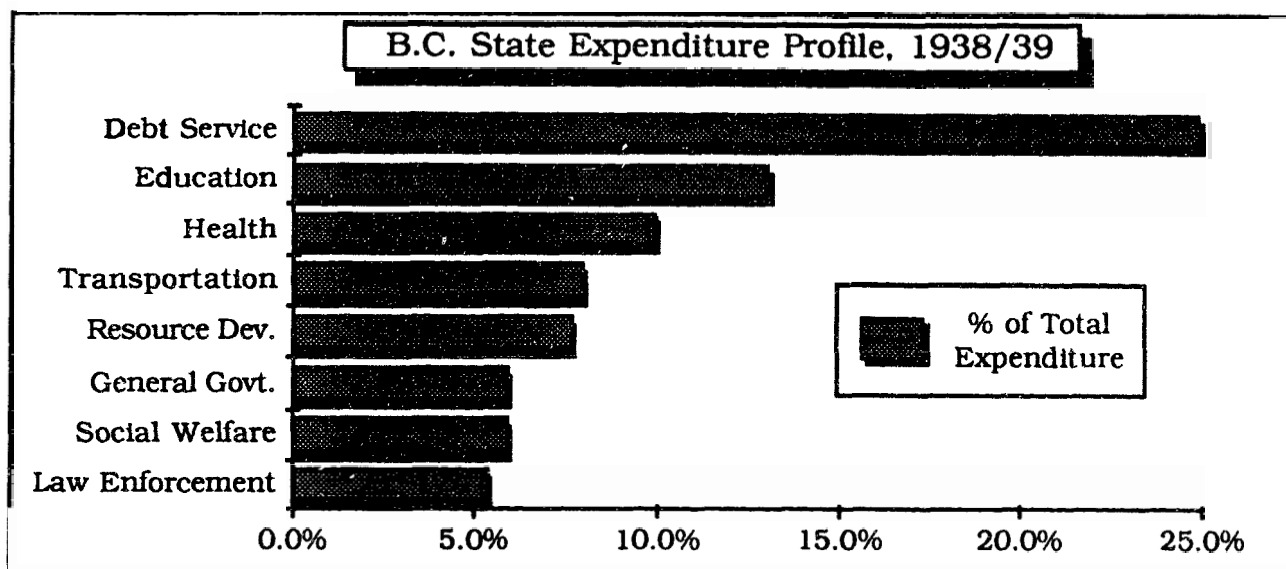
### Chapter III: Fiscal Policy and State Strategy to 1980

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Patterns of provincial expenditure also help shed light on the B.C.'s inherited fiscal predicament at the start of the Second World War, a predicament whose dominant theme continued to centre on the weight of inherited debt service obligations. Chart 3.3 offers a snapshot glimpse of the B.C.'s expenditure profile in the immediate pre-war period, one that underscores the fiscal implications of provincial indebtedness. At the same time, the chart reveals the relative lack of developed expenditure commitments in the health, education and social welfare areas, as well as the related absence of federal revenue transfers for the support of programs in these areas. By 1939, debt servicing commanded a full quarter of total expenditure commitments, a share roughly equivalent to the province's entire expenditure on health, education and social welfare services. While this relationship has to be viewed in light of the historical inheritance of provincial debt and the collapse of B.C.'s resource-oriented economy during the period of the Great Depression, it also confirms the absence, at this point, of a significant Canadian state role, whether federal or provincial, in the provision of social reproductive supports and services.



**Chart 3.3: Provincial Expenditure Profile, 1938/39**



Source: B.C. Department of Finance, *A Review of Resources, Production and Government Finance*, 16th Edition, 1956.

British Columbia's pre-war fiscal situation is suggestive of two major characteristics. First is the evident lack of a consistent provincial ability to generate revenue sufficient to meet total fiscal obligations. As a result, the provincial state continued to lay mired in a serious debt predicament to the end of the 1930's and debt servicing obligations continued to dominate the spectrum of provincial expenditure commitments. Second is the relative absence, on the expenditure side, both of strong fiscal commitments in the social reproductive arena as well as of sizeable fiscal transfers from the federal state. Indeed, it would take a postwar process of Fordist social and economic restructuring for social, economic and class relationships in the province to evolve in ways requiring a formal

elaboration of state responsibilities in these areas. More than anything else, the underdeveloped character of the state social reproductive role at this juncture served to foreshadow the scope and degree of changes lying in wait for provincial fiscal policy.

### **III. Post-World War II Directions in Provincial State Fiscal Policy**

The Second World War and the initial decades following the war saw major changes overtake dominant structures and processes of Canadian state finance. This was a period witnessing the consolidation of Fordist relations of production within Canada, as elsewhere across the advanced capitalist world, a re-orientation of dominant structures of capital accumulation to increases in labour productivity and workers' earning power, and a proliferation of internal mass consumption markets centring on the absorption of rising incomes. More than anything else, this social and economic dynamic helped impel a fundamental transformation of the capitalist state's inherited role in the field of social reproduction, a change largely reflected in the state's postwar gravitation to Keynesian methods of state fiscal management. In Canada, the early postwar saw the federal state preside over major extensions of public services in the health, education and social welfare sectors. The very scope of these policy changes helped restructure the overall orientation of federal as well as provincial level fiscal policy. For this reason, it is important that each of these areas — the Keynesian restructuring of Canadian state

administration, and the dynamic of Fordist restructuring — be given their due in accounting for the changes overtaking provincial state fiscal policy for the period of the early postwar to the onset of economic slump in the 1980's. The analysis of this transition begins with an overview of the Keynesian transformation of federal state finance in Canada and the latter's impact on the articulation of provincial state fiscal policy within B.C.

**A. Federal Fiscal and Administrative Policy and its Implications for B.C.**

Key in giving impetus to the postwar restructuring of Canadian state finance was release of a 1945 federal "White Paper" on the subject of employment and income. This document emphasized the federal state's newly-acquired responsibility for the use of macro-economic techniques to prevent a return to pre-war conditions of economic depression. At the same time, it set forth a blueprint for the expansion of social welfare programming across the spectrum of the Canadian federal system. As one author subsequently commented,

"The White Paper adopted the Keynesian prescription for this apprehended malady — namely, the need for the state to take strong and deliberate action to maintain an adequate level of effective demand at all times. This was to be accomplished through an appropriate scale of government expenditures in relation to revenues, by the use of monetary policy to establish interest rates low enough to stimulate a suitable volume of private investment

and by the use of taxation and welfare measures to encourage and stabilize consumption."<sup>8</sup>

Canada's turn to Keynesian fiscal administration first took hold at the federal state level.<sup>9</sup> However, it was not long before the development of shared-cost federal/provincial social welfare programs extended the impetus for fiscal growth and Keynesian restructuring down to provincial levels of the state. Federal/provincial social reproductive initiatives started in health care in the late 1940's and early 1950's were soon matched by parallel measures targeting the rationalization and expansion of social service delivery. In this same

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<sup>8</sup> John Deutsch, Canadian Economic Policy Since the War, (Montreal: Canadian Trade Committee, 1966) p. 124. On the importance of the White Paper, see J. Harvey Perry, Background of Current Fiscal Problems, (Toronto: Canadian Tax Foundation, 1982), pp. 3-8 and Hugh Armstrong "The Labour Force and State Workers in Canada", in Leo Panitch, ed. The Canadian State: Political Economy and Political Power, (Toronto: University of Toronto, 1977), pp. 290-1. Social welfare programs of real fiscal weight and significance only came into being with the development of a publically-administered health care system. The latter began with the growth of federal appropriations for hospital construction, public health and the control of communicable disease in the late 1940's and continued through the 1950's and 1960's up to the implementation of a system of universal health insurance. A comparative discussion of the development of Canada's commitment to publically-funded health care is found in A.J. Culyer, Health Care Expenditures in Canada: Myth and Reality; Past and Future, Canadian Tax Paper No. 82, (Ottawa: Canadian Tax Foundation, 1988).

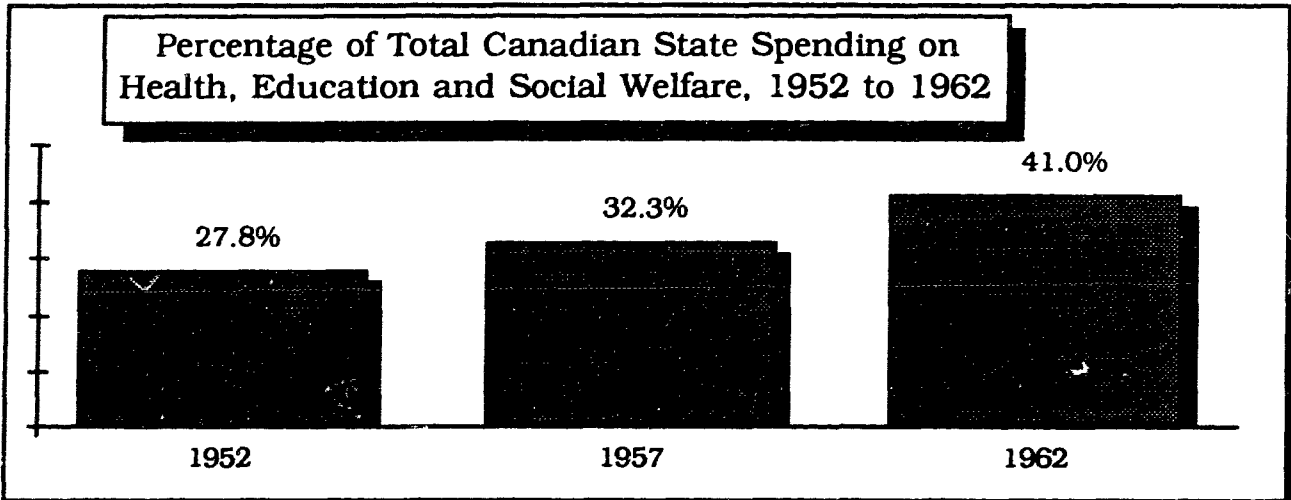
<sup>9</sup> Initial federal social reproductive initiatives were geared predominantly in the direction of labour force-oriented programs — unemployment insurance, manpower training and pensions. On this, see Bob Russell, "The Politics of Labour Force Reproduction: Funding Canada's Social Wage, 1917-1946", Studies in Political Economy, No. 13, Spring, 1984.

period, both levels of the state also increased joint responsibility for the extension of post-secondary educational services. Each of these fields of social reproductive endeavour represented an area of shared federal/provincial jurisdiction under constitutional arrangements set forth in the British North America Act. Hence, from the start, fiscal initiatives in each of these areas rested on the objective need to develop appropriate arrangements for the joint federal/provincial funding and administration of the newly-created spending programs. Out of this process, a series of federally-sponsored programs worked gradually but inexorably to restructure the dominant character of Canadian state fiscal policy and practice as larger portions of state fiscal resources were directed to the support of emergent programs in the social reproductive arena.<sup>10</sup> The following chart demonstrates the extent of this transition clearly.

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<sup>10</sup> Provincial spending in the areas defined as comprising social reproduction grew 337 per cent between 1952 and 1962 as compared with a 184 per cent rate of overall provincial expenditure increase. Dominion Bureau of Statistics, Catalogue 68-503, Historical Review: Financial Statistics of Governments in Canada, 1952-62. Tables 1, 2, 2A, 12 and 17. The effect of federal/provincial shared cost programs on the articulation of provincial state fiscal priorities is discussed in Richard M. Bird, "Federal/Provincial Fiscal Transfers in Canada: Retrospect and Prospect", Canadian Tax Journal, Vol. 35, No. 1, January/February, 1987. pp. 118-133.

**Chart 3.4 Canadian State Expenditure on Social Reproduction, 1952 to 1962**



Source: Dominion Bureau of Statistics, Catalogue 68-503, Historical Review: Financial Statistics of Governments in Canada, 1952-62. Figures are for all levels of state expenditure after elimination of inter-governmental transfers.

Additional statistics for the period confirm the movement of provincial state administration into extensive involvement in the social reproductive areas. The figures show all ten provincial state structures shift, through the 1950's, to an increased dependence on federal "shared-cost" transfers on the revenue side and to increased fiscal commitments in the health, education and social service areas on the expenditure side.<sup>11</sup> The outcome of this transition was a new

<sup>11</sup> Federal transfers to the provinces in support of social reproductive programs tripled from \$1,747 million to \$5,198 million reflecting an increase of 1,224 per cent, more than five times the rate of overall provincial revenue increase. Historical Review: Financial Statistics of Governments in Canada, 1952-62. Tables 1, 2, 2A, 12 and 17. This transition brought state structures and fiscal practices more objectively into line with an extraneous dynamic of Fordist restructuring.

fiscal edifice and orientation involving a significantly expanded compass of provincial revenue generation as well as an extensive range of new provincial fiscal commitments in support of health, education and social welfare programmes. For British Columbia, these changes were as real, as rapid and as dramatic as they were for any other Canadian province.

### **B. State Finance and Fordist Restructuring in Postwar B.C.**

For B.C., the transition to Keynesian methods of state fiscal management came in a social and economic context dominated by rapid expansion of the province's resource-oriented economy.<sup>12</sup> Increased international demand for B.C.'s resource exports both during and after the war, in turn, helped consolidate both the predominant resource orientation of the provincial economy as well as emergent structures of monopoly capitalist control.<sup>13</sup> Progress along

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<sup>12</sup> Through the decade of the 1960's, B.C.'s economy expanded at an average compound annual rate of 10.4 per cent, 1.1 percentage points higher than the national average as the province reaped the benefits of increases in international demand for provincial resource products.. Statistics Canada, Catalogue 13-213S, Provincial Economic Accounts, 1961-1986, Table 1, and Cansim, data matrices 2610 to 2621. On the nature of international resource capitalism in the postwar, see Michael Tanzer, The Race For Resources, (New York: Monthly Review, 1980), Chapter I.

<sup>13</sup> An early 1960's analysis of B.C.'s economy concluded there had been "no evidence of substantial economic diversification of the province" since the end of the war. Ronald J. Shearer and J. Peters, "The Structure of British Columbia's External Trade in 1939 and 1963", B.C. Studies, No. 8, Winter, 1970-71, p. 43. What provincial manufacturing capacity existed by the end of the following decade was either "forward linked" to the industrial processes in the forest,

this path held major implications for the subsequent evolution of state policies targeting the promotion of economic development.

Consolidation of monopoly capitalist relations in these sectors was, in important respects, predicated upon the provision of appropriate state support in a range of legal, administrative and fiscal areas. For this reason, rapid rates of postwar economic growth brought increased corporate pressure for the elaboration of supportive state measures, fiscal and otherwise, to maintain the accelerated pace of capital accumulation. It is important, therefore, that an effort be made at this juncture to specify the scope and nature of these social, political and economic changes so as to better understand their ramifications for the evolution of provincial state fiscal policy.

The postwar period brought a host of changes to British Columbia's resource-oriented economy, changes centring largely around further consolidation of monopoly capitalist relations of production. In the provincial mining sector, this period witnessed a dramatic expansion of capital investment and the consolidation of transnational corporate control over the extraction of base minerals, precious metals and coal. The early to mid-1950's brought migration of both Canadian and foreign capital to the province and the opening of substantial new

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mining and allied sectors, or "backward linked" by way of a reliance on primary commodity inputs from these same sectors. See B.C. Ministry of Industry and Small Business Development, British Columbia Provincial Accounts, 1964-83, Table 8.



productive capacity in the mineral field.<sup>14</sup> Spurred on by the development of provincial state commitment to the extension of infrastructural requirements, this expansionary process continued into the 1960's in the face of generally buoyant prices and favourable international market conditions.<sup>15</sup> By the start of the next decade, fewer than three dozen major mines accounted for close to 95 per cent of the value of total provincial mineral production. Controlled in the main by fewer than ten major financial and corporate groups, these mines accounted for over 90 per cent of total capital investment, total mining sales and total net earnings.<sup>16</sup>

The province's forestry sector witnessed a similar process of postwar monopoly capitalist growth.<sup>17</sup> Within this context, provincial state policy governing the control and alienation of publically held

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<sup>14</sup> Included at this juncture were mines at Logan Lake (Lornex/Rio Algom), Bluebell (Cominco), Cassiar (later of Brinco) and Granby (later of Noranda). An overview of the development of postwar mining in the province is offered in G.W. Taylor, Mining: The History of Mining in British Columbia, (Saanichton: Hancock House, 1978), Chapters 9 and 10.

<sup>15</sup> Through this latter period a range of new mining developments came onstream - Tasu (Falconbridge), Bethlehem (Newmont/Gulf), Island (Utah Mines), Coast (Cominco/Canadian Pacific) and Britannia (Anaconda). Ibid.

<sup>16</sup> The Mining Association of British Columbia, Annual Reports, (various) Close to half of these dominant mines were owned by foreign interests.

<sup>17</sup> On the structural changes and characteristics of the period, see Roger Hayter, "Patterns of Entry and the Role of Foreign-Controlled Investments in the Forest Product Sector of British Columbia", T.E.S.G., 1981, Vol. 72, No. 2. pp. 103ff.

resources facilitated the consolidation of corporate control over the cutting rights associated with large tracts of crown land.<sup>18</sup> As a result, the main contours of monopoly capitalist dominance were well established by the 1960's.<sup>19</sup> Canadian as well as foreign-controlled corporations active in this sector were typically sub-components of larger and more complex networks of finance capital linking regional processes of capital investment, production and circulation with broader circuits of capital accumulation constituted at an international

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<sup>18</sup> The roots of provincial forest policy in the prewar period and its orientation to the needs of large-scale capital is discussed in Stephen Gray, "The Government's Timber Business: Forest Policy and Administration in B.C., 1912-1928", B.C. Studies, No. 81, Spring, 1989. Historical aspects of provincial land policy and its relationship to forest development are discussed in Robert Cail, Land, Man and the Law, (Vancouver: U.B.C., 1974). W.T. Stansbury and M.R. McLeod show that by 1972 the eight largest forest corporations controlled anywhere from 60 to 100 per cent of crown forest land in each of the five provincial forest districts. "The Concentration of Timber Holdings in the British Columbia Forest Industry, 1972", B.C. Studies, No. 17, Spring, 1973, pp. 60-1. The postwar push towards increased monopoly control also received impetus from provincial resource policy with advocacy of a "sustained yield" concept in the Sloan Royal Commission report of 1945 and the latter's incorporation in the Forest Act of 1947. The concept's application favoured large-scale capital investment through the provision of secure long-term land tenure to large corporations. See Pat Marchak, op. cit., pp. 36ff., and Keith Reid and Don Weaver, "Aspects of the Political Economy of the B.C. Forest Industry" in Paul Knox and Philip Resnick, eds. op. cit., pp. 15-22.

<sup>19</sup> Canadian-controlled corporations like Macmillan-Bloedel, Canadian Forest Products, B.C. Forest Products had emerged to occupy the upper, monopoly tier of provincial forest capitalism, maintaining large vertically-integrated complexes spanning the stages of log harvesting, sawmilling and pulping, to the production and marketing of finished lumber, plywood, paper and other products.

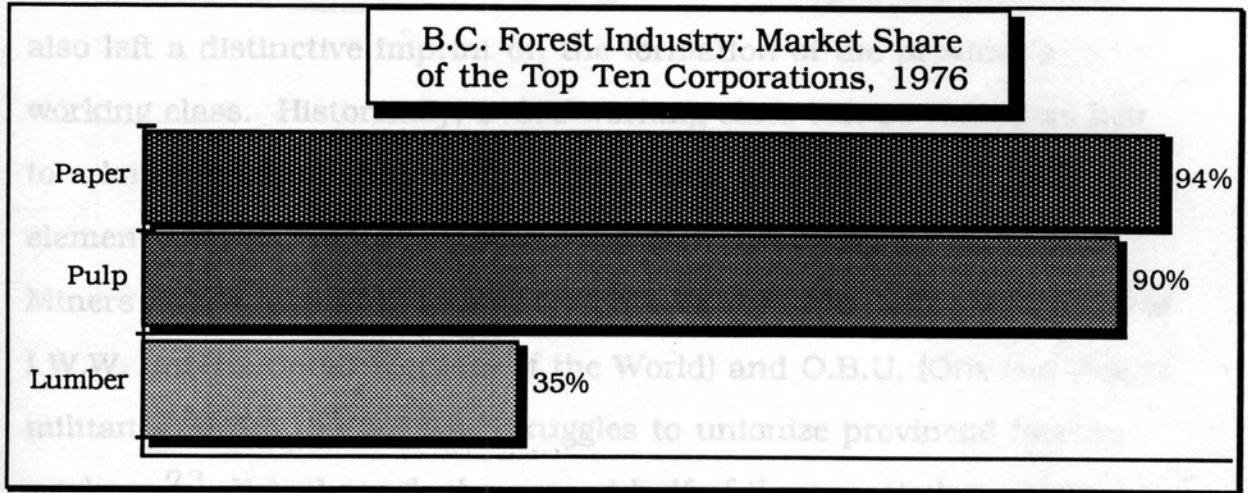
level.<sup>20</sup> Chart 3.4 demonstrates that, by the time of the Royal Commission into forestry in 1976, the ten largest forest corporations controlled sizeable market shares in all major sectors of the provincial forestry industry.<sup>21</sup>

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<sup>20</sup> The term "finance capital" denotes a close structural integration of the circuits of capital investment, production and circulation. For a discussion of its applicability, see Michel Aglietta, The Theory of Capitalist Regulation, (London: Verso, 1980) and William K. Carroll, "Financial Capital or Finance Capitalists", in Studies in Political Economy, No. 8, Summer, 1982. Large American forest capital was represented in B.C. by Columbia Cellulose, Weldwood, Weyerhaeuser, Rayonier-I.T.T. and Crown Zellerbach. Details as to the migration of American forest capital are offered in G.W. Taylor, Timber: History of the Forest Industry in B.C., (Vancouver, J.J. Douglas, 1975), Chapters 13 to 15, and Pat Marchak, op. cit., Chapter 4. A discussion of the organization of Japanese trading companies active in this sector is found in Toshikazu Nakase, "Some Characteristics of Japanese-type Multinational Enterprises Today", Capital and Class, No. 13, Spring, 1981, pp. 61-98, Joan Gherson, "Japanese Investment in Canada", Foreign Investment Review, Autumn, 1979, pp. 3-7 and "Japan's Overseas Investments - Canada", The Oriental Economist, No. 10, 1979. Through the same period, substantial new joint venture investment also flooded into B.C. - Tahsis (Denmark-U.S.) on Vancouver Island, Eurocan (Finland-Canada) in the Kitimat region, Prince George Pulp and Paper (Britain-Canada), Cariboo (U.S.-Japan) and Crestbrook (Japan-U.S.-Canada), all in the provincial interior.

<sup>21</sup> Peter Pearse, Timber Rights and Forest Policy in British Columbia, 1976, Report of the Provincial Royal Commission on Forest Resources. The Commission's examination of levels of corporate concentration and centralization in B.C. is summarized in R. Schwindt, "The Pearse Commission and the Industrial Organization of the British Columbia Forest Industry", in B.C. Studies, No. 41, Spring, 1979, pp. 7-32. Data released by the provincial Council of Forest Industries for 1980 showed the top ten corporations' control over lumber production approaching 50 per cent once the production of associated and jointly-held corporations was included to the extent of equity control. Large foreign-controlled firms included B.C. Forest Products, Weldwood, Crown Zellerbach, Northwood, Rayonier, Eurocan and Tahsis. All were American-controlled with the exception of Eurocan

**Chart 3.5 Corporate Concentration in B.C.'s Forest Industry**



Source: Timber Rights and Forest Policy in British Columbia, 1976, Report of the Provincial Royal Commission on Forest Resources.

Through the early postwar period, the provincial state continued to facilitate access to secure land tenures and mineral development rights in support of this corporate-dominated model of economic expansion.<sup>22</sup> At the same time, the state broadened fiscal commitments to extending the province's road, rail and communications infrastructure. Together, the elaboration of these functions helped chart the future course to be taken by the provincial state in extending concrete financial support for the promotion of capital accumulation.

(Finland-Canada) and Tahsis (Denmark-United States). See Council of Forest Industries, Forest Industries, May 30, 1981.

<sup>22</sup> The origins and subsequent development of these practices are traced in Robert Cail, op. cit.

Dominant patterns of economic growth and capital accumulation also left a distinctive imprint on the formation of the province's working class. Historically, B.C.'s working class can be viewed as heir to a long-standing tradition of frontier militancy and class conflict with elements of this tradition dating back to the Western Federation of Miners at the turn of the century and continuing through the period of I.W.W. (International Workers of the World) and O.B.U. (One Big Union) militancy, up to the postwar struggles to unionize provincial forestry workers.<sup>23</sup> Yet, through the second half of the twentieth century, B.C.'s working class also evolved in ways increasingly reflecting a postwar reality of changed economic structures and class relationships.<sup>24</sup> High and enduring levels of trade union organization

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<sup>23</sup> The history of the International Workers of the World and the One Big Union in B.C. is documented in Jack Scott, Plunderbund and Proletariat, (Vancouver: New Star, 1975) and in David J. Bercuson, Fools and Wisemen: The Rise and Fall of the One Big Union, (Toronto: McGraw-Hill Ryerson, 1978) pp. 189-196. The postwar history of forest unionism is discussed in Jerry Lembcke and William B. Tattam, One Union in Wood, (Vancouver: Harbour Publishing, 1984), Chapter 5, in Irving Abella, Nationalism, Communism and Canadian Labour, (Toronto: University of Toronto Press, 1973). pp. 111-138 and in Paul Phillips, No Power Greater, (Vancouver: B.C. Federation of Labour, 1967), Chapter 9.

<sup>24</sup> In this connection, the transformation of B.C.'s labour force pointed to a characteristic confluence of developmental tendencies evident throughout the advanced capitalist world in this period — the rise of tertiary and service sector employment, rapid growth in the ranks of female workers, a relative decline in the proportionate weight of primary sector employment and an all-round proliferation of what has been termed "non-manual work". See Rennie Warburton and David Coburn, "The Rise of Non-Manual Work in British Columbia," B.C. Studies, No. 59, Autumn, 1983, reprinted in R. Warburton and D.

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inherited from earlier periods of frontier militancy enabled B.C. workers to secure sizeable spin-off benefits from the accelerated pace of resource capital accumulation to emerge out of the postwar economic boom. In effect, the early postwar saw a *de facto* grafting of organizational traditions and class assertiveness onto a postwar Fordist-type transformation of class relations within provincial society. Through this process, higher real wage levels, initially established in heavily-unionized sectors such as construction and forestry, were rapidly generalized across a significant portion of the unionized provincial labour force.<sup>25</sup> The outcome saw an inheritance of working class power and influence successfully parleyed into an historically significant elevation of working class income levels.

Overall, the transformation of provincial economy and society helped accelerate the process of labour force restructuring through

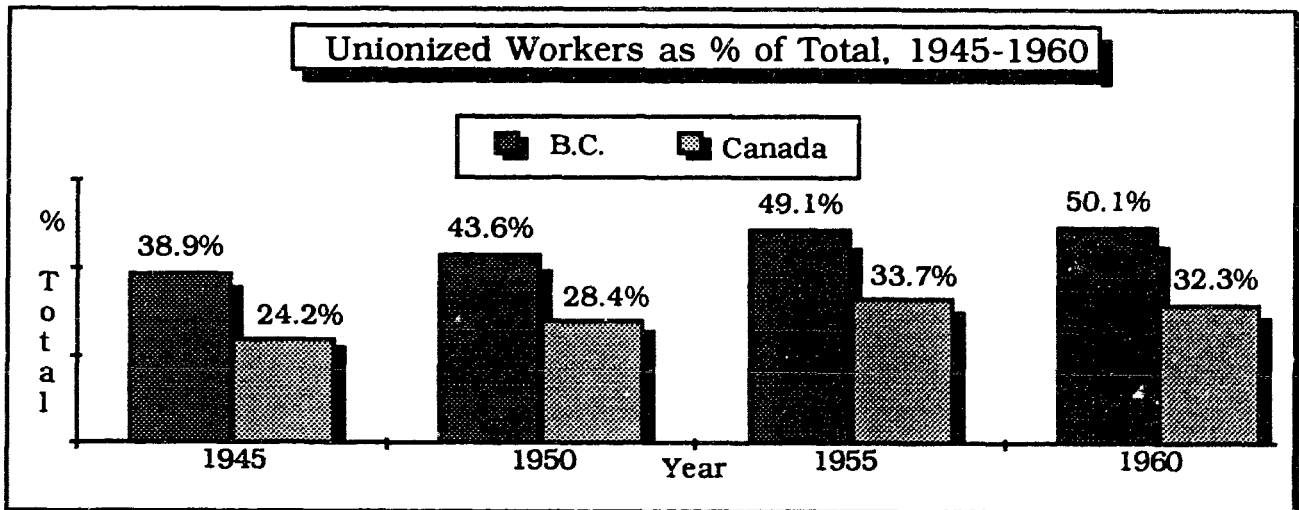
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Coburn, eds., Workers, Capital and the State in British Columbia, (Vancouver: U.B.C. Press, 1988).

<sup>25</sup> "Aided by the buoyant construction situation, the building trades, led by the carpenters, assumed leadership on the question of wages within the craft sector...The IWA had emerged as the largest and strongest industrial union and became the chosen union for setting the (wage) pattern for the industrial unions." Paul Phillips, *op. cit.*, p. 148. Phillips notes that, for the province's industrial unions, wage patterning had become an explicit bargaining strategy by the late 1940's and began to bear fruit almost immediately. Patterning developments of this type are consistent with aspects of "regulation theory" analysis of structures of wage determination within monopoly capitalism. On this, see Robert Boyer "Wage Formation in Historical Perspective: The French Experience", Cambridge Journal of Economics, Vol. 3, No. 2, 1979, and John Eatwell, John Llewellyn and Roger Tarling "Money Wage Inflation in Industrial Countries", Review of Economic Studies, Vol. 41, No. 128, 1974, pp. 515ff.

the initial postwar period. The following chart documents the extent of union organization in the early postwar period, comparing the B.C. situation with that obtaining for the national economy as a whole. It indicates that the unionization of workers in the province increased steadily throughout the period from 1945 to 1960 while maintaining overall percentage rates 15 to 20 points in excess of the national average.<sup>26</sup>

**Chart 3.6: Unionization Rates for Canada and B.C.**



Source: B.C. Ministry of Labour, Industrial Relations Bulletin, December, 1982, p. 14; Statistics Canada, Historical Statistics of Canada, 1983, Series E-176.

Increases in the level of worker unionization also helped condition overall patterns of wage determination throughout this period.

Between 1945 and 1960, average industrial wages in the province rose

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<sup>26</sup> Over this time frame, the actual number of unionized workers close to doubled — from 110,045 in 1945 to 215,437 in 1960. B.C. Ministry of Labour, Labour Research Bulletin, December, 1982, p. 14.

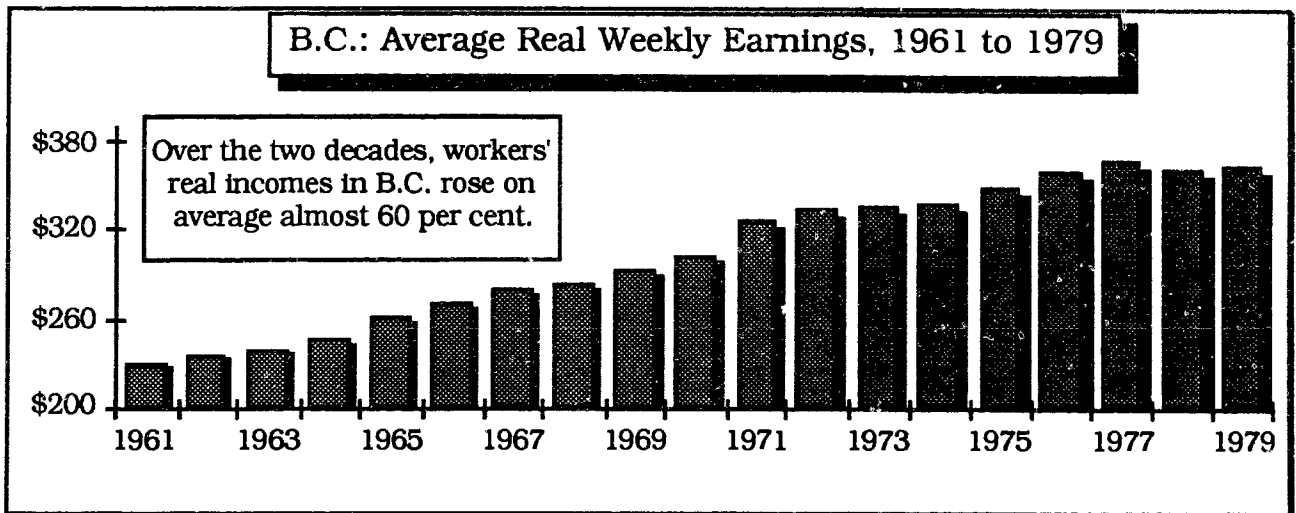
more than 36 per cent after discounting for the impact of inflation, a trend indicating the degree to which the initial postwar period of strong economic growth provided a generally propitious environment for the extension of working class organization in the province as well as for the success of union struggles aimed at augmenting real income levels for workers.<sup>27</sup> And, as the following chart indicates, sustained growth in workers' real incomes carried over into the next two decades. The net outcome was a full doubling of average real wages between 1945 and 1979.

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<sup>27</sup> Statistics Canada, Historical Statistics of Canada, 1983, Series E49-59, K23-32 and K8-18. In 1950, average "Industrial Composite" wages in B.C. exceeded Canadian average levels by a margin of 5.8 per cent. This gap widened to reach 10.8 per cent in 1970. Statistics Canada, Employment, Earnings and Hours, Catalogue 72-002 (various) and Historical Statistics of Canada, Series E49-59. Phillips cites the importance of the 1944 federal Order in Council P.C. 1003 which confirmed the rights of Canadian workers to unionize and also set in place the legal machinery for certification, bargaining and compulsory dues checkoff. As a result, Phillips argues that B.C.'s "union movement had achieved a measure of security which allowed it to expand its organization considerably and to turn its major attention toward improving wages and job conditions." Paul Phillips, op. cit., p. 129-30 and 145.



**Chart 3.7 B.C. Average Weekly Wages, 1961 to 1979**



Source: BCSTATS database.

In a complete sense, trends in provincial rates of unionization and real wage growth are strongly supportive of the argument that British Columbia underwent an economic transformation leading to the consolidation of Fordist-type class relations in the immediate postwar decades.<sup>28</sup> Over this period, workers in the province entered trade unions in record numbers, bargained collective agreements containing significant wage increases and consequently saw their real incomes rise substantially. Underwritten by conditions of buoyant economic growth and a rapid pace of capital accumulation, these developments give stark testimony to the impact of the postwar expansionary

<sup>28</sup> The extension of Fordist class and economic relations to Canada in the early postwar is touched on in Francois Houle, "Economic Strategy and the Restructuring of the Fordist Wage-Labour Relationship in Canada", Studies in Political Economy, No. 11, pp. 131ff.

dynamic in forcing a restructuring of dominant class relations. In turn, these developments helped bolster the transition to a newer provincial fiscal policy orientation comprising an extensive social reproductive component, a transition given original impetus by the postwar Keynesianization of fiscal administration at the federal state level.

### **C. State Finance and Postwar Accumulation Strategy**

At the same time, the progress of monopoly capitalist expansion gave form and direction to the articulation of a distinctive provincial state strategy for the promotion of economic growth and capital accumulation, the analysis of which sheds light on the role played by postwar fiscal policy in reinforcing the state's commitment to meeting the accumulation needs of resource capital. British Columbia's "province building" strategy centred on the state's assuming cost overheads associated with development of the provincial accumulation base and, more specifically, entailed a growth in fiscal commitments for the provision of vital productive inputs such as roads, municipal infrastructure, rail lines, power grids and port facilities.<sup>29</sup> Provision of these services was essential for the opening up of the provincial

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<sup>29</sup> On the concept of "province building" and its application to B.C., see Donald Blake, Two Political Worlds: Parties and Voting in British Columbia, (Vancouver: U.B.C. Press, 1985), pp. 2-7., Norman Ruff, "British Columbia and Canadian Federalism", in Norman Ruff, ed. The Reins of Power, (Vancouver: Douglas & McIntyre, 1983) pp. 289ff., and Stephen G. Tomblin, "W.A.C. Bennett and Province Building in British Columbia", B.C. Studies, No 85, Spring, 1990.

resource base and its profitable exploitation by the large corporate interests.<sup>30</sup> State assumption of responsibility in these areas therefore formed an increasingly central component of the province's strategic conception of the state's role in promoting economic growth and capital investment.<sup>31</sup> B.C.'s efforts at "province building" were also predicated on a surrender of active control over provincially-owned mineral and forest resources to private corporate interests. As a result, the state's postwar role was an inherently passive one, focussing in the main on the provision of an appropriate social and political climate for capital investment buttressed by the growth of state commitments for the provision of capital's infrastructural requirements. With the province's role in this regard one designed to complement a consolidation of resource capitalist control, the state's

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<sup>30</sup> The same is generally true for all Canadian provinces. For the period of World War II and after, Stevenson notes that, "provincial governments... were busy assisting the development of mines and forests, building highways, extending public utilities, and opening their northern frontiers. They were also beginning, although with less enthusiasm, to spend more on health, education and welfare." Garth Stevenson, Unfulfilled Union: Canadian Federalism and National Unity, (Toronto: Gage, 1982), p. 132.

<sup>31</sup> In a discussion of the early 20th century development of Ontario Hydro that has many parallels to early postwar B.C., Nelles shows that the provincial crown corporation's role was intimately related to the consolidation of private control over that province's resource sectors — that of an "understanding accomplice" to a capitalist model of resource development. See H.V. Nelles, The Politics of Development, (Toronto: University of Toronto Press, 1974), pp. 490-95.

strategy never approximated any real extension of direct state involvement in the resource sector accumulation process.

The maintenance of state commitments in both major fiscal areas emerged out of a context of pronounced political and ideological polarization in the province, the nature of which did much to condition subsequent evolution of state fiscal policy options and practice.<sup>32</sup> From the mid-1940's forward, the dominant political parties in the province advanced differing conceptions of the state's role in the socio-economic life of B.C. — the Co-operative Commonwealth Federation (C.C.F.) and later New Democratic Party (N.D.P.) emphasizing a reformist and activist vision of state economic regulation matched by innovation in the social policy field, and the Liberal and Conservative Party precursors to B.C.'s Social Credit movement stressing background state support for a corporate-centred "free enterprise" growth model along with begrudging accommodation to the advance of the modern welfare state.<sup>33</sup> At a

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<sup>32</sup> See Donald Blake, *op. cit.*, Chapter 1, and Philip Resnick, "Social Democracy in Power: The Case of British Columbia", *B.C. Studies*, No. 34, 1977. The question of party polarization and its relation to provincial class structure is also explored in Michael Howlett and Keith Brownsey, "The Old Reality and the New Reality: Party Politics and Public Policy in British Columbia, 1941-1987", *Studies in Political Economy*, No. 25, Spring, 1988.

<sup>33</sup> *Ibid.* In electoral terms, the results of this contest were largely one-sided. Apart from a brief N.D.P. term in office in the early 1970's, the postwar period from the early 1950's forward was a story of near-continuous Social Credit political hegemony as the party successfully monopolized a centre-right position on the provincial political

social class level, the roots of postwar Social Credit hegemony rested largely on the party's ability to tie the support of small to middle-sized capital in the province to an accumulation strategy resting on a model of corporate-dominated resource development. Through this linkage, non-monopoly sectors of capital derived concrete spin-off benefits from the postwar expansion, benefits related to heightened levels of economic activity.<sup>34</sup> Owing to the nature of these relationships, the direction pioneered by Social Credit state strategy through the early postwar period with its commitment to a model of corporate-dominated development rested on a significantly wider range of class forces and interests than that represented by monopoly capital alone.<sup>35</sup>

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spectrum. On the latter, see M. Howlett and K. Brownsey, *op. cit.*, p. 144-45.

<sup>34</sup> Integration of non-monopoly capital into larger circuits of capital accumulation typically came in two forms. The first centred on direct participation in resource exploitation, a reality most common in the logging and sawmilling sectors of the forest industry. The second related to the smaller-scale capital's role in the provision of specialized inputs: chemicals, machinery, transportation equipment, electrical products, or of "expert" services —marketing, engineering consulting and financial sector inputs. As such, it reflected a reality of close linkage binding the profitability and indeed viability of small to middle-scale capitalist enterprise in the secondary and tertiary sectors to the engine of large corporate-dominated resource accumulation. For a technical and statistical examination of B.C. economic structures, see G. Munro "The Import Competing Sector," in R. Shearer et. al. *op. cit.* pp 94ff.

<sup>35</sup> "Through the extensive use of public expenditure, Bennett created a situation in which both large and small enterprises alike became dependent on state transportation and energy infrastructure expenditures - the former for continued rapid accumulation and the

Articulation of a state strategy along these lines brought significant changes to bear on the financial administration of the province with the first area to witness major change being state debt. The importance of B.C.'s experience in the field of debt restructuring presents the need to expand the study's survey of state fiscal policy to include the administration of provincial state debt. Only a broadened picture of state fiscal relationships for the overall period in question — the early postwar to the mid-1980's — can be expected to capture the dynamic of state fiscal policy development in its entirety. From the 1952 election of the Social Credit party forward, the state's approach to the question of debt was conditioned by a pronounced ideological antipathy to the depredations of deficit finance.<sup>36</sup> As a result, the early years of the W.A.C. Bennett government — 1952 to 1959 — saw concerted state attempts to retire current account debt in the name of a fiscal orthodoxy centring on strict devotion to doctrines of "sound finance".<sup>37</sup> From this point forward, Bennett's government

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latter for economic survival." Keith Brownsey and Michael Howlett, *op. cit.* p. 151. See also John Shields, B.C. Politics and Defensive Defiance, Ph.D Thesis, Department of Political Science, University of British Columbia, 1989, p. 195ff.

<sup>36</sup> This aversion reflected the petit bourgeois origins of the early Social Credit movement and came to represent a vital cornerstone of the right-of-centre party alliance that dominated the seat of provincial government power from the early 1950's until 1972. On the nature of this alliance, see Martin Robin, Pillars of Profit, (Toronto: McClelland and Stewart, 1973), Chapter VI.

<sup>37</sup> "There has been no appropriation from the British Columbia Consolidated Revenue Fund for Provincial debt since the estimates of revenue and expenditure for fiscal year 1959/60 were authorized by

maintained efforts to segregate debt obligations related to the maintenance of "current account" state services from those incurred for the development of capital facilities and provincial economic infrastructure.<sup>38</sup> As a result, early Social Credit fiscal and administrative policy worked to shift government "commercial" debt to the balance sheets of provincial crown corporations as so-called "contingent liabilities" guaranteed in the last instance by the financial strength and integrity of the provincial state. Such was intended both to safeguard the image of fiscal probity and administrative conservatism essential to the maintenance of Social Credit ideological and electoral support as well as to allow the crown corporate sector an increased opportunity to focus its major energies in areas directly related to the stimulation of capital investment and the promotion of economic growth. In this connection, B.C. Hydro, the province's electrical and gas distribution utility, and B.C. Rail, a provincial rail line servicing northern and interior resource communities, emerged as dominant instruments of state initiative in extending the kind of economic infrastructure capable of supporting an acceleration of

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the Legislature. The net provincial debt of \$222,453,788 at March 31, 1952 was fully paid off or offset by equivalent sinking fund investments over seven years, i.e. by July 31, 1959." B.C. Ministry of Finance, Financial and Economic Review, 26th Edition, July, 1966, p. 9.

<sup>38</sup> The latter, it was argued, would be removed from direct budgetary scrutiny and housed in the ledgers of provincial crown corporations with the debts of these corporations serviced out of the revenues from crown corporate commercial activity. Ibid. p. 9.

capital accumulation of the type in clear evidence during the early postwar years.

In 1952 — the first year for which detailed and comprehensive figures are available — total net government debt amounted to \$263.7 million of which only 12 per cent related to the borrowing activity of crown corporations. By 1955, total debt levels had increased 23 per cent to \$323.2 million only now just under half related to the crown corporate sector. Five years following, the level of total debt doubled to \$650.7 million with close to 95 per cent accounted for by crown corporate “contingent liabilities”. Beyond this point, provincial state debt swung completely to the crown corporate side. This restructuring of provincial debt made for a significant reduction in the burden of current account debt servicing. Whereas an earlier chart showed a quarter of total provincial revenue directed to this end prior to the war, the end of the 1950’s brought a complete shift in state debt to the ledgers of provincial crown corporations with the result that significant revenue shares were effectively freed for redirection to other areas of fiscal priority. As will be shown, this restructuring dynamic cleared the way for significant increases in state fiscal commitments in the component areas of social reproduction.

By the end of the 1960’s, net debt totalled \$2,283.2 million, up more than two and one-half fold over the space of ten years.<sup>39</sup> The

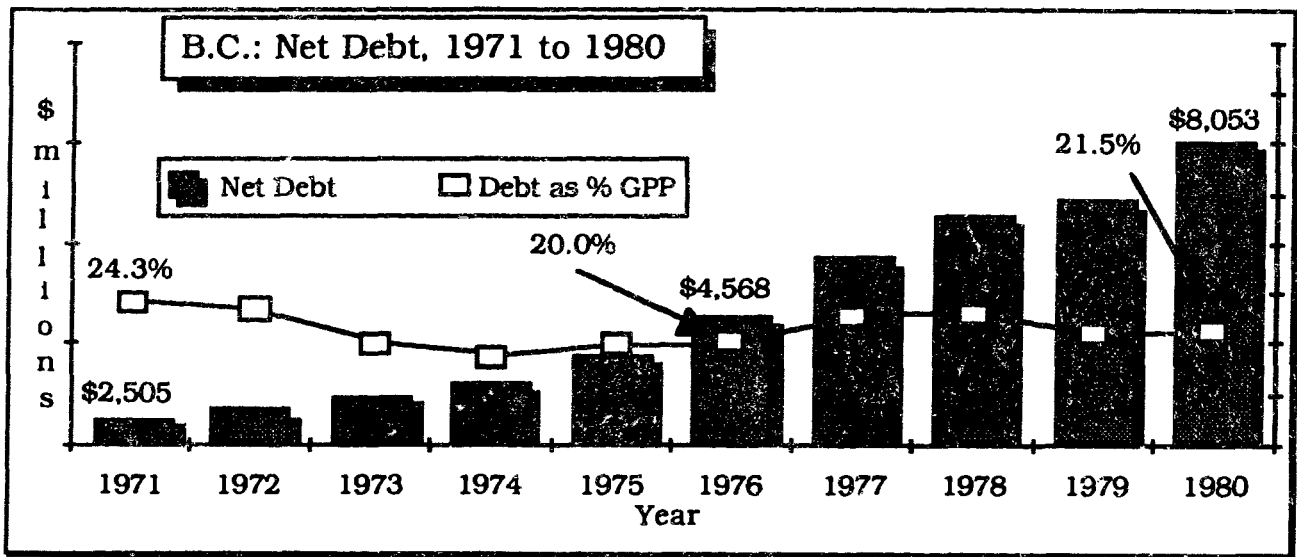
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<sup>39</sup> Together, B.C. Hydro and B.C. Rail accounted for close to 80 per cent of accumulated crown corporate debt by the end of the 1960’s, a



following chart traces the course of accumulated nominal dollar debt into the following decade. At the same time, it calculates provincial debt as a percentage of G.P.P. so as to offer some indication of the relative economic burden represented by changing levels of provincial indebtedness.

**Chart 3.8: Net Provincial Debt, 1971 to 1980**



Source: derived from B.C. Ministry of Finance, Financial and Economic Review, (various).

The data point to a continued accumulation of debt liabilities over the years in question; however, in constant dollar terms, increases in the province's net debt load were more modest, rising in total 38 per

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percentage that stablized for the following decade. B.C. Ministry of Finance, Financial and Economic Review, 31st and 41st Editions, p. 19 and historical tables in later editions. Additional historical data regarding levels of provincial debt in the early postwar are found in Statistics Canada, Historical Review: Financial Statistics of Governments in Canada, 1952-1962. Catalogue 68-503.

cent through the decade, a rate slightly lower than that of the province's economic growth. For this reason and despite minor year-to-year fluctuations attuned in large measure to the vagaries of the business cycle, cumulative debt accounted for a slightly declining percentage of G.P.P. through the 1970's.<sup>40</sup> If anything, the ratio of provincial borrowing to economic growth in this period points to the province's relatively non-problematic adjustment to increased levels of state indebtedness. More than anything else, B.C.'s early postwar experience in the restructuring of debt administration confirms the generalized absence of crisis in the province's ability to sustain the full range of its fiscal commitments during this period.

If anything, this non-crisis orientation was effectively carried over into the province's three year flirtation with social democratic government in the early 1970's. In general terms, the New Democratic Party's tenure in office between 1972 and 1975 saw the advent of a reformist, modernizing orientation in the affairs of public administration.<sup>41</sup> The period witnessed efforts to reform the state's

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<sup>40</sup> B.C. Ministry of Finance, Financial and Economic Review, 46th Edition, August, 1986, p. 162.

<sup>41</sup> Social democracy also signalled the demise of the personalist style and practice of the W.A.C. Bennett government and the advent of more collegial styles of cabinet decision-making along with an accelerated professionalization of civil service administration. See J. Terence Morley and Walter Young "The Premier and the Cabinet" in J. Morley, Norman J. Ruff, Neil A. Swanson, R. Jeremy Wilson and Walter D. Young, The Reins of Power: Governing British Columbia, (Vancouver: Douglas and McIntyre, 1983) pp. 57-65. See also M. Howlett and K. Brownsey, op. cit., p. 169.

role in the mediation of industrial conflict with the development of a new provincial Labour Code, the formation of quasi-independent rights tribunal in the Labour Relations Board to establish a more institutionalized framework for the administration of workplace class struggles, and the extension of normal collective bargaining rights to provincial public service workers. In all of this, social democracy served the role of midwife to a technical modernization of the provincial state's role in the regulation of social class conflict. At the economic policy levels, N.D.P. policy centred on a collection of moderate reformist initiatives which likewise pointed to the modernization of practices of public sector administration. Establishment of the Insurance Corporation of B.C. reflected an attempt to rationalize the system of auto insurance under the auspices of a state-run monopoly while creation of an Agricultural Land Reserve — in the face of strong opposition from corporate interests in the agricultural, real estate and land development sectors — provided a framework geared to regulating land use and to halting continued erosion of the province's limited agricultural land base. Other economic initiatives of the period focussed squarely on the resource sectors and foreshadowed both the emergence of a more "interventionist" role for the state and a shift away from the postwar norm of passive infrastructural support for the accumulation-related

interests of corporate resource capital.<sup>42</sup> For the most part, however, N.D.P. resource policy centred on a restructuring of laws and administrative procedures governing the extraction of resource rents with a corresponding absence of real efforts to broaden direct public ownership.<sup>43</sup> For this reason and despite administrative modifications and changes in state priority, the period witnessed little in the way of substantial change to the accumulation strategy pioneered by the Social Credit party in the initial postwar.<sup>44</sup>

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<sup>42</sup> In the energy field, creation of a new crown corporation - B.C. Petroleum Corporation — reflected a provincial state attempt to extract increased economic rents from provincial energy reserves, upwardly revalued in the wake of the 1973 oil crisis. In the mining and forestry sectors, the state's acquisition of a portfolio of resource assets - Plateau Mills, Columbia Cellulose, Ocean Falls Forest Products and a minor interest in Westcoast Transmission - came originally from a series of *ad hoc* measures intended to avert the threatened loss of resource enterprises vital to the health of specific provincial communities. This experience is discussed from the vantage point of an endorsement of the later privatization of these assets in T.M. Ohashi and T.P. Roth, Privatization: Theory and Practice (Vancouver: Fraser Institute, 1980). pp. 3-10.

<sup>43</sup> The history of N.D.P. efforts to reform tax laws governing the mining industry affords the best example of the overall thrust of state economic policy between 1972 and 1975. On this, see Raymond W. Payne, Corporate Power and Economic Policy-Making in British Columbia, 1972-75, (Vancouver: Simon Fraser University, Department of Political Science, M.A. Thesis, 1979), and "Corporate Power, Interest Groups and the Development of Mining Policy in British Columbia, 1972-77", B.C. Studies, No. 54, 1982, pp. 3-37.

<sup>44</sup> In the social reproductive arena, N.D.P. initiatives centred around the creation of local resources' boards to help modernize, decentralize and democratize the delivery of community-centred social services. See Michael Clague, Reforming Human Services: The Experience of the Community Resources' Boards, (Vancouver: U.B.C. Press, 1984) and Stan Persky, Son of Socred, (Vancouver: New Star, 1979) for a discussion of political struggles surrounding the

With the N.D.P. government was defeated after only one term in office, the province's experiment with a social democratic reform orientation was an abbreviated one. Re-election of the Social Credit party in 1975 saw little immediate change to the approach of the previous three years beyond abandonment of the N.D.P.'s limited forays into activist state regulation.<sup>45</sup> Through the period 1975 to 1980, the province's accumulation strategy did, however, return to a more explicit focus on the provision of an "investment climate" conducive to the continuance of capital investment by dominant corporate interests.<sup>46</sup> Given a generally favourable international market

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dissolution of these boards following re-election of the Social Credit Party in 1975. In these and other areas, the party's programme expressed clear commitment to a social democratic reformism targeting the provincial state's acquired roles in social reproductive areas. Together with attempts to loosen the grip of resource capitalist economic control, this reflected an effort to steer state policy in directions more amenable to the interests of the working and subordinate classes of provincial society.

<sup>45</sup> The Land Reserve, I.C.B.C., the B.C. Petroleum Corporation were all measures initiated during the period of social democratic government and all survived the immediate transition to the free enterprise-oriented regime of Social Credit. On the elements of continuity connecting N.D.P. reform measures with early Social Credit policy after 1975, see M. Howlett and K. Brownsey, *op. cit.*, p. 160-1. The only major exception to this rule concerned the dismantling of crown-owned resource assets accumulated by the previous government and their privatization as the B.C. Resources Investment Corporation. On this, see T.M. Ohashi and T.P. Roth, *op. cit.* Chapters V and VI, and Stan Persky, Bennett II, (Vancouver: New Star, 1983), Chapter 4.

<sup>46</sup> "(G)overnment policies are best used to promote a favourable economic environment for the rationalization and growth of the private sector." Premier W.R. Bennett, Towards an Economic Strategy for Canada: The Industrial Dimension. The British Columbia Position,

situation in the last half of the 1970's, the economic thrust of this strategy bore immediate short-term success.<sup>47</sup> In the economic arena, conditions of rapid growth served to reduce extraneous pressure for measures of expenditure or program retrenchment. In this way, capitalist prosperity in the province helped deflect the need for any immediate assault by the new Social Credit government on the major reforms of the N.D.P. period and, for this reason, a situation of moderate administrative re-organization and selective abandonment of earlier reform measures persisted through to the start of the following decade. As a result, renewed state priority accorded the promotion of capitalist development in this period was accompanied by a general preservation of inherited state responsibilities in the social reproductive arena. With the consolidation of provincial state fiscal initiatives in these areas depending on a continuance of the underlying expansionary dynamic, the stage was, however, set for a recasting of state fiscal priorities and a reallocation of state fiscal resources once

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document in support presentations made by the province at a conference of First Ministers, November, 1978. p. 5.

<sup>47</sup> The period saw both significant increases in overall corporate profitability and high rates of economic growth. Between 1975 and 1979, corporate profits as a percentage of Gross Provincial Product rose from 9.2 per cent to 11.9 per cent while the B.C. economy expanded at an average real rate of 5.8 per cent per year, a figure far exceeding the Canadian average of 3.6 per cent. B.C. Ministry of Industry and Small Business Development, British Columbia Provincial Accounts, 1964-83, Table 2, B.C. Ministry of Finance, British Columbia Economic and Statistical Review, October, 1989, p. 170., and Statistics Canada, National Income and Expenditure Accounts, Catalogue 13-001, Text Table III.

the revenue supports provided by conditions of buoyant economic growth were no longer secure.

The foregoing analysis demonstrates the value of analyzing B.C.'s postwar accumulation strategy in the context of changing economic and political realities. Within this framework, state accumulation strategy and fiscal policy worked together to maintain an appropriate investment climate for resource capitalist investment and expansion. At the same time and owing both to the Fordist transformation of social class relations set in motion after the war and the Keynesian recasting of federal state administration, the B.C. state faced continual pressure to expand a range of social reproductive programs and commitments. As will be seen, the elaboration of state strategies and policies out of the interplay of these variables saw the province successfully harmonize the pursuit of fiscal objectives in the respective fields of supporting capital accumulation and of facilitating social reproduction, this despite relative year-to-year shifts in policy emphasis and fiscal priority. In effect, conditions of buoyant economic growth and rapid capital accumulation allowed the province to underwrite its fiscal commitment in the twin areas of fostering growth in the productive forces of provincial society as well as in consolidating dominant productive relations, all without the emergence of serious contradiction or fiscal crisis. For this reason, the 1950's and 1960's witnessed both a rapid extension of the provincial state's fiscal involvement as well as a significant broadening

of fiscal responsibilities in the social reproductive areas of health, education and social welfare. This expansionary process affords concrete evidence of how the Fordist restructuring of Canadian class relations brought a rapid expansion of state fiscal commitments in the field of social reproduction with much of this fiscal growth coming at the provincial level of the state. In the case of British Columbia, the decline in provincial debt service obligations through the 1950's afforded the provincial state the ability to redirect substantial fiscal resources to the financing of increased social reproductive programming. More than anything else, this development served to cushion the force of necessary fiscal adjustments brought on by the progress of Fordist and Keynesian restructuring in the province.

It is important, however, that specific analysis of fiscal policy developments rest on a detailed study of actual trends and relationships. In the section that follows, the nature of fiscal trends and adjustments is analyzed in detail for the period leading up to the economic slump of the 1980's.

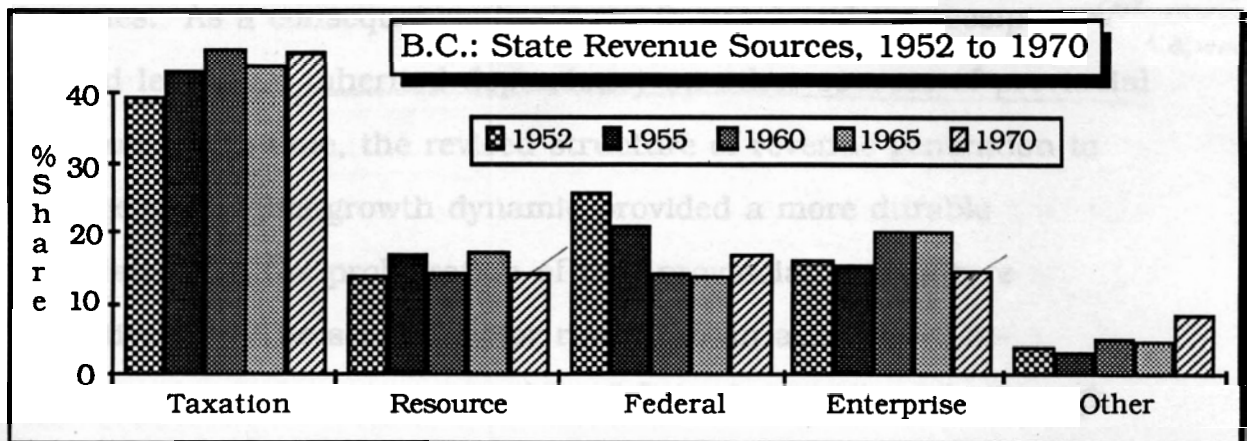
#### **IV. Fiscal Policy and Trends to the 1970's**

British Columbia state revenues underwent significant growth in the first decades after World War II. The following graph traces the early postwar path taken by the growth of this revenue in B.C.,



documenting percentage breakdowns in major source components of the revenue profile for the period running from 1952 to 1970.<sup>48</sup>

**Chart 3.9: State Revenue Sources, 1952 to 1970**



Source: Dominion Bureau of Statistics, *Historical Review: Financial Statistics of Governments in Canada, 1952-1962.*; B.C. Ministry of Finance, *Financial and Economic Review, 1970.*

Central to this period's experience was a significant shift in revenue reliance in the direction of the Taxation component, the latter a by-product of two parallel developments.<sup>49</sup> The first was the

<sup>48</sup> Because of the unavailability of consistent data series, the initial two years' data in Chart 3.9 is taken from the Dominion Bureau of Statistics' *op. cit.* Tables 5 and 6. Otherwise data is taken from B.C. Department of Finance, *A Review of Resources, Production and Government Finance.*

<sup>49</sup> This despite the fact that the direct percentage share derived from resource revenues demonstrated a predominantly cyclical pattern of fluctuation with little net increase over the period in question. On the role of resource development and its implications for the fiscal evolution of the Canadian federal system, see Garth Stevenson, "Federalism and the Political Economy of the Canadian State", in Leo Panitch, ed., *The Canadian State, Political Economy and Political Power.* (Toronto, University of Toronto Press, 1977), pp. 80ff.

very reality of monopoly capitalist success in expanding the productive forces of British Columbia's postwar economy and, more importantly, the impact of this expansion in accelerating the growth of regional incomes. As a consequence, increases in provincial tax receipts helped lessen an inherited dependency on other sources of provincial revenue. Over time, the revised structure of revenue generation to emerge out of this growth dynamic provided a more durable foundation for the proliferation of new provincial expenditure initiatives.<sup>50</sup> The second factor related to an accelerated re-organization of the structures of fiscal federalism in Canada through the 1960's whereby the federal state devolved tax-raising power to the provinces for the purpose of financing the growth of share-cost programs in the social reproductive arena. One outcome of this restructuring process was an assumption of increased provincial control over the joint federal-provincial domain of personal income tax.<sup>51</sup> The impact of this development was also one of securing more

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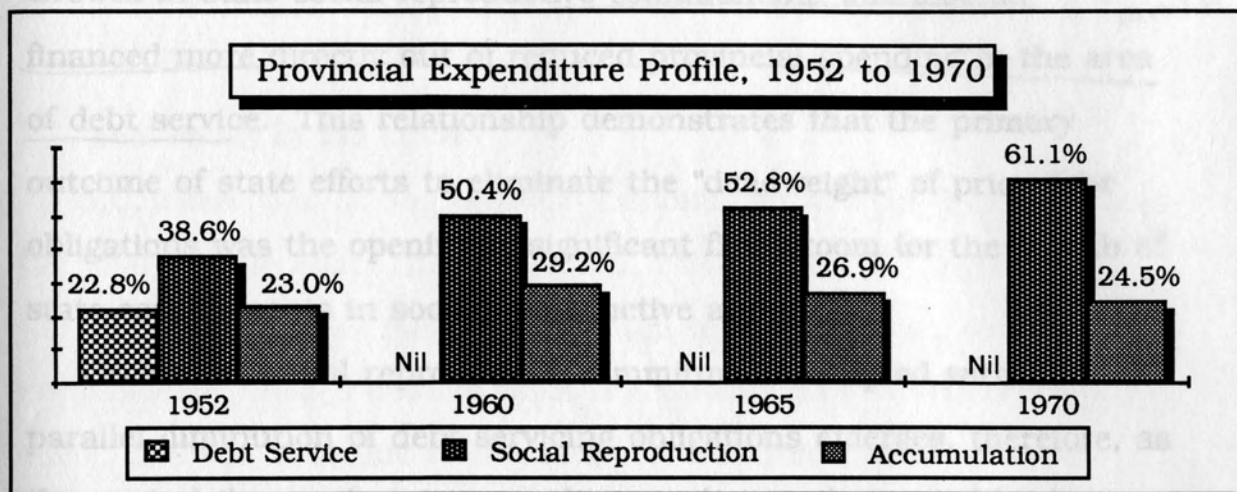
<sup>50</sup> At the same time, the process also placed the overall edifice of provincial state finance in a relation of closer dependency on the vagaries of a resource-centred process of economic growth. Through the early part of the 1960's, the direct revenue burden placed on capital reached a peak 24.7 per cent of total provincial state revenue in 1965 before tapering slightly to 22 per cent of total revenue by the end of the decade. B.C. Ministry of Finance, Financial and Economic Review, 1970 and 1971, p. 10 in each.

<sup>51</sup> "The 1962-67 fiscal arrangements provided for the provincial share of the personal income tax to begin at 16 per cent in the first year, increasing by one percentage point in each year of the agreement.", Garth Stevenson, Unfulfilled Union: Canadian Federalism and National Unity, pp. 138ff.

consistent sources of revenue for the proliferation of new provincial expenditure initiatives.

Early postwar expenditure practice on the part of the provincial state demonstrated parallel processes of modernization and readjustment. To the end of the 1960's, patterns of provincial state expenditure reflected the maintenance of provincial fiscal commitments geared to furthering corporate exploitation of provincial natural resources. At the same time and as has been shown, the period witnessed the progressive elimination of provincial debt servicing costs. In consequence, the relative size of provincial expenditure commitments to social reproductive programs increased significantly. The following chart traces the course of these trends with a comparison of levels of social reproductive and accumulation-related spending between 1952 and 1970 measured against the period's experience with declining debt servicing obligations.

**Chart 3.10: B.C. Expenditure Profile, 1952 to 1970**



Source: B.C. Ministry of Finance, Financial and Economic Review, 1966, 1971; Dominion Bureau of Statistics, Historical Review: Financial Statistics of Governments in Canada, 1952-1962..

The data confirm significant increases in social reproductive expenditure over the period in question. At the same time, however, the chart shows that this increase did not initially come at the expense of a diminution of accumulation-related expenditure; indeed, total allocations to the latter area increased slightly in aggregate over the period in question. Rather, the province was able to absorb increasing social reproductive claims on its finances — up 12 percentage points between 1952 and 1960 and a further 11 points by 1970 — without diminishing the relative scale of fiscal commitments in areas related to the servicing of capital's accumulation needs.<sup>52</sup>

<sup>52</sup> Major impetus for the increase came from the development of a national system of medical insurance. Between fiscal years 1965/66 and 1970/71, provincial spending on health care rose 166.6 per cent while the overall provincial budget rose a more modest 92.2 per cent.

Growth in state social reproductive commitments was instead financed more directly out of reduced provincial spending in the area of debt service. This relationship demonstrates that the primary outcome of state efforts to eliminate the "deadweight" of prior debt obligations was the opening of significant fiscal room for the growth of state commitments in social reproductive areas.

Growth in social reproductive commitments coupled with a parallel diminution of debt servicing obligations emerges, therefore, as the central theme of state expenditure policy in the period leading to the end of the 1960's. This trend is in line with the contention that the on-going development of Fordist-type class relations in B.C. gave impetus to a re-alignment of provincial expenditure commitments. At the same time, it shows that high levels of economic growth and resultant increases in state revenue generation provided a strong inducement to the maintenance of parallel state priorities in the major areas of social reproduction and accumulation and that the state was able to sustain these fiscal commitments without recourse to a major re-organization of expenditure priorities. Provincial state fiscal policy through this period is therefore confirmed as having been oriented to accommodating the growth of expenditure claims related to consolidation of both of the state's dominant fiscal responsibilities. In a general way, maintenance of the early postwar dynamic of strong

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B.C. Ministry of Finance, Financial and Economic Review, 1966 and 1971.

economic growth helped sustain what amounted to "non-crisis" orientation in the affairs of provincial state fiscal administration.

#### **V. Fiscal Policy in the 1970's**

B.C.'s record of strong postwar economic growth continued on into the following decade. The 1970's did, however, see a progressive unfolding of international developmental tendencies that, somewhat paradoxically, helped sustain rates of economic growth within B.C. In effect, this was a decade when monopoly resource capital in British Columbia was able to ride the crest of price increases in primary commodities in ways which redounded to the economic advantage of the province. At the same time, however, this process helped accentuate B.C.'s growing economic and fiscal susceptibility to the vagaries of international resource prices and business cycles. For this reason, the decade emerges as one carrying contradictory implications. For the short-term, it reflected the last stages of a postwar boom which continued to confer significant economic advantages on the region. Over a longer-term horizon, however, it can be seen as a time during which international capitalism began to enter the throes of a new period of crisis, a period that placed the province in an increasingly precarious economic and fiscal position. For this reason, the decade and its implications for the B.C. state and economy warrant special and detailed attention.

At the outset, the 1970's reflected a continuation of fiscal patterns and relations established in the previous period. The most apparent trend through this decade concerned the state's absorption of a steadily increasing share of Gross Provincial Product. In 1971, the provincial state's total revenue appropriation amounted to about 12 per cent of Gross Provincial Product; by the end of the decade, this level had risen to the vicinity of 15 per cent.<sup>53</sup> Growth of the provincial state's fiscal presence through this period was sustained by the continuance of conditions of rapid accumulation, the product of high international resources' prices and increasing rates of corporate profit.<sup>54</sup> In this way, growth in provincial fiscal responsibilities was linked to a rapid run-up in provincial revenue receipts either directly associated with resource sector accumulation — forest and mineral rents, energy revenue and direct corporate taxation -- or indirectly related to the accumulation process — personal income, sales and consumption taxes paid by workers employed in these and related

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<sup>53</sup> *Ibid.*, 1967 and 1985. This levels compares with one of 7.9 per cent of G.P.P. in 1952, Dominion Bureau of Statistics, *op. cit.*, Table 5.

<sup>54</sup> By 1973, gross B.C. profits, expressed as a percentage of G.P.P., had climbed to a decade peak of 12.6 per cent. Two years later, as the impact of the 1973 world crisis took hold, the share fell to 9.2 per cent and continued a downward slide that reached 8.7 per cent in 1977. However, this decline stopped short of levels recorded in the early 1970's and profit shares actually rose to reach a second highpoint of 11.9 per cent in 1979. Calculated from British Columbia Ministry of Industry and Small Business Development, British Columbia Provincial Accounts, 1964-83, Table 2.

sectors.<sup>55</sup> Significantly though, growth in state fiscal responsibilities was also driven by increased demand for and cost pressures emanating from the provision of social reproductive services. Two factors stand behind this phenomenon. First was a consolidation of health, education and social welfare responsibilities at both federal and provincial levels of the Canadian state. Second was an acceleration in prevailing rates of inflation, a development that had major impact on state sector wage levels as well as on the cost of other inputs into the delivery of social reproductive programs.

Through the 1970's, B.C.'s revenue structure continued to comprise a series of component elements reflecting the nature of dominant accumulation processes. Provincial revenue receipts close to doubled in real terms over this decade with resource revenues continuing to account for much of the growth momentum. In the forestry sector, the province derived the bulk of its revenues in the form of "stumpage fees", a form of timber sale to corporations holding cutting rights on public land held under differing tenure arrangements. With mining, revenue was extracted by means of various lease payments, royalties and special taxes. In the energy industry, resource revenues were raised at the point of sale of natural

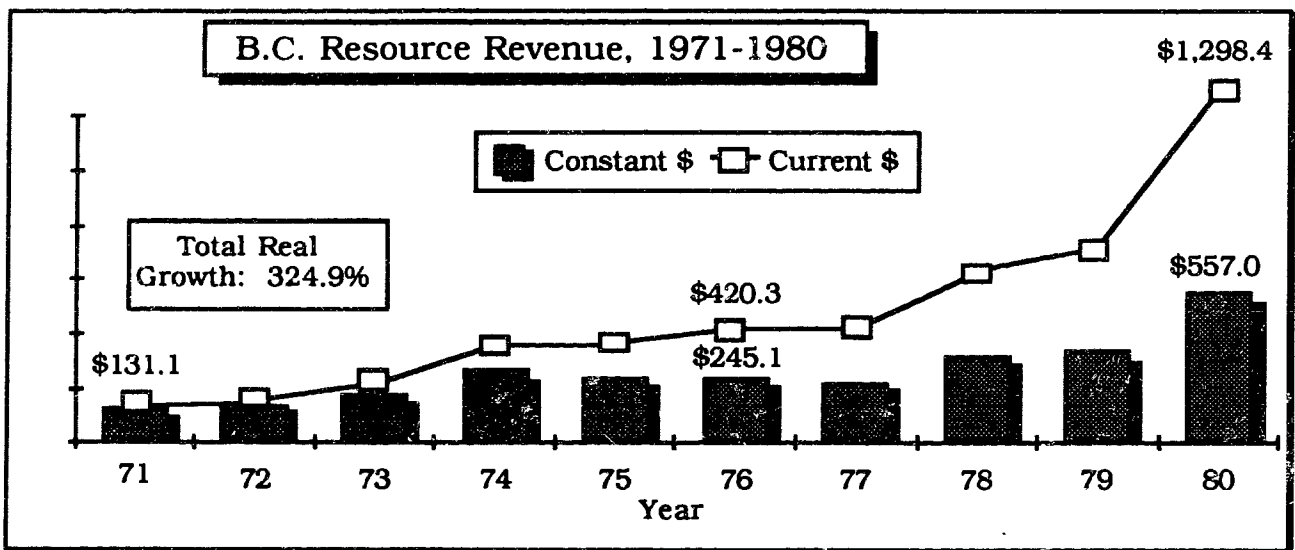
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<sup>55</sup> In 1975, direct resource-derived revenues amounted to \$366.8 million; five years later this figure had risen more than two and one-half times to a level of \$1,298.4 million for an average annual compound rate of increase 26.3 per cent. Data calculated from B.C. Ministry of Finance, Financial and Economic Review, (various).



gas as well as via other permit, fee and royalty arrangements of lesser fiscal importance. All tolled, revenue from the forest, mineral and energy sectors yielded typically 10 to 20 per cent of total provincial state revenue in the 1970's, with the precise percentage keyed closely to the prevailing year-to-year profitability of the different resource industries. The following graph documents the actual extent of direct provincial state resource revenue for the decade in both nominal as well as constant dollars.

**Chart 3.11: Provincial Resource Revenue, 1971 to 1980**



Source: B.C. Ministry of Finance, Financial and Economic Review, (various)

In current dollar terms, the decade evidenced steady increases in levels of provincial resource revenue. When expressed in constant dollars, year-to-year changes in these levels offer clear insight into business cycle dynamics throughout the decade. Resource revenue rose suddenly in the 1972-73 period in the face of an international

boom in primary commodities prices before tapering in the boom's aftermath to a low point in 1977. However, real revenues bounced back sharply over the next three years and in particular during the final year, rising more than 145 per cent over this period under the impact of second commodities price spiral in the late 1970's.<sup>56</sup> By the end of the decade, real inflation-adjusted resource-related revenues stood at a level more than three times higher than 1971 reflecting a rate of growth far greater than that evidenced for the provincial revenue profile in total.

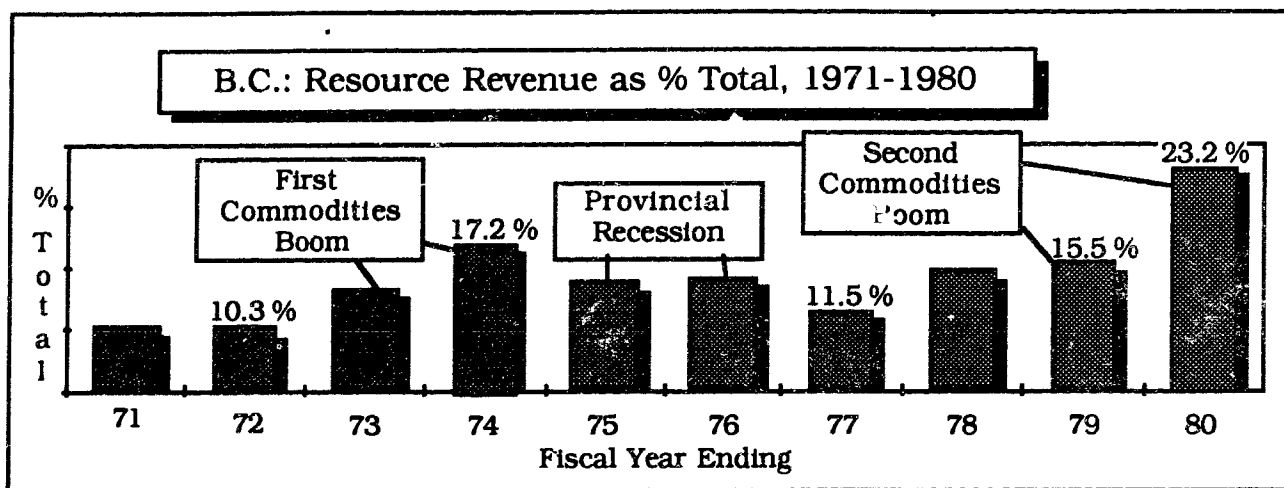
The foregoing data confirm that levels of provincial resource revenue were subject to a process of growth and contraction through the 1970's closely linked to the dynamics of dominant business and investment cycles. The following chart lends further credence to this

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<sup>56</sup> "Between 1971 and 1974, the prices of industrial raw materials rose sharply relative to the overall prices level in response to unexpectedly rapid expansion of the global economy which reduced commodity stocks and raised capacity utilization rates". Despite a mid-decade retreat in commodities prices, "by the end of the 1970's, economic activity had recovered in most industrial economies leading to an increase in the price of industrial materials." G. McDougall and G. Stuber, "Commodity Prices and Canada's Resource Sector", Bank of Canada Review, September, 1986. As regards some specific B.C. commodities, wholesale prices for non-ferrous metals rose 48.5 per cent, for wood products 70.0 per cent and for non-metallic minerals 81.7 per cent between 1970 and 1975. Statistics Canada, Historical Statistics of Canada, 1983, Series K-38,41 and 42. On the early decade escalation of international commodities prices, see Angus Hone, "The Primary Commodities Boom", New Left Review, No. 81, September/October, 1973.

interpretation by calculating resource revenue as a percentage of total provincial revenue.

**Chart 3.12: Resource Revenue as % of Total Revenue, 1971 to 1980**



Source: B.C. Ministry of Finance, Financial and Economic Review, (various)

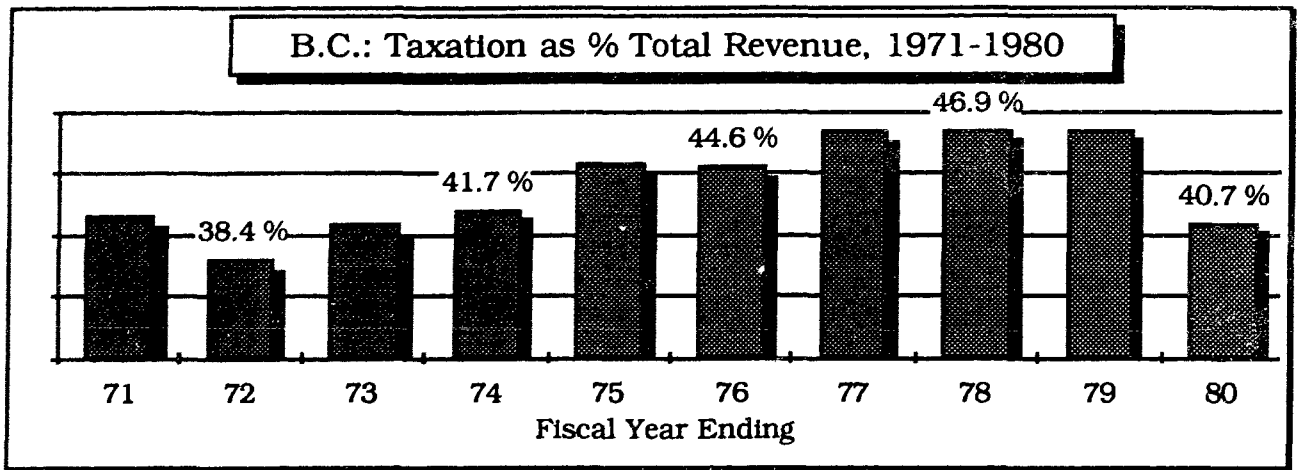
Three observations can be made at this point. First and most obvious is that of a significant year-to-year fluctuation in resource revenue expressed as a percentage of the total. This volatility coincides with cyclical economic trends affecting prices in the resource sectors. As such, it explains why percentage revenue shares escalated sharply in the wake of the post-1973 primary commodity price explosion, fell back between 1975 and 1977 in the aftermath of the province's mid-decade recession before turning up sharply again, the by-product of a late-decade run-up in world commodities' prices. Secondly and despite year-to-year fluctuations, a secular increase in the relative percentage size of the resource revenue component is apparent for the 1970's. Among other things, disruptive supply

conditions and price arrangements in international primary commodities' markets during the decade helped effect a skewing of income claims to the redistributive advantage of resource corporations and producer regions. In the case of British Columbia, this redirection of income ultimately yielded significant increases in the value of resource rents and resource-related taxes and revenues appropriated by the provincial state. The third factor concerns the sharp dollar and percentage leap registered in the final stages of a late-decade growth surge. This latter development accounted for a strong increase in the relative share of state revenue represented by resource income.

Together, these trends confirm the overall extension of the provincial state's dependency on resource-related incomes and revenues that took place over the course of the 1970's while underlining the cyclical volatility of these sources of revenue. Together, the picture emerges of a larger share of provincial state revenue as resting ever more firmly on the shifting fortunes of international resource markets.

Yet, for all of the economic centrality of the resource sectors, it is important to emphasize that direct revenues from these sectors were far surpassed in quantitative importance by other major revenue components. This applies in particular to the area of provincial taxation receipts. The table below presents total percentage receipts in this area for the 1970's.

**Chart 3.13: Taxation as % of Total Revenue, 1971 to 1980**



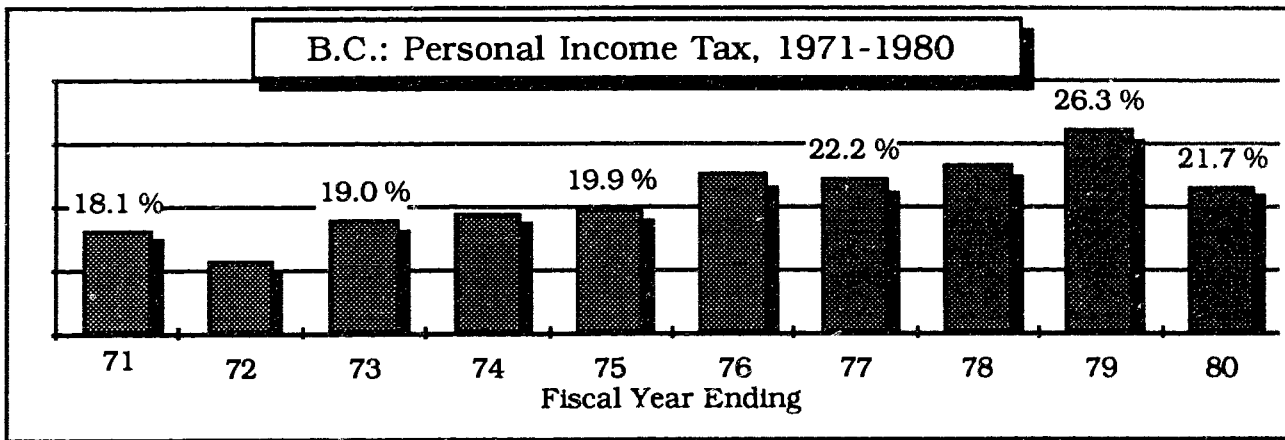
Source: B.C. Ministry of Finance, *Financial and Economic Review*, (various).

The chart shows that taxation receipts yielded a large portion of provincial revenue — from 40 to 50 per cent in any given year. More importantly, however, it reveals that, despite year-to-year fluctuations in percentage levels, the taxation component also demonstrated a clear tendency in the direction of secular increase through the course of the decade. This relationship suggests that, as the decade progressed, growth in the province's revenue-raising capacity did not centre primarily on increases in direct resource receipts but rather on revenues derived indirectly from the accumulation process.

Of the various provincial taxes levied through this period, three predominated. "Personal Income Tax" remained the largest single source of provincial tax revenue. "Social Service" or sales tax ranked second while "Corporate Income Tax" ranked third. Together, the top three tax sources comprised close to 90 per cent of total provincial

tax revenue in 1971 as well as about 40 per cent of gross provincial revenue.<sup>57</sup> The following chart examines trends affecting the largest component — Personal Income Tax — in the 1970's.

**Chart 3.14: B.C. Personal Income Tax, 1971-1980**



Source: B.C. Ministry of Finance, Financial and Economic Review, (various)

As the chart shows, personal income tax receipts increased through the decade as a percentage of total provincial state revenue.<sup>58</sup> In 1971, this tax accounted for 18.1 per cent of total revenue; by the end of the decade, it accounted for revenue shares four to eight percentage points above this level. This fact demonstrated both a reality of rising labour and personal incomes through the decade as well as the state's willingness to establish the Personal Income Tax as

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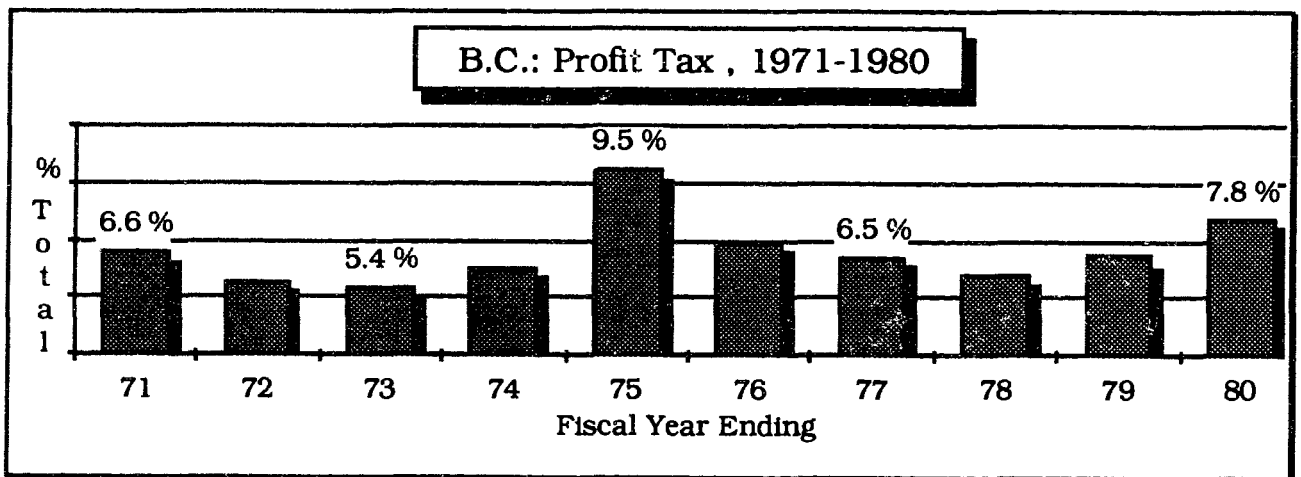
<sup>57</sup> B.C. Ministry of Finance, Financial and Economic Review, 32nd Edition, 1972, p. 10. A variety of other taxes made up the balance of the overall tax share: fuel, tobacco, property and hotel taxes.

<sup>58</sup> The increase is consistent with trends in evidence at the federal state level for the same period. See John Calvert, Government, Limited, (Ottawa: Canadian Centre for Policy Alternatives, 1984) pp. 80ff.

an increasingly dominant revenue support for the maintenance of state program expenditures. In any event, the escalating share accounted for by personal income tax meant that a rising proportion of the total provincial revenue burden came to be placed on provincial wage and income earners.

Figures relating to the tax on corporation profits throughout the decade reflected a different situation, one with close parallels to experiences in the generation of provincial resource revenue. The following graph depicts annual receipts from the tax on corporate profits as a percentage of total revenue.

**Chart 3.15: B.C. Profit Taxation, 1971-1980.**



Source: B.C. Ministry of Finance, Financial and Economic Review (various)

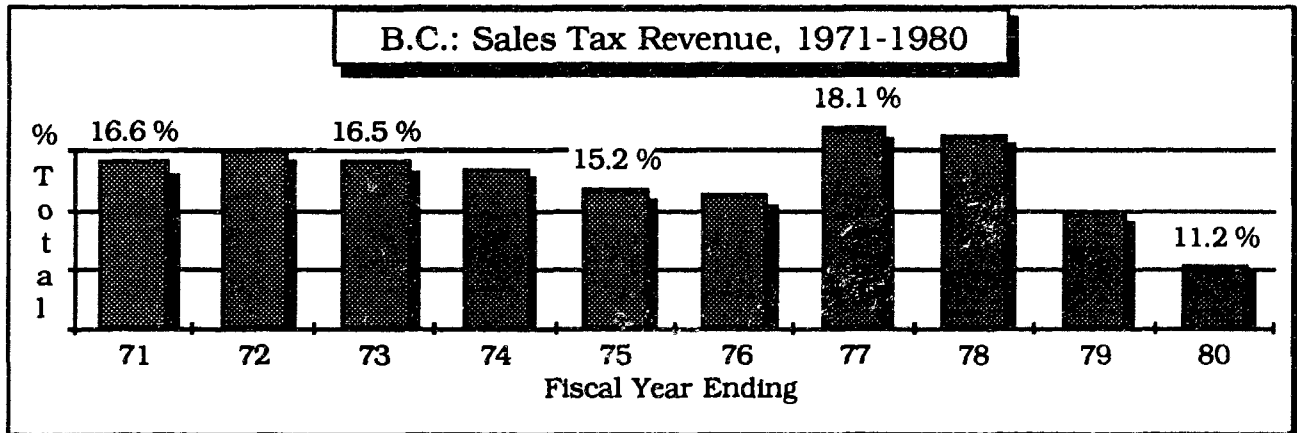
As can be seen, trends in the area of profit taxation evidenced close linkage to the rhythm of dominant accumulation processes within the province. During periods of rapid economic growth, profit tax shares rose substantially as a percentage of total state revenue;

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conversely, periods of recession brought significant diminution in percentage shares from this source. In sum, the picture to emerge out of this experience is one of another major revenue component closely keyed to the cyclical performance of the provincial economy and hence strongly subject to an inherent volatility as regards the continuity of revenue generation. For this period as a whole, however, little evidence is present to indicate a tendency in the direction of either decline or increase in the state's reliance on corporate profit tax revenue.

The final graph in the tax revenue series documents trends affecting the final dominant source of tax revenue — Provincial "Social Service" or sales tax.

**Chart 3.16 B.C. Sales Tax Revenue**



Source: B.C. Ministry of Finance, Financial and Economic Review (various)

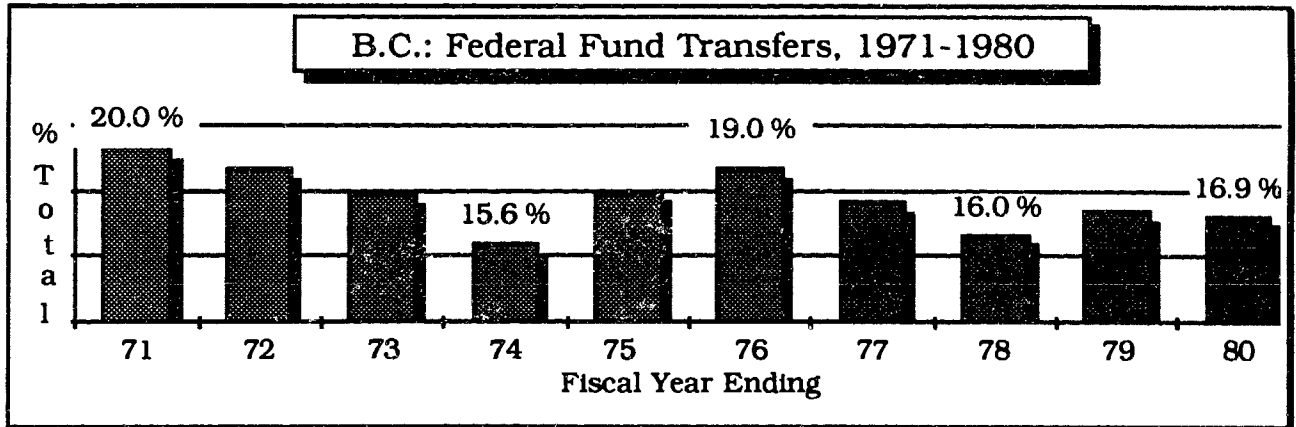
As with the other revenue sources, sales tax receipts offered considerable evidence of year-to-year fluctuation. Yet, in an overall



sense, the tax constituted a fairly constant portion of total provincial revenue through the 1970's. The obvious exception to this rule concerned the final two years of the decade, a time during which strong increases in profit tax and resources revenue helped reduce the relative percentage weight carried by this and other revenue components. Nonetheless, there was little in the experience of the decade as a whole which suggested a secular tendency in the direction of either increase or decline for the sales tax component.

The third and final major revenue source for the provincial state was that represented by fiscal transfers from the federal state level. By the 1970's, these transfers were both well established as well as ostensibly directed to the maintenance of social reproductive programs in the health, education and social service fields. The graph below documents decade trends in the percentage share of B.C. provincial revenue accounted for by federal transfers.

**Chart 3.17: Federal Fund Transfers as % of Total Revenue, 1971 to 1980**



Source: B.C. Ministry of Finance, Financial and Economic Review, (various)

The one central observation that can be made at this juncture concerns the fact that federal transfers were also subject to the vicissitudes of economic growth during the decade, only in a way running counter to the pattern established for accumulation-dependent revenue. The result was a kind of implicit "reverse tracking" of corporate income tax and resource revenue generation through the 1970's. Within this framework, federal transfers increasingly took on the *de facto* role of a counter-cyclical revenue balance, offsetting fluctuations affecting other components of the revenue profile. During periods of a rapid increase in resource and tax-related revenues, the relative percentage component occupied by federal transfers diminished; alternately, this percentage increased during times of a falloff in accumulation-dependent revenues. For this reason, federal fiscal transfers functioned to cushion the force of

readjustments that would otherwise have been felt at the level of the total revenue profile as a result of reductions in revenue returns from areas keyed more closely and directly to the vagaries of international resource commodities' markets.

At least three trends in the evolution of the provincial state revenue profile in the 1970's stand out. The first concerned the pace of growth in provincial revenue over the course of the decade. In this connection, average levels of real revenue growth maintained most of the upward momentum carried forward from the 1960's.<sup>59</sup> As will be seen, this growth process allowed for a significant increase in levels of state expenditure, levels which might be accommodated in a period of economic growth but which quickly put the province in a position of fiscal shortfall once the revenue support provided by economic expansion was no longer forthcoming. The second trend concerned the stronger than average growth in accumulation-dependent revenues, a factor making for increased provincial fiscal susceptibility to the shifting fortunes of international business and investment cycles. At key intervals — the end of the 1970's in particular — rapid growth in these revenue components functioned to “bid up” the

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<sup>59</sup> During the 1960's, state revenues average a real compounded rate of annual increase of 13.3 per cent. In the next decade, this growth slackened somewhat but still managed to reach an average comound level of 9.1 per cent in real terms. B.C. Ministry of Finance, Financial and Economic Review, (various) and B.C. Ministry of Industry and Small Business Development, British Columbia Provincial Accounts, 1964-83, Table 1.

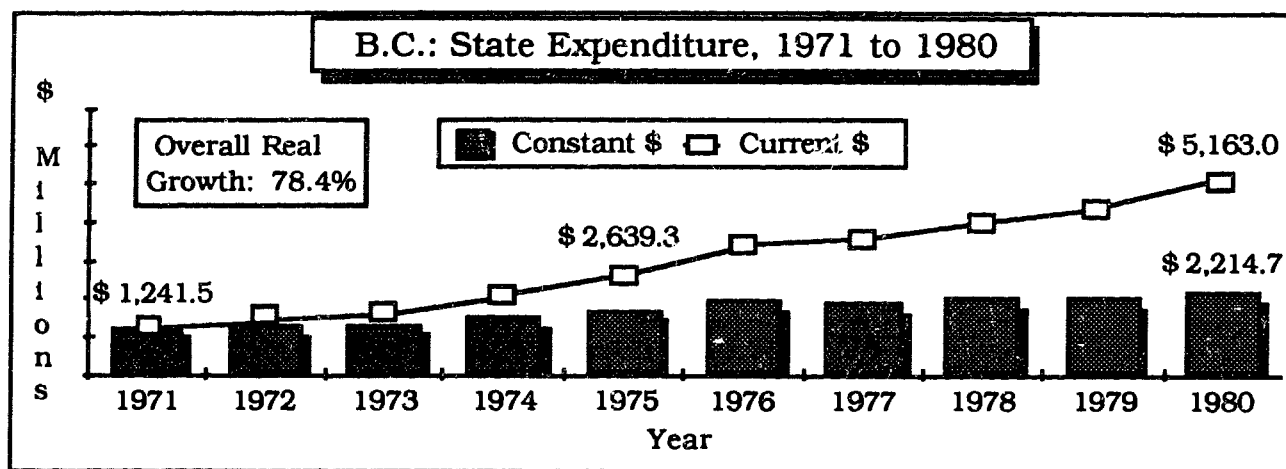
threshold of provincial revenue generation, a process that, as will soon become clear, opened the door to parallel increases in state spending commitments. The third trend concerned a discernible if underlying increase in the revenue share accounted for by sales and personal income tax. As has been argued, this increase saw the extension of provincial state fiscal commitments come to rest more squarely on the revenue-raising potential inherent in the accelerated growth of regional incomes. In retrospect, these trends and relationships can be interpreted as having laid the groundwork for a significant expenditure "overhang" and the threat of a slide into deficit finance once the crucial revenue prop provided by accelerated resource revenue growth was removed.

Yet, while the interplay of these revenue variables played a major role in bringing state fiscal policy to a point of deficit shortfall in the decade to follow, this change was largely concealed by the very nature and extent of British Columbia's decade-long process of near-uninterrupted economic growth. As the analysis of provincial expenditure practice demonstrates, a reality of rapid economic growth placed heightened pressure on the provincial state for the continued expansion of social reproductive services. At the same time, rising rates of inflation in both wage and non-wage areas increased costs associated with the provision of these and other state services. In the final analysis, however, the ability of the state to maintain its growing

expenditure commitments was predicated on an expansionary dynamic that ultimately could not be sustained.

For the decade as a whole, provincial expenditures demonstrated much the same patterns of current and constant dollar growth as evidenced on the revenue side. The following graph traces growth in these latter measures through the 1970's.

**Chart 3.18: Provincial State Expenditure, 1971 to 1980.**

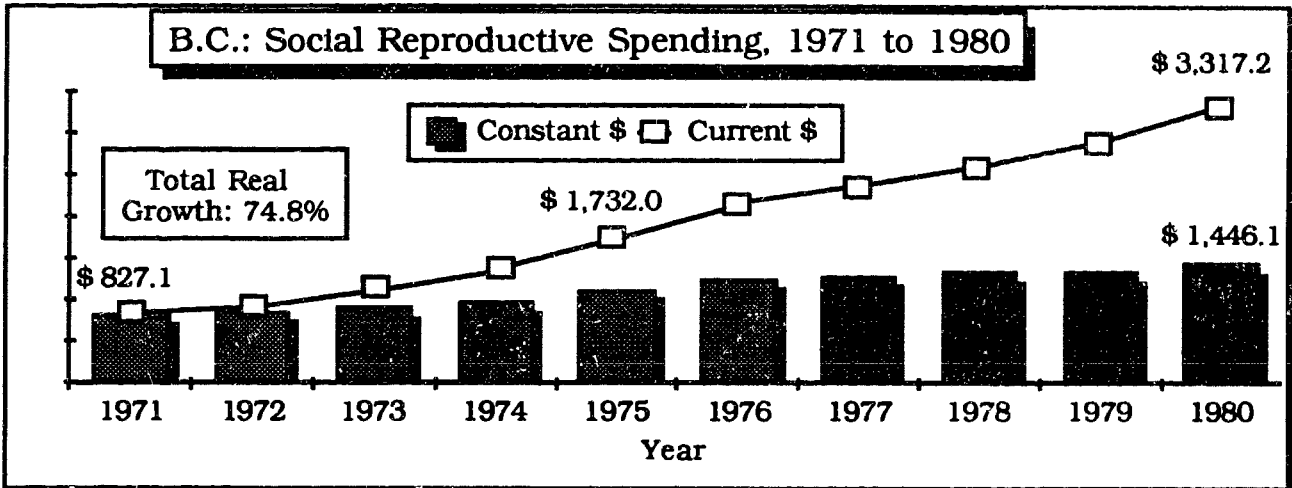


Source: B.C. Ministry of Finance, Financial and Economic Review, (various).

As could be expected, primary responsibility for provincial state expenditure growth over this period lay with increases in spending across the breadth of social reproductive and accumulation-related areas. If the period running from 1945 to the end of the 1960's witnessed the emergence of a modern state role in these fields, the decade after saw continued growth centring around a consolidation of provincial responsibilities for the reproduction of social class relations as well as for the provision of appropriate fiscal support for capital

investment and accumulation. The largest share of state expenditure in this latter period continued to be directed to the social reproductive field. As the following graph shows, the level of social reproductive expenditure grew through most of the decade, the result of cumulative cost increases associated with the expansion of programmes and services in this area. The extent of both nominal and real dollar growth in this area is presented below.

**Chart 3.19: B.C. Social Reproductive Spending, 1971 to 1980.**



Source: B.C. Ministry of Finance, Financial and Economic Review, (various)

A large portion of the expenditure growth reflected here came as the product of rapid growth in federal state revenue transfers to the provinces. As was previously noted, from the early-1960's forward, growth in the Canadian state's social reproductive role came primarily via the medium of cost-shared federal/provincial programs for the delivery of health care, social welfare and post-secondary educational

services. Insofar as all of these initiatives were targeted to assist in the reproduction of workers' labour power, postwar "fiscal federalism" in Canada can be seen to have brought state fiscal policy into a position of close *de facto* support for the progressive generalization and consolidation of Fordist class relations in the country.<sup>60</sup> If anything, the 1970's brought a continuation of this trend, albeit in a context marked by increasing economic uncertainty and the gathering of economic storm clouds on the international horizon.

In specific terms, two main fiscal transfer arrangements comprised the core of federal state involvement in the delivery of social reproductive programs at the provincial level from the late 1960's forward.<sup>61</sup> The first was titled Established Programs

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<sup>60</sup> Russell argues that wartime experimentation in the delivery of social welfare programmes marked the first time that reproduction of the capitalist labour force in Canada "was made the object of specific calculations by the state." In this context, the emergence of a mass production-oriented structure of capital accumulation was complemented by a "mass-based wage taxation" which saw a significant redirection of state fiscal resources to requirements inherent in the reproduction of workers' labour-power. *Ibid.* p. 67.

<sup>61</sup> Fiscal federalism came to comprise yet a third element - equalization - which transferred state revenue from the richest to the poorest provinces within the national economy in order to secure the economic and political cohesion of the Canadian nation-state by offsetting tendencies towards regional balkanization. However, because of its relatively affluent economic standing within Confederation, British Columbia never received payments under these arrangements. The other major area of social reproductive services was that of elementary-secondary education which, owing to a historical tradition of shared local/provincial state control buttressed by property tax financing, had little access to federal revenues beyond certain special programs.

Financing (E.P.F.). Intended for the maintenance of post-secondary educational programming and health care, the cash and taxing power transfer arrangements grouped under the E.P.F. umbrella formed the central thrust of federal state postwar "social reproductive" expenditure commitments. The second was labelled the Canada Assistance Program (C.A.P.). The C.A.P. involved outlays directed to the maintenance of provincially-administered social welfare programs. Funds transferred under the aegis of the C.A.P. worked to maintain income levels for the unemployed, the unemployable, the sick and the aged. To the mid-1970's, E.P.F. and C.A.P. programs were evenly cost-shared by the federal and provincial governments. After 1977 and in the wake of escalating cost pressures, revenue sharing relationships shifted from equal cost-sharing to a "block funding" arrangement, one in which transfers were hitherto indexed to rates of *per capita* national economic growth. These arrangements allowed the federal state to limit its fiscal exposure to program cost increases.<sup>62</sup> However, as part of the restructuring process, the federal state conceded significant ground on the issue of administrative control over the transferred funds. In return for potential reductions in

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<sup>62</sup> An overview of changes to revenue sharing arrangements made in the mid to late-1970's is offered in The Parliamentary Task Force on Federal Provincial Fiscal Arrangements report, Fiscal Federalism in Canada, (Ottawa: Ministry of Supply and Services, 1981), pp. 67ff. The transition between the respective fiscal arrangements is discussed in D.J. McCready, The Canadian Public Sector, (Toronto: Butterworth, 1984) pp. 125ff.



federal fiscal participation, the provinces were offered social reproductive transfers in "non-earmarked" form with provincial authorities no longer having to account, in anything more than the most general terms, for the destination and use of the funds received.<sup>63</sup> The provinces were thus able to accommodate themselves to limits on the growth of federal funding owing to the fiscal opportunities presented by access to sizeable non-tied federal transfers.<sup>64</sup> And, while justified on the grounds of their alleged role in inducing greater efficiency, liberalizing provincial expenditure constraints in this manner helped draw a growing portion of state expenditure into the vortex of distributional struggles related to the articulation of provincial fiscal priorities. As a consequence, political struggles in provinces like B.C. increasingly came to focus on the directions taken by provincial fiscal policy and their practical implications for the delivery of public services across the spectrum of social reproductive program areas.<sup>65</sup>

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<sup>63</sup> "The block grants were not without conditions, but the conditions were rather general. For example, in the case of health care provinces could qualify for EPF if their insurance plans were comprehensive, universal, portable, accessible and publically administered." Robin Boadway, "Federal-Provincial Transfers in Canada: A Critical Review of the Existing Arrangements," in Mark Krasnick, ed., Fiscal Federalism, (Toronto: University of Toronto Press, 1986) p. 39. (A volume commissioned by the Royal Commission on the Economic Union and the Development Prospects for Canada.)

<sup>64</sup> Ibid., pp. 37-41.

<sup>65</sup> The nature and direction of such struggles is traced journalistically in Stan Persky's Son of Socred, and Bennett II which

All in all, B.C.'s experience with social reproductive spending through this decade reflected the impact of continued growth in the range of services as well as in costs associated with their provision. By the end of the decade, expenditure in this area had grown at a rate roughly equivalent to that evidenced for the total expenditure profile. Coming in the wake of a prior experience of significant year-to-year increases in percentage shares, this growth pattern reinforces the idea that the decade saw transition to a consolidative mode of state practice in the development of social reproductive responsibilities, one rendered possible by the maintenance of generally buoyant economic conditions. At the same time, the decade saw a *de facto* indexation of spending commitments to accelerated rates of inflation. In the process, the provincial state was able to maintain a level of social reproductive commitments tied in the last instance to an inflation-ridden process of economic growth.<sup>66</sup>

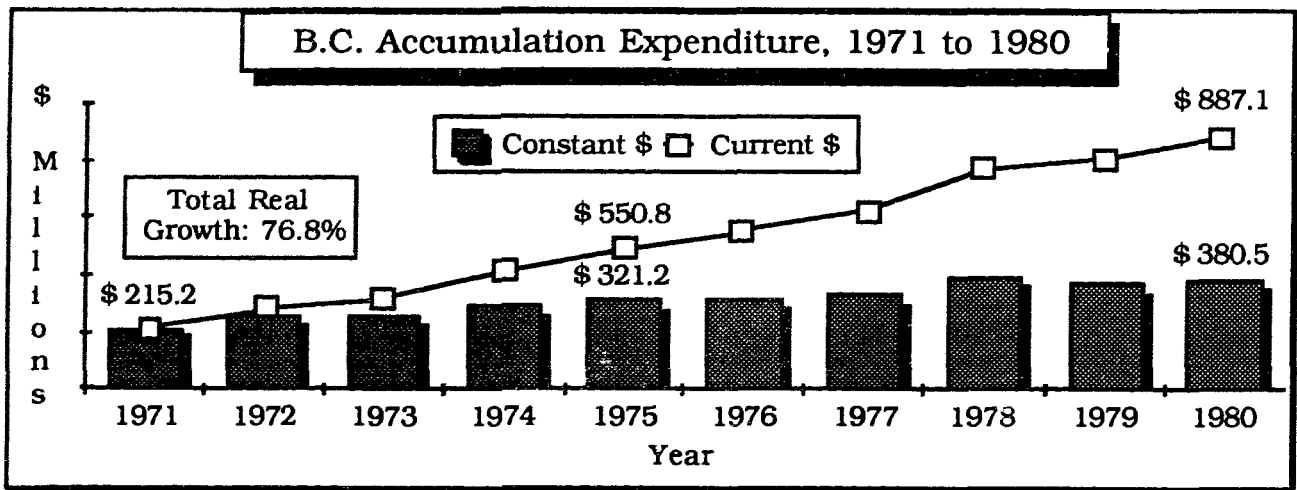
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together cover the period from the defeat of the N.D.P. government in 1975 to the end of Bill Bennett's third term in 1983.

<sup>66</sup> B.C.'s initial experience in the state management of economic crisis tendencies through the early to mid-1970's conforms to the general practice evidenced in other capitalist jurisdictions through this period. As both Margirier and Lipietz contend, crisis dynamics in the 1970's accommodated both Fordist and Keynesian norms in the developed capitalist west thereby deferring any crisis-induced "rupture" into the following decade. See Gilles Margirier, "The Eighties: A Second Phase of the Crisis?", in Capital and Class, No. 21, Winter, 1983, and Alain Lipietz, Mirages and Miracles, (London: Verso, 1987), pp. 133ff.

Social reproductive expenditure represented only one, albeit the largest, component of provincial state expenditure. The following graph documents in both nominal and constant dollars for the decade the second major sub-component of the provincial expenditure profile: accumulation-related expenditure.

**Chart 3.20: B.C. Accumulation Expenditure, 1971 to 1980.**

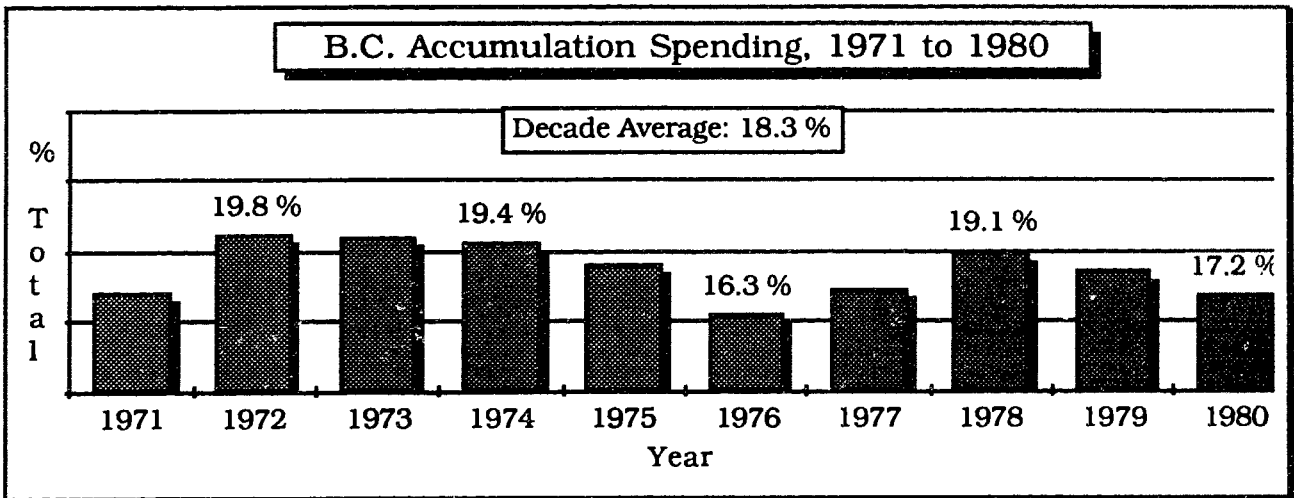


Source: B.C. Ministry of Finance, Financial and Economic Review, (various)

The central point to be drawn from this graph concerns the fact that the rate of real expenditure growth in this area for the decade was nearly equivalent to that obtaining for the total expenditure profile as well as for the sub-component of social reproductive spending. In general terms, this experience suggests that the province was able to balance and sustain the relative magnitude of expenditure commitments in both major areas without having to resort to a significant redistribution of existing expenditure resources or to a recasting of provincial expenditure priorities. Other tendencies

affecting this area emerge from an examination of accumulation-related expenditure expressed as a year-to-year percentage of total provincial expenditure. The following graph presents this data for the 1970's.

**Chart 3.21: Accumulation Expenditure as % of Total, 1971 to 1980.**



Source: B.C. Ministry of Finance, Financial and Economic Review, (various)

The first five years reflected generally higher than decade average expenditure in the accumulation area. 1976 saw a sudden and marked drop with provincial expenditures falling in tandem with a mid-decade slow-down in provincial revenue growth. The following two years brought a limited recovery in percentage levels amidst a revival of provincially-centred accumulation prospects. Nevertheless, the last half of the decade in general and the final two years in particular show a real reversal in percentage levels accorded this area; indeed, by the end of the period, the percentage of provincial expenditure targeted

for these areas was again well below the average for the decade and trending in a downward direction. All in all, the pattern here points to the late decade state of a gravitation of expenditure commitments to other areas, notably those within the social reproductive field. However, in view of the maintenance of strong provincial expenditure growth through to the end of the decade, it is not possible to suggest that this late-decade drop in relative expenditure commitment did anything more than foreshadow potential fiscal redistributive pressures for the years to follow. Overall, trends evidenced in the twin areas of accumulation-related and social reproductive spending point to a provincial state bent on consolidating inherited commitments in each of these areas. This accommodation was rendered possible by the maintenance of generally buoyant conditions of economic growth and capital accumulation as the province benefited from the favourable impact of global economic developments.

## **VI. Conclusion**

The course taken by provincial fiscal policy and accumulation strategy through the early postwar period offers insight into a variety of trends and developments of major relevance to the direction set forth for this study. First of all, the period can be seen as one of significant economic growth marked by rises in real working class incomes and strength in corporate profits. Together, these factors

reflected the restructuring of B.C. economy and society along Fordist lines, a process that, on the one side, saw the province's working class register major success in pressing its claim for improvements to real wage levels. On the other side, resource capital was able to consolidate a position of monopoly control while riding the crest of rising international demand for provincial exports to sustain a rapid pace of capital accumulation for most of the period in question. Coexistence of these trends underlined the ability of the expansionary dynamic to accommodate sizeable increases in incomes across the spectrum of the provincial class structure.

These developments helped impel a restructuring of provincial state fiscal policy, one involving consolidation of the state's responsibilities for furthering capital accumulation as well as for seeing to the social reproduction of class relations. In the former area, evolution of a state fiscal role came as a logical outgrowth of historically developed state responsibilities in overseeing the maintenance of strong economic growth and the opening of new opportunities for capital accumulation. In the latter area, the period bore witness to increased state responsibility for the social reproduction of contemporary class relations. Growth of a state fiscal role in this area emerged as a by-product of postwar changes in capitalist class relations as well as of administrative shifts accompanying the growth of federal/provincial shared-cost programs. At the same time, the underlying strength and tenor of provincial

economic growth through the initial postwar decades meant that the state had comparatively little difficulty in seeing to the successful accommodation of initiatives and responsibilities in both major fields.

The decade of the 1970's made for some important changes to the general complexion of these relationships. While, the period saw continued growth in the fiscal role of the provincial state, it also underscored the latter's precarious dependence on external factors such as international resource commodity prices. Through the 1970's, nominal rates of expenditure growth in the dominant accumulation-related and social reproductive areas accelerated as rising inflation through this period brought burgeoning expenditure obligations. At the same time, however, the rise of inflationary pressure in the early decade worked to expand the revenue-raising capacity of the provincial state. For this reason, the province was able to extend its respective fiscal commitments through the decade without recourse to major shifts in budgetary allocations or priorities. Yet, in retrospect, the picture emerges of B.C.'s fiscal commitments resting precariously on the wobbling axes of an inflation-driven expansionary dynamic and a bloated structure of provincial revenue growth. For this reason, the state's success in accommodating upward cost pressures in the delivery of social reproductive functions in the 1970's objectively set the stage for sudden descent into a position of fiscal shortfall once the crucial support provided by conditions of economic expansion was no longer to be had.

All in all, however, the course taken by the state' fiscal policy in the period leading from the close of the war to the end of the 1970's points to commitment on the part of the state to a strategy centring on the harmonization of divergent fiscal interests and priorities. In the 1980's, state commitment to the preservation of this relationship of accommodation fell to the wayside as the province entered the throes of a major economic crisis. An examination of this latter crisis — its context, its forms and its implications at the level of state fiscal policy — constitutes the central objective of the next chapter.



## **Chapter IV: State Fiscal Policy and Economic Crisis, 1981 to 1986**

### **I. Introduction**

The 1980's marked a major watershed in the development of British Columbia state fiscal policy. Through the early postwar period to the end of the 1970's, the province's fiscal commitments had expanded rapidly in a context characterized by rapid economic growth, increases in labour and corporate incomes and the beneficial impact of these developments on the generation of state sector revenues. Economic expansion also allowed the B.C. state to harmonize and accommodate emergent fiscal priorities and commitments in both accumulation-related and social reproductive areas. In contrast, the 1980's brought a reversal of prior growth patterns, stagnant or falling real incomes, reductions in state revenues and major changes in provincial fiscal priorities. These developments saw an abandonment of "positive sum" approaches to the practice of fiscal policy and a subordination of state priorities to the goal of subsidizing depressed rates of capitalist profit. As a result, provincial fiscal policy underwent a far-reaching transformation affecting the respective areas of debt management, revenue generation and expenditure practice. In its entirety, this transformation reflected the implementation of a neo-conservative agenda for social, economic and political change in the province, one bearing strong similarities to new

right-wing programs adopted elsewhere in the western capitalist world.

While the advent of economic slump in 1982 helped justify the implementation of early "restraint" measures, a continuation of depressed economic conditions over the next four years helped legitimize the introduction of a full-fledged neo-conservative strategy for restructuring provincial state finance. British Columbia, the provincial government argued, could no longer afford a continued proliferation of state programs let alone the maintenance of existing services. The state or "public" sector had to demonstrate the kind of restraint appropriate to a "new reality" of slower economic growth and toughened international competition. Wage earners, consumers and the public at large had to reduce their expectations of the economy and of government if the province was to survive its worst economic downturn since the 1930's.

Could these claims be justified? Was the state incapable of maintaining provincial public services, particularly those in social reproductive areas? Was the turn to neo-conservative fiscal policy the ineluctable outcome of falling revenues and imminent financial crisis? Or rather, did the advent of the slump allow the state to use the pretext of fiscal crisis to press forward with its new political agenda? To address these questions is to situate B.C. neo-conservatism in a larger socio-economic context, one capable of deciphering the social and political logic of 1980's fiscal policy change. Understanding B.C.'s

neo-conservative program and, in particular, its manifestation at the level of fiscal policy requires, first of all, clarification of the relationship connecting this program to the province's economic predicament. The following section begins this analysis through an examination of ways in which B.C.'s economic crisis was used to rationalize provincial state fiscal policy's sudden shift to the right.

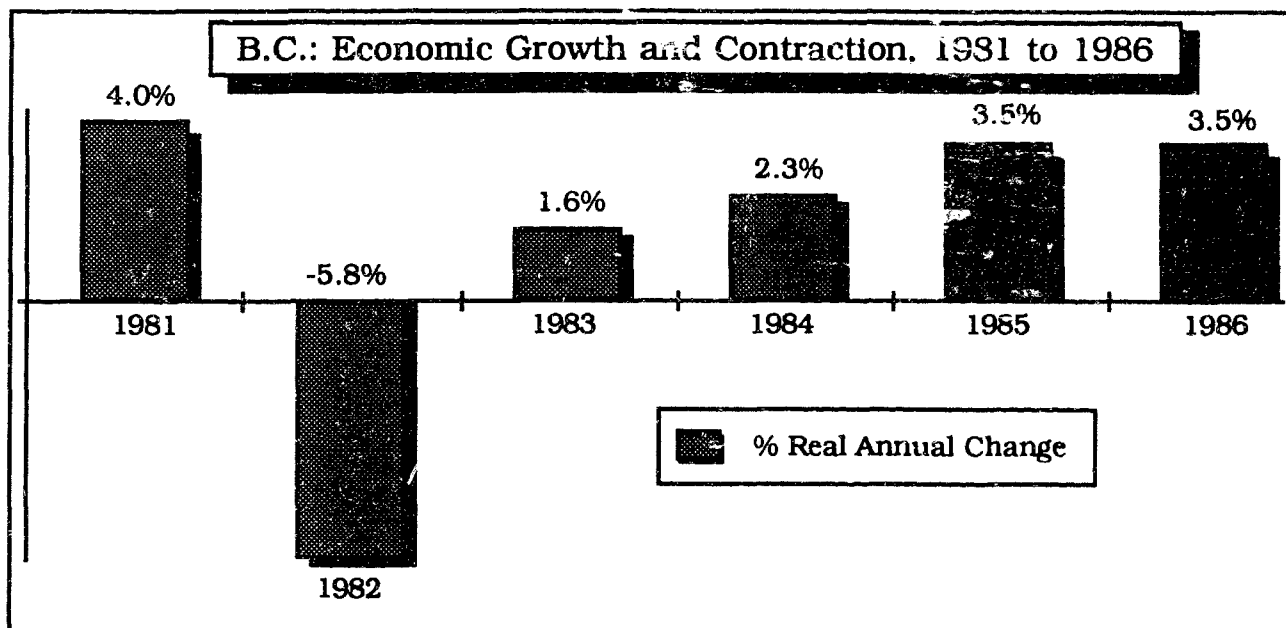
## **II. The Anatomy of B.C.'s Economic Slump**

The period of late 1981 to early 1982 saw British Columbia's resource-based economy slide rapidly into its most serious recessionary downturn of the entire postwar period. The province's economic predicament in this period and that which immediately followed is something reflected in a variety of statistical measures relating to provincial growth, corporate profits, investment, employment and labour income. A general overall indication of the force and extent of the economic slump emerges from figures depicting year-over-year changes in Gross Provincial Product.<sup>1</sup> The following graph traces the course of real economic growth and contraction in the province for the period 1981 to 1986.

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<sup>1</sup> The figures show average real growth of 1.5 per cent between 1981 and 1986. Statistics Canada figures contained in the Canadian Economic Observer, (November, 1988, Tables 12.1, 1.13) place the extent of 1982's drop in G.P.P. at an even more radical 6.4 per cent and average 1981 to 1986 growth at a more restrictive 1.0 per cent.

Chart 4.1: B.C. Economic Growth, 1981 to 1986



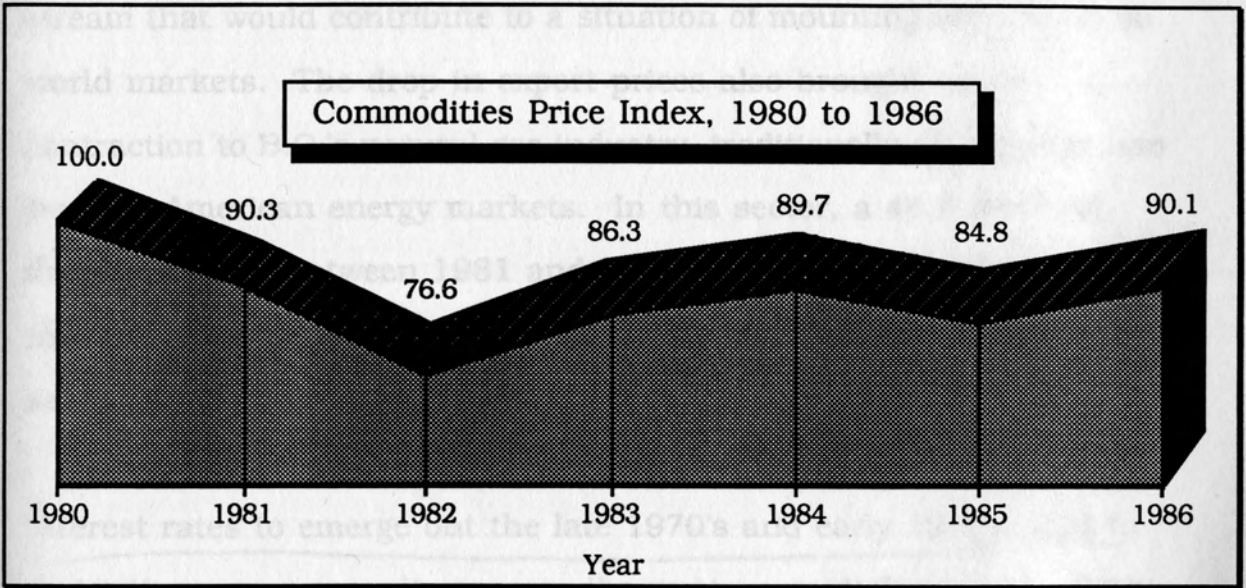
Source: B.C. Ministry of Finance, Financial and Economic Review, (annual).

The loss of the province's growth momentum is clearly reflected in the sudden G.P.P. contraction in 1982. At the same time, small percentage growth levels for the following two years indicate a provincial economy slow to recover its earlier expansionary momentum; indeed, it was not until 1985 that B.C. Gross Provincial Product returned to real constant dollar levels attained in 1981. Together, these factors support the view that B.C. fell victim not just to a brief recessionary downturn but rather to a deeper and more protracted economic slump.<sup>2</sup> Two factors lay behind this dynamic. The first was a collapse in prices for provincial export products. As

<sup>2</sup> *Ibid.*, Table 1, p. 32. In contrast, the Canadian economy as a whole had fully recovered its pre-recession level by the end of 1983, following a more moderate G.D.P. decline of 3.8 per cent in 1982

the following chart indicates, the period 1980 to 1982 saw international commodities' prices fall close to a quarter. Despite some recovery over the next four years, 1986 prices still languished at levels close to ten percentage points below highs recorded at the beginning of the decade.

**Chart 4.2: Commodities Price Index, 1980 to 1986**



Source: cited in B.C. Ministry of Finance, Budget, 1985, Table H1.<sup>3</sup>

The drop in commodities' prices had major implications for the province's mining industry. Falling prices brought an immediate collapse of profit rates and a deteriorating cash-flow situation to the

<sup>3</sup> B.C. Ministry of Finance, The Economy in a Changing World, 1985, p. 11, and Budget, 1985, Table H-1. The index was developed originally by the London Economist.

province's base and precious minerals sectors.<sup>4</sup> Similarly, in B.C.'s coal industry, a sustained drop in prices in the period after 1981 led to major losses in export earnings. By early 1982, as coal producers in the southwest corner of the province faced increased pressure from Asian buyers to reduce contracted sales prices, B.C.'s northeastern coal fields prepared to bring heavily state-subsidized additional exports on stream that would contribute to a situation of mounting oversupply on world markets. The drop in export prices also brought major contraction to B.C.'s natural gas industry, traditionally an exporter into western American energy markets. In this sector, a 44.8 per cent drop in exports between 1981 and 1986 saw rents extracted by the province's energy marketing agency fall by a full 80 per cent over the same period.<sup>5</sup>

The second factor behind the slump was the dramatic rise in interest rates to emerge out the late 1970's and early 1980's shift to restrictive monetary policy across the western capitalist world. Within Canada, the central bank lending rate rose from a third quarter 1980

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<sup>4</sup> During 1982, the three largest copper mines in the province — Bethlehem, Granisle and Bell Copper — and the two largest molybdenum mines — Boss Mountain and Endako — ceased operation as a result of falling world mineral prices. In the same year, fully one-half of the mines canvassed by the provincial Mining Association's were operating at below 60 per cent capacity. Mining Association of British Columbia, The British Columbia Mining Industry in 1982, Appendices I-6 and V-2, p. 54.

<sup>5</sup> B.C. Ministry of Finance, Financial and Economic Review, (various) Tables 1.4 and 7.6.

average of 10.55 per cent to a third quarter 1981 level of 20.18 per cent as part of this larger international dynamic.<sup>6</sup> Increases in bank rates worked to undermine industrial and residential construction activity across North America thereby lowering export demand for B.C. lumber. At the same time, high interest rates increased servicing costs associated with the build-up of corporate debt, a factor of major significance for many resource-based corporations whose debt loads had grown substantially as a result of merger and acquisition activity in the late 1970's.<sup>7</sup> The problem was particularly pronounced in the province's mineral and forest sectors where declines in export earnings worked to compound debt-induced difficulties with cash-flow.

The collapse in commodity prices and the advent of high interest rates soon led to major reductions in corporate profits. The following chart documents, on a quarterly basis, the early 1980's fall in the overall rate of capital accumulation in B.C., the latter calculated as the

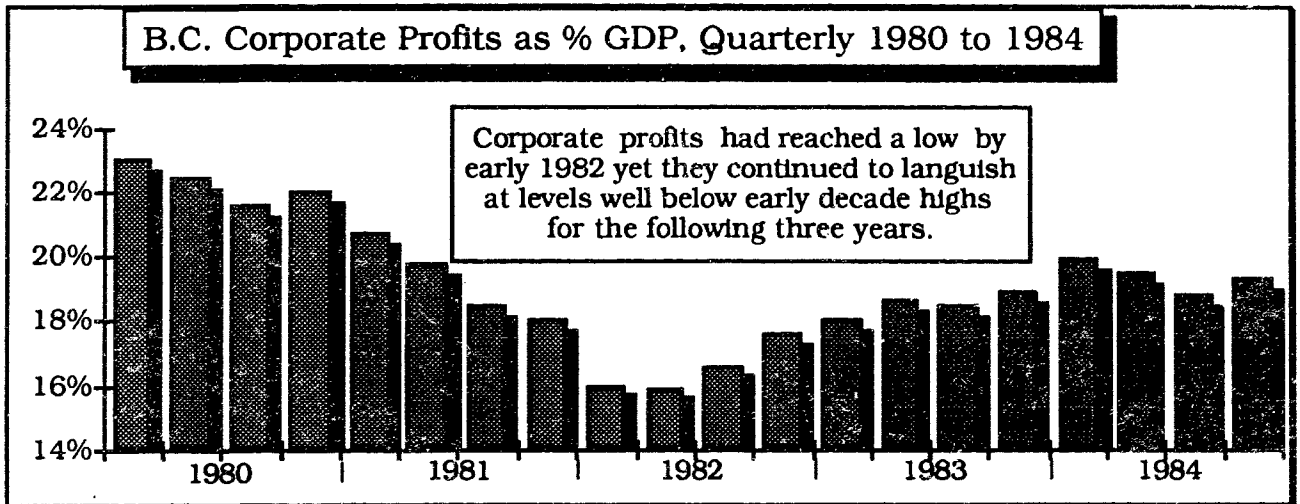
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<sup>6</sup> Bank of Canada, Bank of Canada Review, April, 1982, Table F1.

<sup>7</sup> Between 1980 and 1981, controlling or significant equity positions in six of the ten largest provincially-active forest corporations changed hands with most of the acquisitions funded by rapid increases in corporate debt. See M. Pat Marchak, "Public Policy, Capital and Labour in the Forest Industry" in Rennie Warburton and David Coburn, eds. Workers, Capital and the State, (Vancouver: University of British Columbia Press, 1988) pp. 191-92 and John Malcolmson, "The Hidden Agenda of 'Restraint'", in Warren Magnussen et. al. eds., The New Reality, (Vancouver: New Star, 1984), pp. 77-79.

percentage of Gross Provincial Product represented by corporate profits.

**Chart 4.3 Corporate Profits as % of Gross Provincial Product**



Source: calculated from data in B.C. Ministry of Finance and Corporate Relations, British Columbia Economic Accounts, 1961 to 1989, Table 10.

In gross dollar terms, corporate profits fell close to 45 per cent in the province through the first half of the decade.<sup>8</sup> A drop of this magnitude brought a significant inter-provincial shift in the allocation of taxable corporate income. In 1980, capital operating within B.C. had accounted for close to one-eighth of the net taxable corporate income in the country; over the following five years, this figure was nearly cut in half. The following graph traces movement in this latter variable to 1985. It demonstrates that, in spite of the grip of recession on the

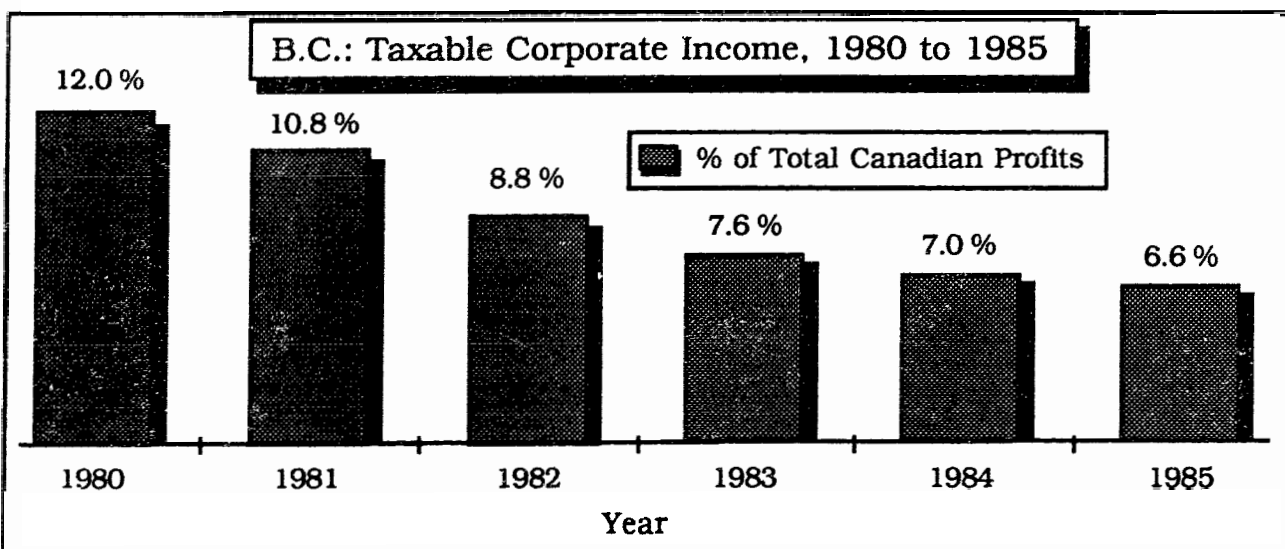
<sup>8</sup> Statistics Canada, Corporation Taxation Statistics, Catalogue 61-208, 1983, Table VI; 1985, Text Table X; 1986 Text Table II.



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entire country, capital accumulation in B.C. was more adversely affected than the norm for Canada as a whole.

**Chart 4.4: B.C. Taxable Corporate Profit, 1981 to 1985**



Source: Statistics Canada, Corporation Taxation Statistics, (various).

Despite the fact that B.C. began to emerge from the depths of its slump as early as 1983, corporate earnings' in the province remained in a depressed state. In the forest sector, 1981 losses for the 10 largest provincially-centred corporations totalled -\$40 million. The following year's losses increased nearly ten fold to a level of -\$393 million and even as conditions improved over the next two years, net corporate earnings for the period remained -\$144 million. Profit statistics for the mining sector show similar overall tendencies, moving from -\$418 million in 1981 to -\$98 million in 1982 before settling at combined losses of -\$250 million for the period 1983 to

1985.<sup>9</sup> By the mid-1980's, the slump in corporate profits had reached such proportions that several of the province's largest resource corporations elected major "writedowns" of equity values in direct response to the mounting balance sheet weight of non-producing assets.<sup>10</sup> Widespread recourse to these measures confirmed the severity of the pressure on rates of capital accumulation. They also demonstrated the absence of any corporate strategy for dealing with the erosion of profitability beyond defensive actions designed to moderate the longer-term implications of current earnings' losses.

The drop in rates of corporate profit had a direct and adverse impact on rates of capital investment. In 1981, on the eve of the recession, investment expenditure accounted for 34.5 per cent of B.C.'s Gross Provincial Product. Three years later, investment had

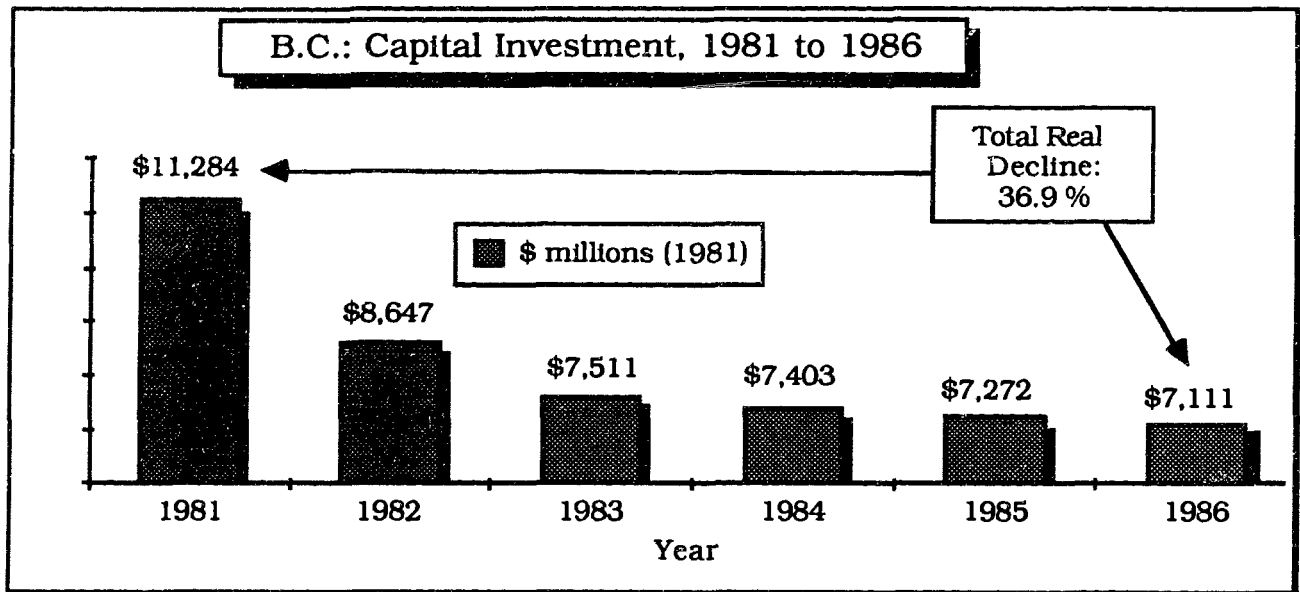
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<sup>9</sup> Council of Forestry Industries and B.C. Mining Association data cited in B.C. Central Credit Union, Socio-Economic Profile: Provincial Summary, September, 1985, p. 32 and 38.

<sup>10</sup> Between December of 1985 and January of 1986, Canadian corporations wrotedown a total of \$1.6 billion in assets with most of the activity concentrated in the resources sectors. During this period, B.C. Resources (B.C.R.I.C.) wrotedown \$463.6 million in asset values, Denison Mines wrotedown \$241.7 million (including a \$37.4 million loss on its northeast B.C. coal operations) while Noranda Mines eliminated \$185 million in paper mining assets. On this, see "Wrotedown fever seems contagious", Globe & Mail, Jan. 27, 1986, "B.C. Resources hurt by poor markets and low prices", Globe & Mail, March 24, 1986, "New start for Noranda, Denison, gold?", Financial Times, Jan. 20, 1986, p. 41, "Noranda plans \$185 million wrotedown", Globe & Mail, Jan. 23, 1986 p. B1 and "B.C. Firm write off investment of \$324.8 million in Westar", Globe & Mail, October 31, 1987

fallen to 24.4 per cent and, although the percentage rose slightly in 1985, it slumped back to a new low of 22.4 per cent in 1986.<sup>11</sup> The following graph traces year-to-year real dollar decline in levels of provincial investment.

**Chart 4.5: B.C. Capital Investment, 1981 to 1986**



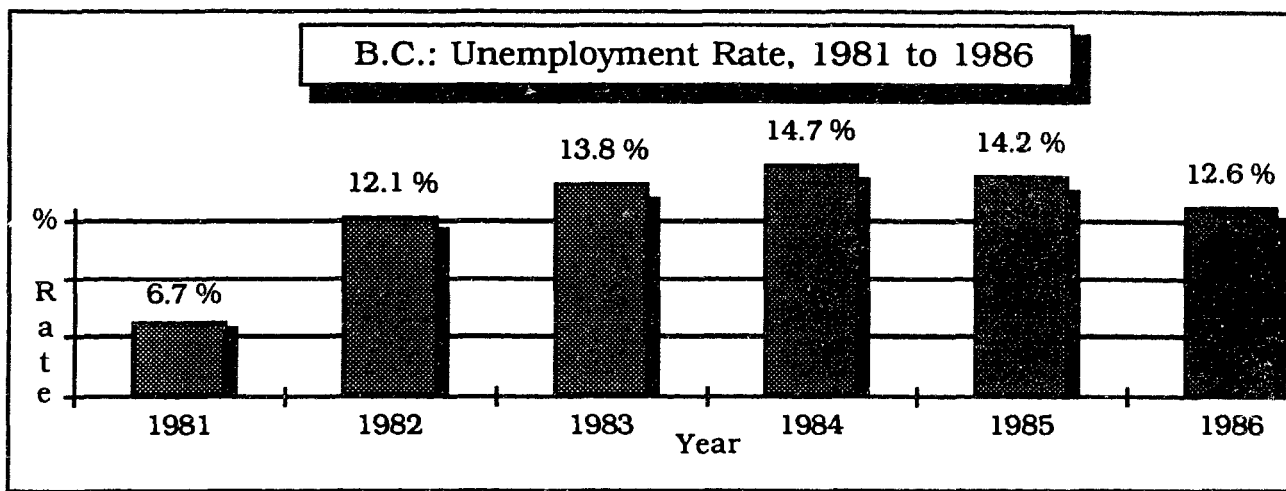
Source: B.C. Ministry of Finance, Financial and Economic Review, (various) and Budget, (various)

If the slump affected corporations primarily by way of a squeeze on profits, its impact on workers came largely in the form of rising unemployment and falling real wages. Despite a return to modest growth starting in 1983, unemployment continued its climb to levels unseen in the province since the 1930's. The following chart provides

<sup>11</sup> Calculated from B.C. Ministry of Finance, Financial and Economic Review, (various), Tables 1.2 and 1.3.

annual rates of unemployment in the province for the 1981 to 1986 period.

**Chart 4.6: B.C. Unemployment, 1981 to 1986:**



Source: B.C. Ministry of Finance, Financial and Economic Review, (various) Table 1.1.

Unlike previous experiences with economic recession, the post-1981 crisis made deep and lasting inroads into employment levels across both unionized and non-unionized sectors of the provincial economy. Between July of 1981 and December of 1982, the province lost close to a third of its employment in the "goods producing" sectors — resource extraction and processing, secondary manufacturing and construction. In the mining sector, employment levels dropped 20 per cent between 1981 and 1984. Employment in forest-related industry tumbled by a similar percentage, from close to 100,000 in 1979 to about 78,000 by 1984.<sup>12</sup> With jobless rates in

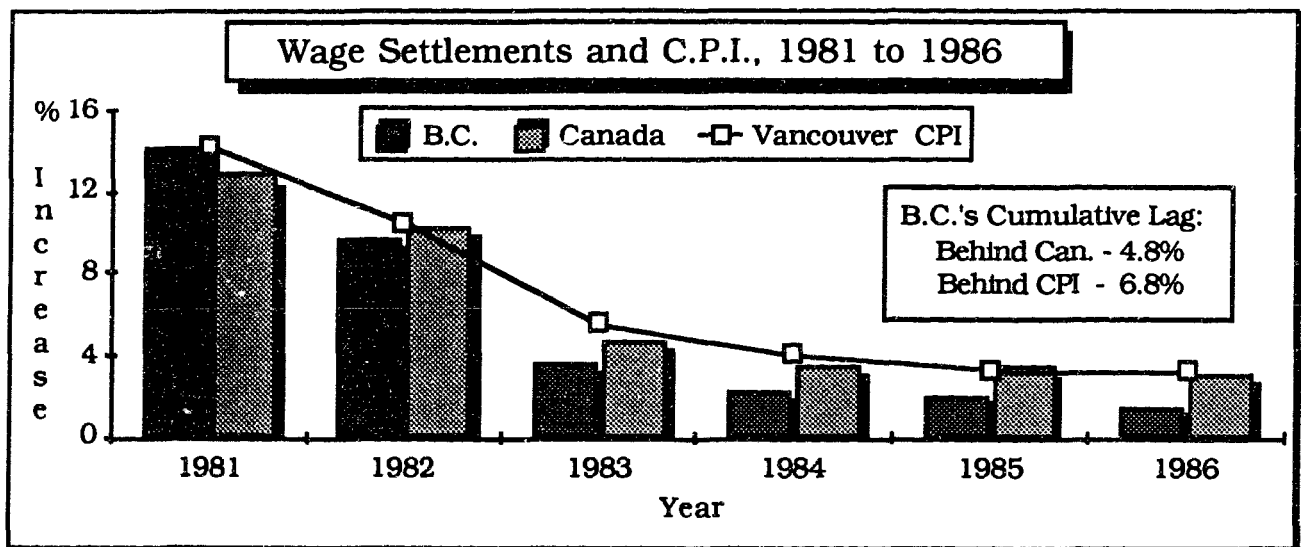
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<sup>12</sup> B.C. Central Credit Union, Economic Analysis of B.C., November, 1984, Vol. 4, No. 6. Figures released by Employment and Immigration

these sectors moderating only slightly between 1983 and 1985, it was soon apparent that the downturn had triggered longer-term losses in levels of provincial industrial and manufacturing sector employment.

Steep increases in the rate of unemployment brought a decline in real wages for the province's working class. The following graph traces the impact of the slump on workers' income levels, measuring nominal wage settlement increases against rises in consumer prices as well as against average settlements for Canada as a whole.

**Chart 4.7: B.C. Wage Settlements and Price Increases 1981 to 1986**



Sources: B.C. Ministry of Labour, Labour Research Bulletin and Collective Bargaining Information; Canada Department of Labour, Major Wage Settlements; Statistics Canada, Consumer Price Index.

Canada (British Columbia/Yukon Territory, Economic Review, Issue No. 201, September, 1990, p. 6) show forestry-related employment in the province dropping an even higher 25.4 per cent between 1981 and 1986, from 111,000 to 82,800.

As the chart shows, average contract settlements in B.C. trailed the rate of inflation in each of the above years including 1981. As a result, wage and salary increases fell an average of 10.1 per cent behind the rate of inflation between 1981 and 1986.<sup>13</sup> At the same time, provincial contract settlements trailed the Canadian average by 6.9 per cent.<sup>14</sup> Clearly, the slump had eroded B.C. workers' ability to resist capitalist pressure in the areas of wages to a major degree and one far exceeding that found for the nation as a whole.<sup>15</sup> Chart 4.8 provides a more direct measure of the impact of the slump at the level of real earning power, showing trends in average received wages. With this measure, workers' real incomes are shown to have fallen more than five per cent between 1981 and 1986.<sup>16</sup>

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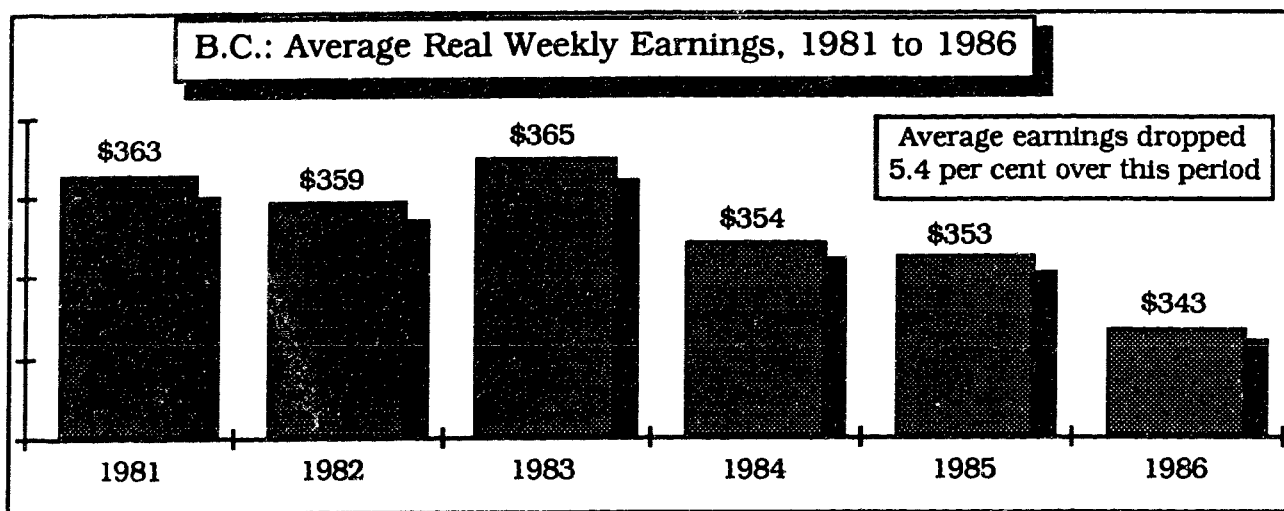
<sup>13</sup> Calculated from B.C. Ministry of Labour, Labour Research Bulletin, Collective Bargaining Information, (various), and Statistics Canada, The Consumer Price Index, Catalogue 62-001, (Vancouver Index).

<sup>14</sup> In 1981, average B.C. wages were 14.6 per cent higher than the national average; by 1985, this gap had fallen to 10.3 per cent. Statistics Canada, Employment, Earnings and Hours of Work, Catalogue 72-002, (various) Tables 2.1 and 2.2. (Industrial Composite Wages including overtime). Canada Department of Labour, Major Wage Settlements, (various).

<sup>15</sup> During this period union contract bargaining moved from an emphasis on the enhancement of workers' incomes to an preoccupation with issues related to layoff seniority and job security. On this and other aspects of the trade union strategy, see B.C. Federation of Labour, 1983 Annual Convention, Summary of Proceedings, Report of the Executive Council. pp. 15ff.

<sup>16</sup> Changes in average work week length or in overtime earnings are not taken into account using this measure; consequently, the precision of this measure is diminished.

**Chart 4.8 B.C. Average Weekly Earnings, 1981 to 1986**



Source: B.C. Ministry of Finance and Corporate Relations, BCSTATS database.

All in all, the loss of B.C.'s growth momentum, the collapse of corporate profits and the fall-off in provincial investment activity and the loss in workers' employment and income leave little doubt as to the overall severity of the downturn in B.C. and its impact in slowing rates of capital accumulation. In the late 1970's, B.C.'s unique position within the international economy saw the province benefit from rapid economic growth even as the expansionary process started to slow visibly in other regions of the country. By the early 1980's, a confluence of external economic developments pushed B.C.'s export-dependent economy into what must be seen as a major accumulation crisis. As a result, the years leading to mid-decade saw the province settle into the doldrums of a protracted economic slump.

Yet did the advent of economic crisis make for the inevitability of radical fiscal policy change? Did the loss of growth momentum

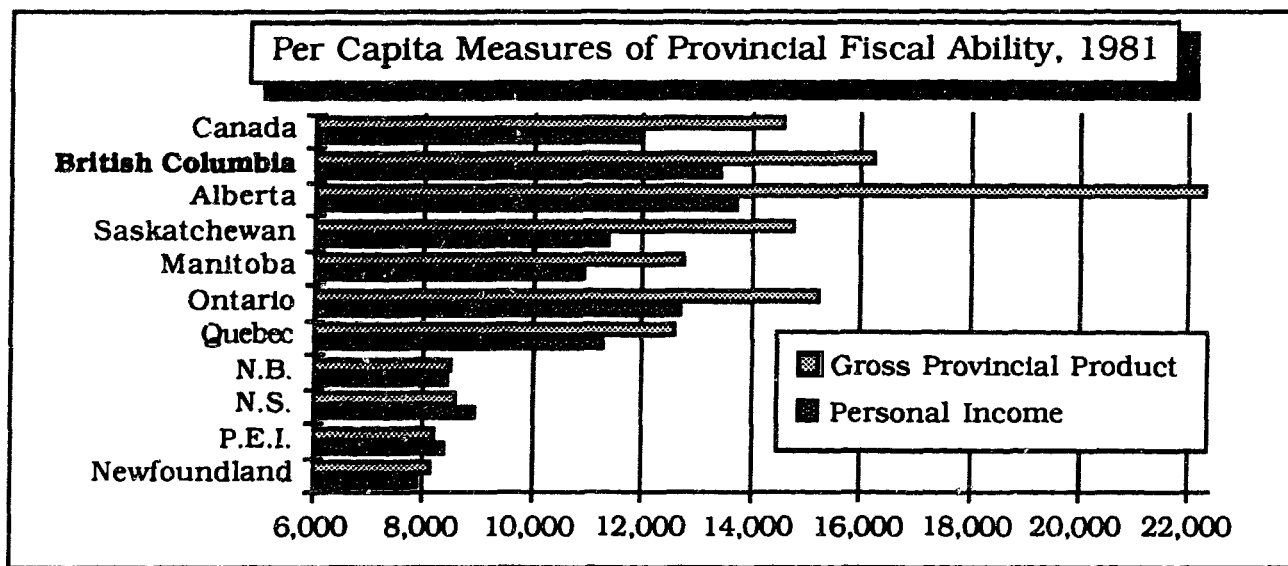
mandate the necessity for cuts to provincial programs and services? The answers to these questions will help establish the degree to which state fiscal policy in British Columbia was objectively determined by larger economic developments over which provincial state policy had little if any control. Alternately, these answers could help clarify whether provincial fiscal policy changes represented a more ideologically-driven response to political opportunities presented by the advent of economic crisis. One way of approaching these questions is to compare B.C.'s fiscal situation on the eve of the 1982 crisis with that found in other provincial jurisdictions. While there are various indicators which could be used in such a comparison, three will be selected for use in this discussion — "fiscal ability", "fiscal effort" and "fiscal constraint".

### **III. The Province's Claim to "Fiscal Crisis"**

The first indicator — "fiscal ability" — examines the objective capacity of a government to provide support for the maintenance and extension of state sector services. A measure of this nature is related directly to levels of provincial productivity and provincial affluence; hence, for the purposes of this discussion, comparative "fiscal ability" will be defined in terms of levels of per capita Gross Provincial Product (productivity) and provincial per capita personal income (affluence). The following chart provides the relevant data for the year 1981.



**Chart 4.9 Comparative 'Fiscal Ability', 1981**



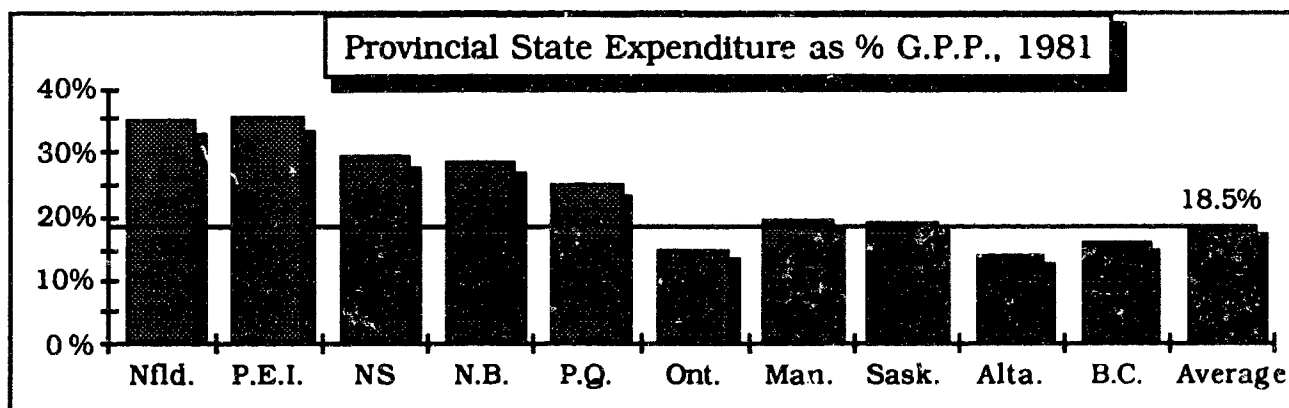
Source: Statistics Canada, Provincial Economic Accounts, 1967-1987, Catalogue 13-213, Tables 1 and 16; Census, 1981.

With each of the two indicators, the province of British Columbia emerges in a favourable comparative light. On average, B.C. residents produce more per capita than do Canadians as a whole; for 1981, the gap in average "productivity" amounted to 11.9 per cent with only Alberta exceeding British Columbia. At the same time, B.C. residents earn considerably more per capita. In 1981, the average "affluence" gap of B.C. over the country as a whole came to 11.5 per cent with Alberta again the only province to lead B.C. Together, these indicators confirm British Columbia as among the most productive and affluent provinces of Canadian Confederation. In light of this, the objective capacity of the B.C. state to fund public sector services in 1981 is

clearly established; indeed, this capacity might well have been the envy of most other Canadian provinces.

The second indicator measures what can be termed "fiscal effort". Having the "ability" to fund public services does not automatically mean that services will be delivered. Measuring "fiscal effort" in support of state sector programs and services requires a different approach, one capable of relating actual expenditure levels to measures of provincial "ability". Such an indicator can be established by representing provincial budget requirements as a percentage of Gross Provincial Product. The following chart provides comparative data for the year 1981.

**Chart 4.10 Comparative "Fiscal Effort", 1981**



Source: Statistics Canada, Provincial Economic Accounts, 1967-1987, Catalogue 13-213, Tables 1 and 5.

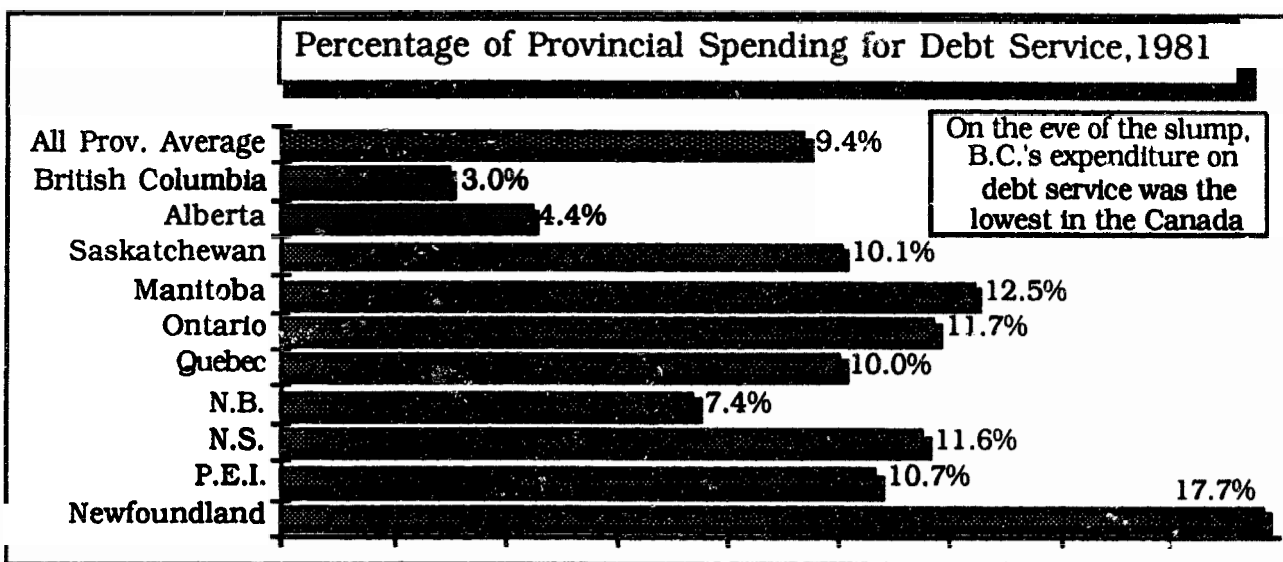
The above chart shows the direct economic burden represented by 1981 provincial spending in British Columbia to be well below the all-province average of 18.5 per cent; indeed, only Alberta and Ontario

directed a lower percentage of Gross Provincial Product to meeting their respective budgetary requirements. If anything, this measure shows that, in the face of major recession in the following year, B.C.'s government had considerable room for increasing expenditures before even reaching the norm for Canada as a whole. Taken together, the "ability" and "effort" indicators undermine the tenability of any simplistic equation of provincial economic crisis in the early 1980's with fiscal crisis. Indeed, British Columbia's inherent fiscal strength and "ability" in the face of economic slump was second in the country while its fiscal "effort" lagged behind that of most other jurisdictions. The measures suggest, therefore, that the province might have weathered the ensuing economic slump without recourse to a radical restructuring of fiscal policy commitments and direction.

To confirm this observation, it is appropriate to examine a third indicator, one showing the degree to which provincial fiscal policy entered the period of economic crisis constrained by a legacy of past expenditure decisions and commitments. An indicator of fiscal "constraint" can be defined in terms of the degree to which provincial debt servicing commitments provided an objective barrier to the redeployment of fiscal resources. Such an indicator can be calculated as the ratio of provincial debt service payments to total provincial spending. As the following chart demonstrates, the percentage of B.C. expenditure earmarked for debt service was, in 1981, not only the lowest in the country but was also at a level less than a third the

average for the whole country. Owing to the relatively small scale of its debt servicing obligations, the B.C. state was, in 1981, able to direct the largest percentage of its spending to the maintenance of existing programmes and services.

**Chart 4.11 Comparative Fiscal "Constraint", 1981**



Source: Statistics Canada, *Provincial Economic Accounts, 1967-1987*, Catalogue 13-213, Table 5.

The final comparison shows British Columbia to have had maximum room for fiscal policy manoeuvre on the eve of the economic slump. When seen in the context of the province's higher-than-average fiscal ability and lower-than-average fiscal effort, this indicator all but confirms the absence of impending fiscal catastrophe. Taken as a whole, the three comparisons suggest that the neo-conservative assault on B.C. fiscal policy was far from an inevitable or pre-determined outcome of economic crisis. While the province's

economic predicament in the early 1980's lent plausibility to the argument that B.C. state fiscal policy required radical surgery, the indicators suggest that the province's embrace of fiscal neo-conservatism might better be seen as the outcome of changes in political priorities, the nature of which further underline the role played by ideologies of the new right in moulding directions taken by state policy.

Such an assessment brings with it the need to examine the actual process of neo-conservative policy change in the province in the period after 1981 — from an initial posture of limited "restraint" initiatives to one of full-fledged fiscal and administrative austerity. The following section starts this analysis with an attempt to periodize development of the state's neo-conservative strategy. In showing how B.C.'s efforts to re-align its fiscal and administrative policies in a neo-conservative direction in the early 1980's had little to do with any situation of iron-clad necessity borne of imminent fiscal crisis, this exercise establishes a firmer analytical foundation for a subsequent and more detailed examination of debt administration, revenue and expenditure policy.

#### **IV. The Periodization of Fiscal Policy Change**

B.C.'s turn to a program of neo-conservative policy change was not something to materialize ready-made. Rather, it evolved through a succession of measures that over time gave way to a new strategic

orientation in state fiscal policy. In the following discussion, a number of distinct stages in the evolution of this strategy will be distinguished on the basis of identifiable shifts in the logic and direction of fiscal policy initiative. The stages can be summarized as follows:

- 1) An initial or "preparatory" period of expenditure control in which the provincial state established centralized lines of political and administrative authority needed to implement a program of real fiscal austerity. During this phase, policy initiatives centred predominantly on a push to centralize lines and relations of authority characterizing the realm of provincial fiscal administration.
- 2) A "downsize" phase of staff, program and expenditure cuts in which the province's deployed its newly-claimed administrative powers to effect broad, across-the-board reductions in social reproductive spending, staffing levels and wage rates. During this phase, the primary area of policy initiative centred on the expenditure field.
- 3) A "consolidative" phase of corporate tax restructuring in which fiscal dividends derived from success in the implementation of expenditure cuts were translated into measures of tangible financial relief to capital, chiefly lowered rates of effective corporate taxation. During this phase, the locus of initiative shifted decisively to the field of revenue policy.

Pin-pointing the nature of these phases not only assists in developing an historical perspective on the implementation of fiscal policy change; it also helps confirm the pivotal role played by state fiscal policy in giving concrete direction to the state's neo-

conservative strategy for promoting capital accumulation. As will be demonstrated, this strategy came to centre on a push to redistribute income for the purpose of subsidizing rates of corporate profit. And, in focusing on the evolution of this strategy, the discussion will help lay the foundation for the subsequent and more detailed empirical analysis of the individual component parts of provincial fiscal policy.

**A. Stage I: The Preparatory Phase of "Restraint"**

"By restraining growth in public sector salaries, the need to lay off public employees to meet overall expenditure objectives will be minimized."

- Budget Speech of the Minister of Finance, February, 1982

The initial phase of provincial state austerity ran from the beginning of 1982 to the release of the provincial budget in July of 1983. It can be labelled "preparatory" insofar as the initiatives it encompassed focussed primarily on removing administrative barriers to the subsequent pursuit of real fiscal austerity. In effect, this phase helped establish a series of administrative pre-conditions for the subsequent implementation of real neo-conservative change. As a result, state policies through this period indicated little of the full range of "cutback" and "downsize" measures to follow; in contrast, the preparatory phase was characterized by a gravitation to a succession of fiscal and administrative "restraint" policies designed to place the state apparatus on an initial crisis management footing.

Two facets of the early "restraint" thrust are important in this connection. The first concerned the centralization of fiscal control over state sector administration. In the area of state fiscal policy and administration, the 1982 budget unveiled plans to abolish previously earmarked "Special Funds" and to fold accumulated balances into a larger "Consolidated Fund" structure offering the provincial cabinet enhanced control over efforts to moderate the growth of B.C.'s deficit.<sup>17</sup> At the same time, the province established new discretionary expenditure funds in both the social reproductive and accumulation-related fields.<sup>18</sup> Inherent in each of these measures was an effort to increase the range of cabinet-level fiscal manoeuvre for the duration of recession-induced restrictions on the province's financial capabilities. Other legislative measures complemented the process of administrative centralization by limiting the fiscal autonomy of local government. Fiscal year 1982/83 saw the budgetary powers and prerogatives of local and regional government, and school and hospital districts scaled back in favour of an enhancement of provincial

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<sup>17</sup> B.C. Ministry of Finance, Budget 1982, p. 10. All in all, some \$358 million in accumulated Special Fund balances were affected by this change, an amount equivalent to the anticipated revenue shortfall for the 1982/83 fiscal year.

<sup>18</sup> The measures were a Health Care Stabilization Account of \$78 million and an Education Cost Stabilization Account of \$75 million. At the same time, an Economic Development Fund of \$132 million was created to give the province added leeway in the acceleration of planned capital spending. Ibid.



financial control.<sup>19</sup> In the field of public school education, passage of the Education (Interim) Finance Act in February of 1982 stripped a range of financial powers from local school districts and conferred unlimited powers of budgetary control on the cabinet. The Act also removed local school board tax control over commercial and industrial property and reconstituted the latter as a provincial tax resource.<sup>20</sup> In a similar way, creation of the Compensation Stabilization Program (C.S.P.) of wage controls in the spring of 1982 established the requisite means for centrally-directed reductions in wage and salary increases in the state sector. Over the period running to mid-1983, the C.S.P. targeted for little more than a dampening of the trend to double digit wage increases carried over from the prior period of high inflation.<sup>21</sup> Yet, in establishing the program, the provincial state had

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<sup>19</sup> Many of these measures carried political liabilities as local government authorities, many of which were ideologically sympathetic to the general goals of "restraint", were left to administer programs and services without the fiscal authority to do the job effectively. Aspects of this contradiction are discussed in Crawford Killian, School Wars, (Vancouver: New Star, 1986) which analyses the complex political relationship linking local school board and the provincial Ministry of Education through the period of administrative centralism and budget cutbacks.

<sup>20</sup> In financial terms, however, the full significance of the initiative became clear in 1985 as the province slashed business and industrial school property taxes while forcing local school districts to finance budget increases out of hikes to residential property taxes. B.C. Teachers' Federation, Education Finance in British Columbia, 1986, p. 6. It was not until 1988 that the centralization of provincial control over non-residential property tax was confirmed as a permanent measure.

set in place the requisite means for enforcing further controls on wage costs in order to limit future expenditure in the labour-intensive and heavily unionized social reproductive areas of health, education and social services.

The second major area of provincial state initiative in this period revolved around efforts to slow the pace of growth in state expenditure, an undertaking which followed closely on the early measures of administrative centralization. Fiscal year 1981/82's budget provided for a continuation of significant expenditure increases — 17 per cent overall in relation to the previous fiscal period — with much of the impetus for ongoing cost escalation coming from the social reproductive areas of education, health care and social welfare. The following fiscal year saw projected expenditures increase a further six per cent.<sup>22</sup> Increases of this combined magnitude reflected a situation of significant "expenditure drift" through this initial period, a phenomenon having its roots in the lack of a province-level ability to implement and enforce strict controls on expenditure. Within this context, the imposition of a series of largely *ad hoc* budgetary cuts in fiscal year 1982/83 — to school district, college and university

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<sup>21</sup> B.C. Ministry of Finance, Financial and Economic Review, 44th Edition, October, 1984, pp. 18-19. The initial settlement range was established in February of 1982 at 8 to 14 per cent in the first year of collective agreements. In July, the range was reduced to 0 to 10 per cent.

<sup>22</sup> Calculated from B.C. Ministry of Finance, Financial and Economic Review, 44th Ed., Table 7.4.

budgets, to the provincial dental care program, to hospital budgets, etc. — came as the result of initial efforts to apply the brakes to continued cost escalation in the delivery of social reproductive programs.<sup>23</sup> At a fiscal level, these cuts' major impact was to limit rates of cost increase that might otherwise have assumed significantly greater proportions.

Overall, the "preparatory" phase has as its dominant theme an attempt by the provincial state to centralize effective decision-making at the cabinet level of government. Until this restructuring could be completed, there was little prospect of the state proceeding with a neo-conservative program centring on more radical expenditure cuts. In large part, this explains the period's heavy emphasis on the establishment of the requisite levers of centralized fiscal control and why broad across-the-board expenditure reductions are not in evidence through this period. In light of this, an essential point to be drawn from analysis of this phase concerns the largely *ad hoc* "crisis management" orientation of fiscal "restraint". Most fiscal measures in this period point to a state authority struggling to cope with the sudden advent of a major economic slump and to contain the deleterious impact of the slump on the state's fiscal capabilities.

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<sup>23</sup> Post-secondary educational cuts in this period are detailed in Donald Fisher and Betty Gilgoff, "The Crisis in B.C. Public Education: The State and the Public Interest", Terry Wotherspoon, ed. The Political Economy of Canadian Schooling, (Toronto: Methuen, 1987), p. 70.

Added to the problem of "expenditure drift" is the fact that the full impact and duration of B.C.'s slump could not accurately be foretold through most of this period. The 1982 budget projected the recession to last for two years. In light of this expectation, the exercise of provincial "restraint" measures including the imposition of C.S.P. wage controls was slated to last only until the end of 1984.<sup>24</sup> In effect, fiscal "restraint" was originally conceived as a temporary shift in provincial state direction, one driven by the effort to dampen expenditure growth in anticipation of a relatively abbreviated recession. There is, in consequence, little evidence through this period of any more fully articulated long-range austerity plan. What is revealed, instead, is a collection of responses lacking an initial coherence yet implemented with the intention of streamlining relations of administrative control and of containing increases in the cost of state service delivery. If, therefore, the initial period is to be characterized as a distinct stage in the unfolding of the state's new right-wing strategy, the reason is that early measures of administrative centralization designed to further expenditure "restraint" ultimately helped set the groundwork for the more concrete policies of neo-conservative austerity that followed.

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<sup>24</sup> B.C. Ministry of Finance, Budget, 1982, p. 8.

**B. Stage II: Fiscal "Downsizing"**

"The recovery is fragile but it is within our reach if we are prepared to reduce the size and scope of government... We cannot spend our way out of recession."

- Budget Speech of the Minister of Finance, July, 1983

In May of 1983, B.C.'s Social Credit government was re-elected with a fresh majority and a mandate to continue with measures aimed at steering the province through its worsening economic predicament. On July 7, the government unveiled a budget and legislative package that marked both a break with the moderate cutback initiatives of the prior period as well as an intention to proceed with a neo-conservative program aimed at restructuring the state's fiscal and administrative apparatus. The budget speech stressed the dawning of a "new reality" of international competition and economic readjustment, an end to the easy and "borrowed" prosperity of the postwar boom.<sup>25</sup> It pointed to the desirability of breaking with the misguided social reform vision of the past where government provided an ever-expanding range of social services and employment opportunities. In addition, it spoke of the need to dispense with a tangled web of regulations and bureaucratic impediments which, it claimed, had grown to the point of severely impairing the functioning of private sector capitalist enterprise. In each of these areas, the language and style of expression drew heavily on a range of neo-conservative themes first

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<sup>25</sup> B.C. Ministry of Finance, Budget, 1983 , p. 3.

articulated in other state jurisdictions throughout the western capitalist world.

The fiscal initiatives contained in the 1983/84 provincial budget — further centralization of administrative controls and reductions in state services and employment — were complemented by an accompanying legislative package of 26 bills that, in many respects, did more to define the course of the neo-conservative changes now charted for provincial state policy. Bill 2, the Public Service Labour Relations Amendment Act, aimed to legislate core elements of the B.C. Government Employees Union (B.C.G.E.U.) contract covering provincial public service workers out of existence. Bill 3, The Public Sector Restraint Act, announced the state's intention to eliminate negotiated seniority provisions across the broader provincial public sector and reserve the power to terminate workers' employment without cause. A third bill, the Compensation Stabilization Amendment Act, entrenched an open-ended regime of wage controls for public sector workers along with dramatically widened discretionary powers for the state's wage control authority. These three pieces of legislation set out the legislative framework for concerted state initiatives in the fields of wage and expenditure control. They symbolized transition to a period of state offensive targeting workers' rights, employment security and wage levels with a view to strengthening the overall thrust of the state's "downsizing" and fiscal austerity initiatives. Along with other budgetary initiatives of the

1983 to 1985 period, they looked to a major re-alignment of provincial state direction, one embracing major social reproductive cuts for the ostensible purpose of helping stimulate economic growth in the province's private sector.<sup>26</sup> By reason of the clear connection established between the assault on workers' right, cuts in social reproductive spending and the redistribution of income to the corporate sector, the budget and legislation set forth a clear vision of neo-conservative restructuring reminiscent of elements of Thatcherite policy in the United Kingdom or of Reagan's "supply-side" fiscal program in the United States. If the budgetary measures of the previous year had embraced administrative centralization and funding cuts as largely *ad hoc* policy responses, the 1983 budget and legislation conceptualized these initiatives as elements of an increasingly explicit neo-conservative agenda for the province.

To these ends, the 1983 budget speech announced the state's intention to bring enhanced "productivity" to the delivery of state

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<sup>26</sup> Others pieces of the legislative package took aim at the existence of a variety of rights' tribunals in areas ranging from human and consumers' rights to legal aid and tenants' protection. Still others carried the centralization of provincial powers to new heights in areas covering the setting of school districts' budgets, the governance of provincial community colleges and the planning authority of regional government. Despite substantial rhetoric to the contrary, privatization measures do not figure largely in any objective assessment of the fiscal implications of provincial state policy between 1981 and 1986. Provincial privatization initiatives carrying significant fiscal implications would have to await the post-1986 period

services through a plan to downsize state staffing levels.<sup>27</sup> For 1983/84, the public service was to be reduced by an additional 7,000 positions with a further 4,600 slated for elimination the following year.<sup>28</sup> All in all and despite earlier pledges to minimize staff layoffs, a target was set for a one-quarter reduction in the number of "Full Time Equivalent" staff in the public service, from a crest of 46,806 at the beginning of fiscal year 1982/83 to a "downsize" plateau of 34,008 by the end of fiscal year 1985/86.<sup>29</sup> The Compensation Stabilization Program of provincial wage controls also underwent substantial modification as a result of the 1983 budget and legislation. Amended provisions formally removed the two year "sunset" provision contained in the original 1982 legislation. In addition, guideline amendments again reduced the band of acceptable state sector wage settlements.<sup>30</sup> More fundamentally, however, the changes enshrined the "paramountcy" of the state sector employer's "ability to pay" in the determination of acceptable increases while also imposing statutory

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<sup>27</sup> Ibid. p. 8 and 11.

<sup>28</sup> Ibid. p. 12. In actuality, it was the previous fiscal year that brought covert introduction of a state initiative to "downsize" staffing levels in the provincial public service and, through the course of the year, some 2,800 positions were eliminated, largely through attrition. Budget 1983, p. 62.

<sup>29</sup> B.C. Ministry of Finance, Estimates, 1983/84, Schedule E, p. 203. and 1985/86, Schedule D, p. 241.

<sup>30</sup> Settlements were now to fall within a "-5 to +5 per cent" band, the final percentages subject to the discretion of the C.S.P. Commissioner. B.C. Ministry of Finance, Financial and Economic Review, 44th Edition, October, 1984, pp. 18-19.



obligations on interest arbitrators to base awards on state compensation guidelines. Given the extent of fiscal centralization after 1982 and the wide-ranging powers of the C.S.P. commissioner to interpret settlement guidelines, these provisions allowed the cabinet effectively to dictate settlement levels by virtue of the latter's increased direct control over budget setting.<sup>31</sup> At the same time, the provisions reflected an effort to channel the force and impact of a worsening economic slump into the state sector and to impose a structure of discipline on contract negotiations similar to that emerging for the larger provincial economy.<sup>32</sup> All in all, these efforts

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<sup>31</sup> Budget 1983, p. 60-1. The amendments also directed that career progress increment payments be included in the costing of wage increases. This last provision was geared to bring additional braking power to bear on the rate of wage increases in the education and health care sectors where sizeable increment payments were the norm for most workers. By 1985, controls had reduced state sector wages significantly in relation to those in the private sector. One study showed mean rates of pay for 12 of 16 "key" occupations to be higher in the state sector in the pre-crisis 1980 year. Two years later, state sector wages were ahead in only nine of 16 key occupations and, by late 1984, in only five occupational areas. (Data from Public Employers' of British Columbia, Rates of Pay in British Columbia's Public and Private Sectors, Office, Administrative and Professional Occupations, March 1, 1980, April 1, 1982 and October 1, 1984 Editions.)

<sup>32</sup> "Past experience has shown that while competitive market forces limit private sector wage demands during economic recessions, public sector wage demands and settlements tend to be insulated from economic conditions. As a result, public sector wage settlements may remain well above private sector settlements precisely at a time when the public is least able to afford the taxes required to support such increases... The experience of the Compensation Stabilization Program represents the successful development of a mechanism for the public sector equivalent to the discipline provided by market forces in the

to restructure state sector collective bargaining bore a strong ideological theme of marketplace primacy, of the need to attune bargaining procedures and outcomes more closely to the changing needs and realities of corporate sector accumulation. To this end, wage controls were to help effect cuts in state expenditure. Yet the spending cuts were intended to further more than the imposition of provincial "restraint per se; they were to begin the process of redefining state fiscal priorities, away from "positive sum" conceptions underlying the earlier expansion of social welfare and social reproductive services and in the direction of rendering the provincial state apparatus increasingly serviceable to the promotion of capital accumulation. While important elements of this new conception remained to be fleshed out in detail — notably, the precise form in which state fiscal policy was to extend support to a capitalist system enmeshed in serious profit crisis — the theme of a new "zero sum" dynamic of income and power redistribution had emerged with sufficient clarity at this juncture to ignite the most serious political crisis in the province in half a century.

If the July, 1983 budget and legislation succeeded in establishing the overall direction of provincial neo-conservative change, the February, 1984 budget helped consolidate this new direction. By this latter fiscal year, however, provincial state policy had gone beyond

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private sector." B.C. Ministry of Finance, Financial and Economic Review, 44th Ed., October, 1984, pp. 18, 19.

prior efforts to limit spending increases and now embraced major cuts in current dollar expenditures. For fiscal year 1984/85, total spending was slated to fall in current dollar terms by close to one per cent and more than three per cent in constant dollar figures.<sup>33</sup> Overall, the budget reflected a dominant theme of radical expenditure retrenchment with the provincial state able to reap broad "savings" as a result of centralization and "downsize" initiatives set in motion as far back as 1982. In this sense, the 1984 budget demonstrated the provincial state's considerable success in rectifying the problem of "expenditure drift" that had characterized the preparatory period.

Yet, despite the state's relative success on the expenditure front, provincial fiscal policy by this point carried contradictory implications. The sharp turn to deflationary cost cutting measures lent a decidedly pro-cyclical influence to the province's economic slump.<sup>34</sup> Moreover, cutbacks by themselves offered little of tangible benefit to the province's corporate sector; in fact, elements of the business sector — notably those in the retail and service fields — were hard hit with the advent of controls on incomes and the sharp escalation in the rate of unemployment. For these reasons, the very logic of cutback/downsize initiatives underscored their limitation as means of revitalizing capital

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<sup>33</sup> B.C. Ministry of Finance, Budget 1984, p. 26. Part of the drop was attributable to a decision to steer \$480 million to the retirement of the "historic" debt of B.C. Rail.

<sup>34</sup> This line of argument was emphasized by the B.C. Central Credit Union's monthly Economic Analysis of British Columbia in the 1982 to 1986 period of budget cuts.

accumulation, a fact indicated clearly in the province's slow recovery from the depths of its slump in the period after 1982. What was required from the corporate perspective and mandated by the province's continued economic predicament, was a programme designed to translate the fiscal resources "saved" as a result of expenditure cuts into measures of real economic advantage to capital. The latter found clear expression in representations made by corporate capital to the government regarding the need for a more comprehensive approach to reducing the social and economic cost of capitalist enterprise in the province and for enhancing British Columbia's attractiveness to outside investors.<sup>35</sup>

If anything, these problems and perceived limitations helped accelerate further evolution of fiscal neo-conservatism in the province. The direction taken by the state's response was, to a large degree, anticipated in the 1984 budget. The following extract from the Minister of Finance's 1984 budget speech offers some indication of

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<sup>35</sup> While the 1984 Budget's commitment to major deficit reduction drew plaudits from the Business Council of B.C., the dominant representative of corporate capital in the province, the organization pressed the government to move on the front of decreasing business taxation and to implement "tax reforms that have been high on the business community's agenda over the last few years." See "Curtis Budget Fiscally Sound", B.C. Business Council, Industrial Relations Bulletin, Vol. 16, No. 8, February 21, 1984. and "Provincial Budget", Industrial Relations Bulletin, Vol. 17, No. 11, March 19, 1985. The Council's 1984 Annual Report stated, "The council took the view that the current taxation system was acting as a disincentive to investment in the province (and) recommended that more taxes be based on ability to pay and not applied as a fixed tax..." p. 1.

the concepts increasingly guiding the formulation of provincial state policy in this area,

"The main focus of our revenue policy this year will be the analysis of taxes on business. If we wish our economy to grow and develop in the future, providing employment and generating revenue for public services, we must ensure that we have a favourable environment. If we try to lower our taxes for individuals by levying higher taxes on business, we will only succeed in making our industries uncompetitive and in discouraging new investment. The result will be lost jobs, lost income and lost opportunities. This is the road to economic decline."<sup>36</sup>

This passage foreshadowed an important shift of priority in provincial fiscal policy, one leaning to greater emphasis on the revenue side of the state fiscal equation. Within this framework, steps taken to limit state expenditure through the 1982 to 1984 period can be viewed as having laid the groundwork for succeeding policies aimed at transiating provincial "restraint" savings into measures of concrete assistance to corporate enterprise within the province. B.C.'s experience with the second or "downsize" period of provincial "restraint" demonstrates, therefore, how the cutback and centralization measures helped smooth the transition to another, distinct stage in the articulation of the province's neo-conservative response to economic crisis. Maintenance of tight controls on provincial expenditure obligations emerges as an exercise in preparation for the transference of expenditure savings to the

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<sup>36</sup> B.C. Ministry of Finance, Budget 1984, p. 16.

corporate sector. The latter element, in turn, reflected the emergence of a clearer "supply-side" orientation in provincial state policy, one broadly similar in ideological complexion to tax restructuring initiatives set in motion in the United States under the Reagan administration with its emphasis on using the province's revenue-raising powers to increase levels of financial subsidy for corporate capital. For this reason, the shift in state orientation emerged more clearly in this second phase as one marking both the final abandonment of the accommodative fiscal posture evidenced during the 1970's. In its place emerges a new conservative orientation emphasizing a "zero sum" reallocation of fiscal resources in line with the state's objective of stimulating capital accumulation. Seen from this vantage point, fiscal initiatives after 1983/84 centred clearly and explicitly on enhancing the class power of corporate capital at the expense of the provincial working and subordinate classes. As a result, the provincial state's preoccupation with measures aimed at improving the provincial investment climate was widely interpreted throughout the province as an open declaration of intent to sacrifice decades of incremental improvements in workers' rights, benefits and living standards on the altar of a neo-conservative conception of the province's social and economic destiny.

All in all then, B.C. state strategy during the second period can be seen to have furthered the process of neo-conservative fiscal

restructuring.<sup>37</sup> While core aspects of earlier "crisis management" initiatives remained, the period witnessed significant progression in the direction of an explicit reconceptualization of state strategy. If the emphasis of the preparatory phase of "restraint" on centralizing executive level fiscal control had established the groundwork for widespread budget cuts, the second or "downsize" period built on this foundation through use of this enhanced control to effect significant cuts in levels of overall social reproductive expenditure. At the same time, both the second phase's success in this undertaking as well as the limited nature of economic benefits to be had from a program of spending cuts effectively prepared the way for the the specific policy initiatives and departures of the third period. The precise contours of state policy and their implications for further development of the provincial state's neo-conservative agenda are, however, best evaluated in light of the specific fiscal policy directions set out in this third phase covering the period from early 1985 to mid-1986.

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<sup>37</sup> A Ministry of Finance discussion paper on provincial taxation released in the summer of 1984 confirmed the nature of this strategic thrust in noting that the "restructuring" of provincial state policy had been intended, "to restrain the cost and scope of provincial programs in order to establish a more efficient and affordable government sector (so as to) contribute to a healthier, more competitive economy in the years to come." B.C. Ministry of Finance, Taxation and Economic Development, Aug., 1984, Preface.

**C. Stage III: The Restructuring of Corporate Taxation**

"Restraint is now a permanent and continuing feature of public policy in British Columbia...the permanence of restraint allows us to plan tax reductions in the years ahead."

- Budget Speech of the Minister of Finance, February, 1985

While earlier stages in the state's strategy centred on state efforts to implement across-the-board cutback measures in the social reproductive field, the third and final period turned its attention to the translation of hard fought expenditure reductions into cost savings for the province's corporate sector. The ideological rationale for this restructuring initiative emerged clearly from a provincial Ministry of Finance document issued to coincide with release of the 1985 provincial budget. Entitled The Economy in a Changing World, the document offered important insight into the degree to which the province had come to conceptualize the development of fiscal and administrative policies in a broader neo-conservative framework, as measures geared both to dealing with the immediate effects of provincial economic crisis as well as to assisting B.C. back onto the track of sustained capital accumulation in a rapidly changing international business environment.

The Economy... began with a brief review of relevant historical factors and economic realities affecting the province, noting B.C.'s dependency on resource extraction for export as well as the province's



overall susceptibility to international economic fluctuations.<sup>38</sup> By the early 1980's, the document argued, those international factors making for sustained provincial growth had vanished, ushering in a new and largely unanticipated reality of economic stagnation. In response to this latter predicament, the provincial state had to take steps to restructure its overall approach to the promotion of economic growth. At the outset, The Economy... argued, this initiative targeted to bring state sector wage costs under a more direct regulatory regime.<sup>39</sup> The reasons for this initiative stemmed from the fact that the provision of provincial state services — whether in the public service per se, in the health and education fields or in the sphere of provincial regulatory bodies and crown corporations — was typically highly labour-intensive. Limits on levels of state sector remuneration therefore formed a vital ingredient of efforts to control overall levels of provincial expenditure and, for this reason, virtually all measures of real expenditure restraint depended on the cost savings potential inherent in the application and strengthening of provincial wage controls.<sup>40</sup> At the same time, the

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<sup>38</sup> B.C. Ministry of Finance, The Economy in a Changing World, 1985, pp. 1-2.

<sup>39</sup> Ibid. p. 11. In the face of "tax restructuring" measures in this third period, the C.S.P.'s role was essentially unchanged and centred on consolidating the state's commitment to continued expenditure reductions in the social reproductive arena. The intimate connection between C.S.P. wage controls, deficit reduction and the state's commitment to corporate tax breaks is clearly spelt out on pages 13-15.

<sup>40</sup> "Recognizing that few of the economic restraints that came into play in private sector negotiations existed in traditional public sector

push to reduce the cost of state services only made sense, the document noted, if the cost reductions it yielded enabled the state to pursue initiatives aimed at attracting capital investment to the province. As the discussion of The Economy... indicated, the incentives contemplated in this area were many, ranging from increased state investment in infrastructure and resource development to special grants in support of priority industry.<sup>41</sup> However, the largest priority was to be reserved for the implementation of broad, across-the-board tax cuts for capital. In the case of British Columbia, the time had arrived for state policy to apply the appropriate stimulus to capital's "supply-side" through measures which lightened the tax cost of corporate enterprise.

All in all, the analysis contained in The Economy in a Changing World reflected explicitly the neo-conservative frame of ideological reference used by the state to conceptualize as well as legitimize component elements of its "restraint" and "downsize" program. More specifically, it demonstrated that the state's strategy for economic "renewal" rested primarily on the use of an integrated range of fiscal

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collective bargaining, the provincial government established the Compensation Stabilization Program to limit public sector wage settlements and ensure a more equitable sharing of the burden of economic adjustment between private and public sector employees." Ibid. p. 11.

<sup>41</sup> Ibid. p. 15. It would take the detailed plan presented in the budget document to indicate the nature of actual state intentions in this regard: tax reductions geared to stimulating corporate sector investment.

policy instruments — from selective budget cuts and wage controls to the downsizing of staff levels and reductions in corporate tax loads — in efforts to render B.C. a more attractive site for capital investment and accumulation. And finally, the document further confirmed the sequence of B.C. fiscal austerity — from the establishment of early controls on wages and spending to the later implementation of corporate tax breaks. From the vantage point of this study's central argument, The Economy in a Changing World offers important confirmation of the guiding logic of state austerity measures as one targeting for a redirection of state fiscal resources for the purpose of providing "supply-side" inducements to the revitalization of provincially-centred capital accumulation.

With release of the 1985/86 budget, the overall scope and extent of the provincial state's tax restructuring initiative fell into sharp relief. The budget set forth plans for a three-year phase-in of major tax reductions with the overwhelming portion of these reductions redounding to the direct advantage of corporate capital within the province. The following table documents the major areas of initiative under the province's tax restructuring initiative.<sup>42</sup>

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<sup>42</sup> B.C. Ministry of Finance, Budget 1985., pp. 47-50.

**Table 1: Tax Reductions in the 1985 Budget**

<u>Area</u>	<u>Amounts</u>
Elimination of Corporation Capital Tax	\$ 86 million
Employment Tax Credits to Business	150 million
Cuts to "Non-Residential" Property Tax Rates	358 million
Elimination of Property Tax on Machinery	144 million
Freezing of Water Rental Fees	87 million
EXPO and ALRT Property Tax Exemption	20 million
<b>Total</b>	<b>\$ 955 million</b>

Source: B.C. Ministry of Finance, Budget, 1985, Appendix A.

Reiterating the connection established in The Economy in a Changing World, the budget also drew an explicit link between the corporate tax cuts and the maintenance of C.S.P. controls on wages.<sup>43</sup> Here, tax cuts were presented as a necessary outgrowth of state success in restricting the increase in state sector wage remuneration and at reining in the growth of budgetary expenditure. In light of this explicit connection, the logic of the state's action can clearly be seen as one of a transference of cost "savings" extracted from social reproductive programs to areas and functions geared explicitly to the promotion of capital accumulation. In this way, the third

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<sup>43</sup> "We can afford to introduce these measures now only because of the success of our restraint program in bringing the deficit under control." Ibid., p. 7.

"consolidative" stage of tax restructuring reflected an extension of measures undertaken in previous periods and a maturation of the state's overall strategic initiative.<sup>44</sup>

Taken as a whole, the foregoing exercise in periodizing the implementation of state austerity shows the value of analyzing discrete cutback measures as part of a larger strategic conception, the latter developed and refined through the successive stages of fiscal policy change. From the earliest efforts of administrative centralization and *ad hoc* spending control through the various components of the so-called "downsize" initiative to the transition of expenditure cutbacks into a regime of corporate tax breaks, the logic of state practice emerged clearly as one focused on a shift in fiscal emphasis — away from a *de facto* commitment to the preservation of social reproductive commitments and in the direction of rendering fiscal policy increasingly serviceable to the interests of corporate capital. At the same time, this shift reflects a growing displacement of *ad hoc* fiscal cutback measures by a longer-range plan of neo-conservative fiscal restructuring, the latter conceptualized in an increasingly detailed

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<sup>44</sup> Another aspect of provincial economic policy elaborated in The Economy... concerned the expenditure priority given to public works "megaprojects" - North East Coal, Automated Light Rapid Transit, Expo '86, the Annacis Island Crossing and the Coquihalla Highway. While many of these projects represented an extension of state commitments to the development of economic infrastructure, they were also politically attractive as mechanisms of limited fiscal stimulation that did not involve any longer-term expenditure commitment for the state.

manner with the passage of time. The precise nature of these developments and, in particular, of the fiscal transference process just set out fall into sharper relief once quantitative aspects of the practice of fiscal restructuring are examined in closer detail. The sections that follow take on the task of elaborating the quantitative side of provincial fiscal neo-conservatism, reviewing yearly percentage allocations of provincial revenue and expenditure through the post-1981 period of economic crisis. Here the objective is one of examining and assessing fiscal transference arguments in light of available empirical evidence pertaining to both the relative apportionment of the provincial revenue burden as well as the shifting magnitude of different state expenditure commitments. At the same time and in order to underline the degree to which the corporate sector emerged as principal beneficiary of this new turn in state fiscal policy, the analysis begins with a closer examination of the financial administration of state sector debt for the period of the province's economic slump.

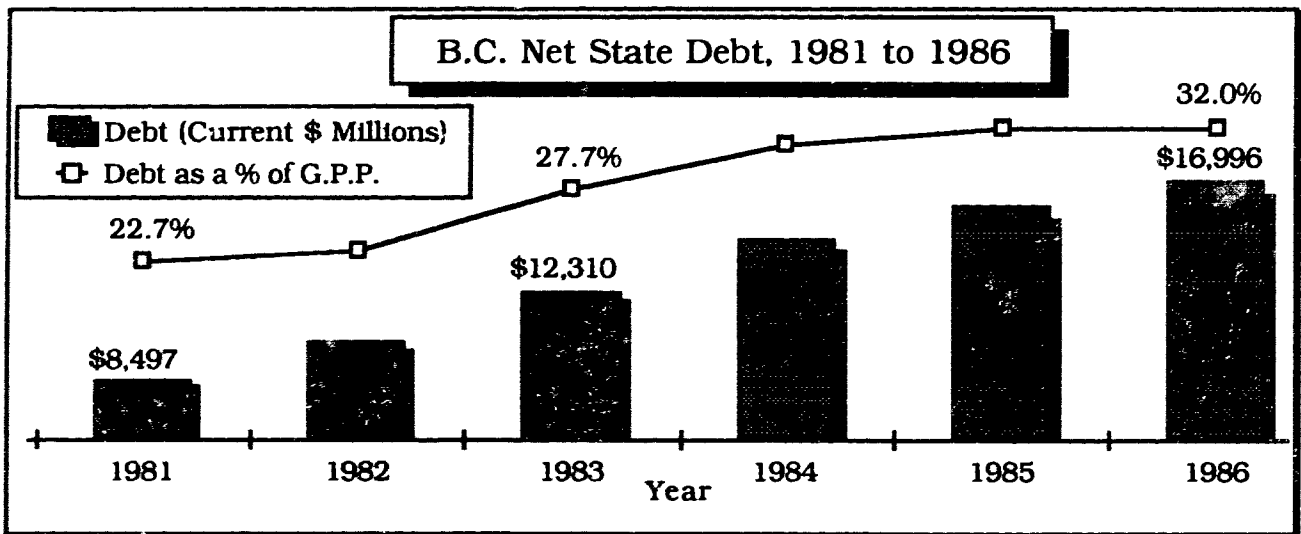
#### **V. The Accumulation of Provincial Debt, 1981 to 1986**

Administration of provincial state debt through the 1970's occurred in a context of near-continuous economic expansion. As a result, the overall financial burden represented by provincial debt servicing — net debt calculated as a percentage of Gross Provincial Product — actually decreased over this period. The end of the wave of economic expansion in the early 1980's brought an abrupt end to this

trend. Indeed, B.C.'s rapid slide into recession in the period after 1981 brought a significant elevation in the scale of provincial state indebtedness and in the weight of overall debt servicing. In effect, the run-up in levels of state debt — both absolute and relative — serves to underscore the error in equating neo-conservative fiscal austerity with all-pervasive expenditure reductions. At the same time, it affords a unique opportunity to examine the important role that discretionary increases in state debt can play in furthering a neo-conservative strategy aimed at promoting capital accumulation.

The following graph indicates trends in this area for the first half of the decade.

**Chart 4.12: Net State Debt, 1981 to 1986**



Source: B.C. Ministry of Finance, Budget, 1987, Table H8.

The chart shows clearly that nominal debt obligations doubled over the first half of the decade, a trend that, in conjunction with the drop

#### Chapter IV: Fiscal Policy and Economic Crisis, 1981 to 1986

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in provincial growth rates, saw debt expressed as a percentage of G.P.P. rise more than nine percentage points.<sup>45</sup> Some of this increase can legitimately be attributed to the accumulated weight of five consecutive years of provincial deficit finance — over the four fiscal years following 1981/82 accumulated Consolidated Revenue Fund deficits totalled \$4.4 billion.<sup>46</sup> In addition, levels of provincial indebtedness rose as a result of increases in the financing cost of extensions to provincial "social infrastructure" — schools, health care facilities and post-secondary educational institutions. However, despite real growth in these areas, debt related to spending on the province's "social infrastructure" increased after 1981 at a rate only two-thirds that of B.C.'s debt profile as a whole. Moreover, by 1986, this segment of provincial debt had shrunk to account for less than a fifth of the total.<sup>47</sup> The reason behind this reduction centred on the state's decision to scale back spending on new capital projects after 1981. As a result, capital spending for new public schools' construction was slashed close to 75 percent — from \$220 million in

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<sup>45</sup> After discounting for the rate of G.P.P. price increase, real state indebtedness still rose a full 58 per cent over this period. B.C. Ministry of Finance and Corporate Relations, Economic and Statistical Review, 1989 p. 208, p. 169.

<sup>46</sup> B.C. Ministry of Finance, Budget 1987, Table H8, p.105. In the latter year, the province accumulated a \$185 million deficit. This figure grew to \$990 in fiscal year 1982/83, \$1,020 million the year following, \$970 million the year following and \$890 million in fiscal year 1985/86. Data cited in B.C. Central Credit Union, Socio-Economic Profiles: Provincial Summary, September, 1985, p. 74

<sup>47</sup> B.C. Ministry of Finance, Budget, 1987, Table H8, p. 105.



1981/82 to \$54 million in 1985/86. Similarly, in the health care sector, the value of completed capital projects dropped more than 70 per cent between 1982 and 1986 — from \$133 million to \$36 million.<sup>48</sup> To the extent there was any increase in levels of provincial commitments in these areas, it could be attributed to higher interest costs associated with servicing existing debt. In effect, these statistical measures demonstrate clearly the degree to which the advent of the post-1981 recession was used to justify major reductions in the scale of capital spending in social reproductive areas, the same areas to experience cuts in staffing levels and operating expenditures.

Overall, primary responsibility for increases in levels of state indebtedness rested with the borrowing activity of provincial crown corporations and public agencies. Here, the largest portion of provincial borrowing activity was directed squarely to the promotion of capital accumulation with crown corporations B.C. Rail and B.C. Hydro continuing to account for the bulk of crown corporate debt as well as for the largest share of debt increase through this period.<sup>49</sup> The

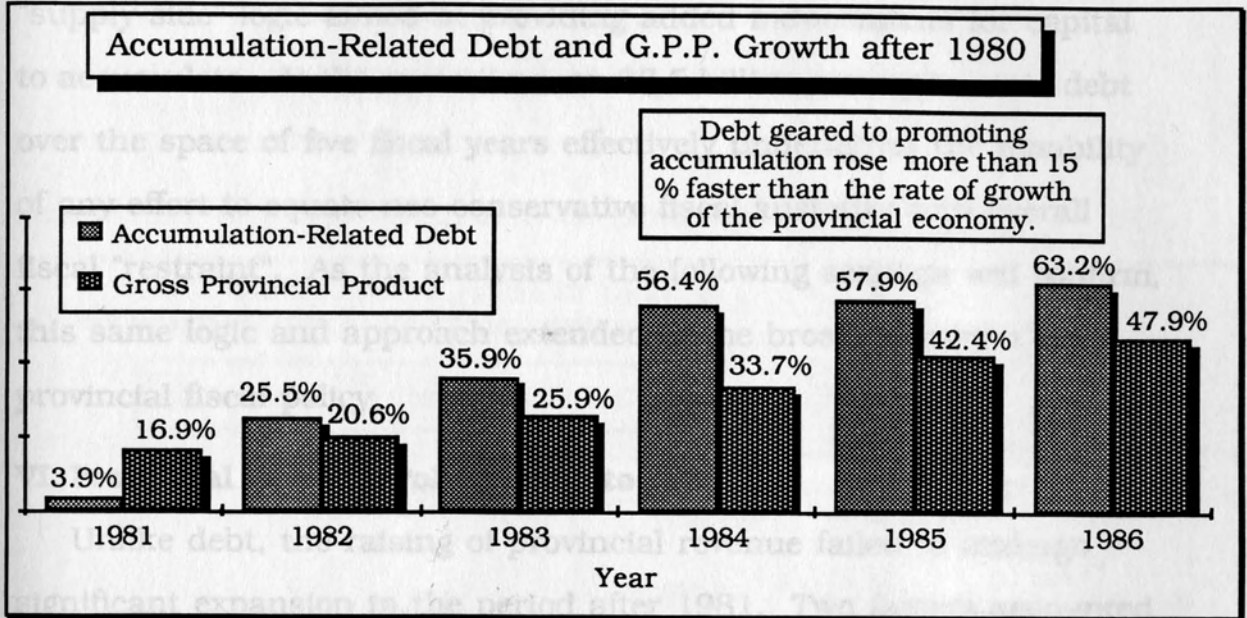
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<sup>48</sup> Capital spending figures for public school education are taken from A Legacy for Learners, Report of the Royal Commission of Education, 1988. p. 178. Health care capital expenditure data is taken from B.C. Ministry of Finance, Financial and Economic Review, Section 5, (various).

<sup>49</sup> High profile capital projects like north-east coal infrastructure (including new B.C. Rail line development) and the construction of the Revelstoke Dam hydro project helped fuel an accelerated run-up in debt obligations through the period.

following graph indicates the scale of the increases, showing them to be far in excess of nominal rates of economic growth over the period.

**Chart 4.13: Accumulation-Related State Debt, 1981 to 1986**



Source: calculated from B.C. Ministry of Finance, *Financial and Economic Review*, (various).

As is evident, despite a much advertised rhetorical commitment to measures of fiscal "restraint", the period after 1981 saw the province incur disproportionately large increases in debt in areas geared to the promotion of capital accumulation. In effect, provincial neo-conservatism embraced significant increases in indebtedness for the purposes of extending greater financial support and assistance to a corporate sector caught in the throes of major and protracted profit crisis. In view of the scale of expenditure reductions visited on other categories of capital spending, this shift in orientation can properly be

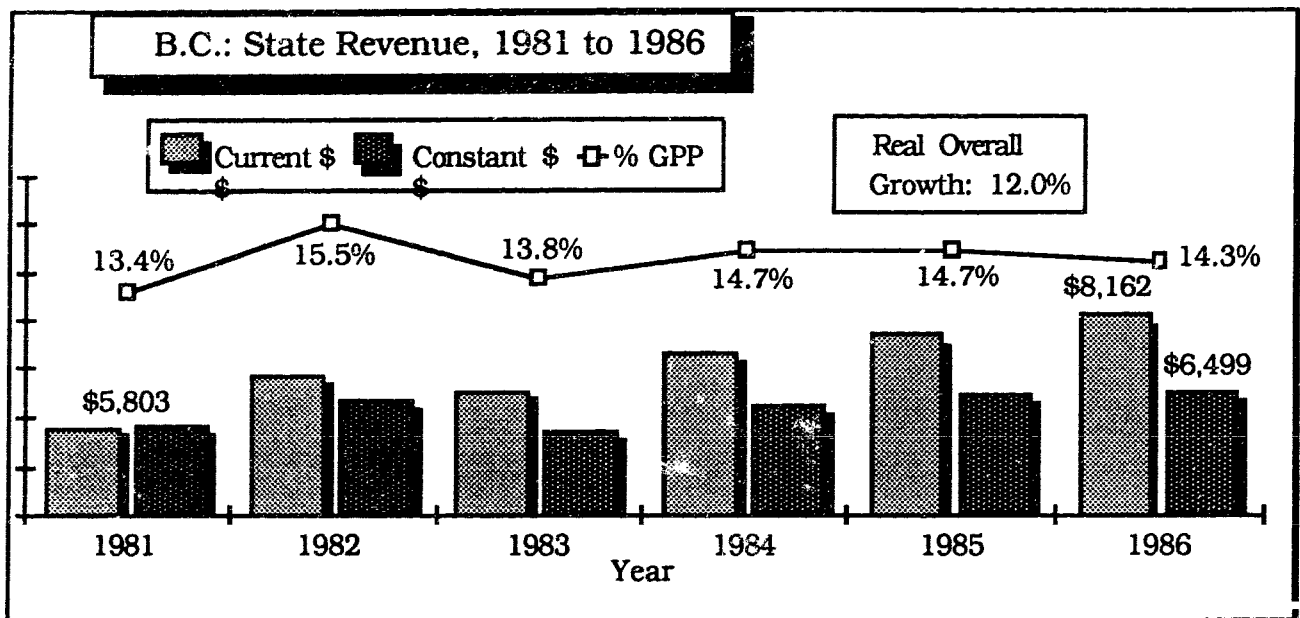
seen as one "bought" at the cost of reduced priority accorded capital projects in the social reproductive areas. Provincial debt management, therefore, fell subject to a variant of neo-conservative "supply-side" logic aimed at providing added inducements for capital to accumulate. At the same time, an \$8.5 billion run-up in state debt over the space of five fiscal years effectively undermines the tenability of any effort to equate neo-conservative fiscal austerity with overall fiscal "restraint". As the analysis of the following sections will confirm, this same logic and approach extended to the broad spectrum of provincial fiscal policy.

#### **VI. Provincial Revenue Policy, 1981 to 1986**

Unlike debt, the raising of provincial revenue failed to undergo significant expansion in the period after 1981. Two factors accounted for this. The first had to do with the deleterious impact of the recession on the generation of revenue in areas sensitive to the vagaries of provincial growth, notably resource revenue and corporate taxation. The second factor concerned a series of tax changes aimed first at limiting and subsequently at reducing state revenue claims on an edifice of resource sector accumulation caught in the mire of major profit crisis. Closer analysis of the dynamics and interrelationships of these processes yields greater insight into the shift in political logic driving the evolution of provincial revenue policy through the first half of the 1980's.

All in all, this period saw provincial revenue receipts claim a relatively stable percentage of Gross Provincial Product. The following graph documents year-to-year G.P.P. percentage levels accounted for by provincial state revenue for the period 1981 to 1986. At the same time, it depicts changing nominal and real dollar levels of annual provincial revenue.

**Chart 4.14: B.C. Provincial State Revenue, 1981 to 1986**



Source: B.C. Ministry of Finance, *Financial and Economic Review*, (various)

Percentage revenue amounts rose sharply as the province entered the recession only to fall back subsequently to a relatively constant percentage of G.P.P. While, on the surface, this near constancy in percentage levels might suggest a lack of significant revenue-based initiatives, closer examination of trends affecting major component elements of the provincial revenue profile indicates a more complex

picture. The following discussion analyses the major component elements of the provincial revenue profile for the first half of the decade in an attempt to draw out the character of salient changes affecting these areas.

The analysis starts with the the largest sub-components of revenue — Personal Income and Social Service Taxes. Close to three-quarters of net personal income in B.C. was accounted for by wages, salaries and supplementary labour income and, for this reason, it is appropriate to view both of these taxes as falling predominantly on working class incomes within the province.<sup>50</sup> Through the initial part of the 1980's, the percentage of total revenue accounted for by these taxes grew rapidly, this despite the fact that rates of increase in nominal personal income slowed from an annual average of 7.3 per cent in 1982 and 1983 to 4.7 per cent between 1984 and 1986.<sup>51</sup> The former increase can be explained partly in terms of the early 1980's recession and its relative impact upon other component sources of provincial revenue. However, towards the end of the overall period in question and despite a significant slowing in overall rates of personal income growth, the province witnessed additional increases in the combined percentage revenue share represented by these areas, only

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<sup>50</sup> B.C. Ministry of Industry and Small Business Development, British Columbia, Economic Accounts, 1964-1983, Table 2. The precise percentage for this period accounted for by wages and supplementary labour income was 72.2 per cent.

<sup>51</sup> B.C. Ministry of Finance, Financial and Economic Review, October, 1984, Table 1.1 and Budget, 1987, Table H1.

this time as a by-product of increases in provincial tax rates. During fiscal years 1984/85 and 1985/86, B.C. increased personal income tax rates, first through the imposition of a ten per cent surtax on provincial tax obligations in excess of \$3,500, and second with the levy of an additional eight per cent "health care" surtax.<sup>52</sup> In the 1987/88 budget, both surtaxes were rolled into the general income tax rate thereby boosting the latter from 44.0 to 51.5 per cent of net federal taxes. Together, these initiatives brought a significant increase in the province's reliance on the Personal Income Tax component of total state revenue by the end of the period under review.

Increases in personal income tax rates and revenues coincided with parallel hikes in provincial taxes on consumption. In large measure these increases were propelled by an increase in the provincial sales tax — from six to seven per cent in fiscal year 1983/84 — as well as through extensions in the range of consumer items covered by the tax in that and the following fiscal year.<sup>53</sup> In their entirety, these changes helped accentuate the shift to increased overall levels of working class taxation in the province. This much is

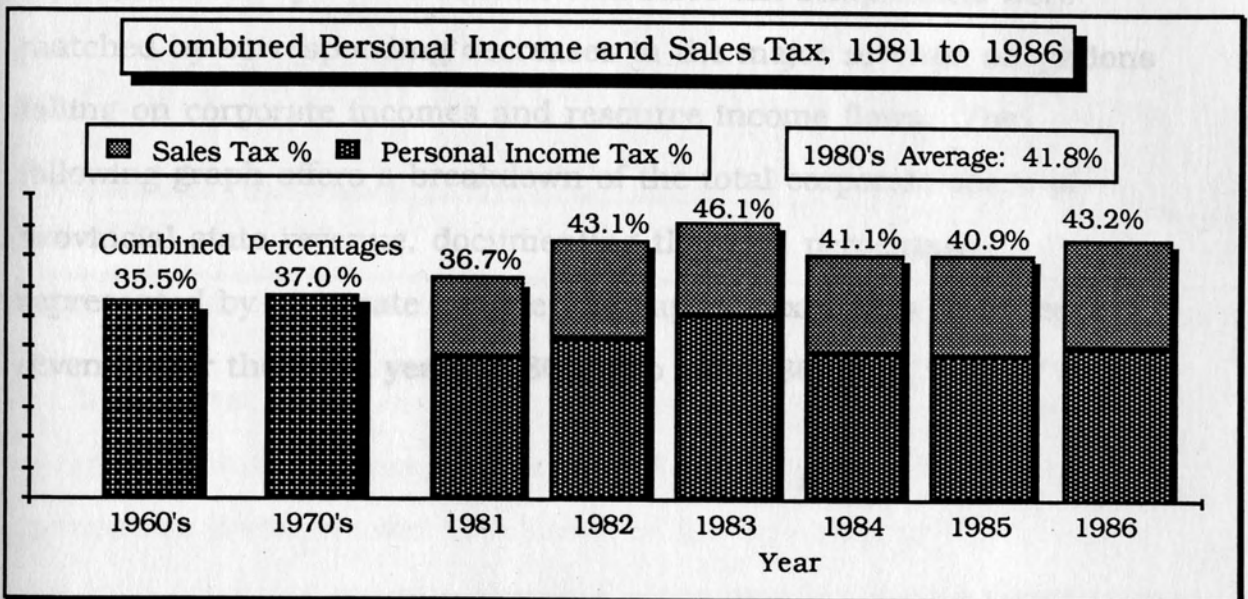
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<sup>52</sup> The ten percent portion was originally constituted as a "temporary" surtax on provincial income tax to "remain in place while we await an appropriate increase in federal (health care funding) contributions." B.C. Ministry of Finance, Budget 1984, p. 15.

<sup>53</sup> Together, these measures boosted sales tax revenue by slightly over 20 per cent to \$1.2 billion in fiscal year 1983/84. B.C. Ministry of Finance, Financial and Economic Review, 46th Edition, August, 1986, Table 7.7

clear when total sales tax percentages are added to those derived from personal income tax. In depicting these trends, the following graph underscores the overall direction of provincial revenue policy and the extent of increases in taxes levied on workers to emerge from this policy.

**Chart 4.15: B.C.: Personal Income and Sales Tax as % Total, 1981 to 1986**



Source: calculated from B.C. Ministry of Finance, Financial and Economic Review, (various)

For the first six fiscal years of the 1980's, total income and sales tax percentages averaged close to 42 per cent of total provincial revenue.<sup>54</sup> This figure compares with percentages in the 35 to 36 per cent range for each of the two prior decades. In other words, the

<sup>54</sup> B.C. Ministry of Finance, Financial and Economic Review, (various) Table 7.7

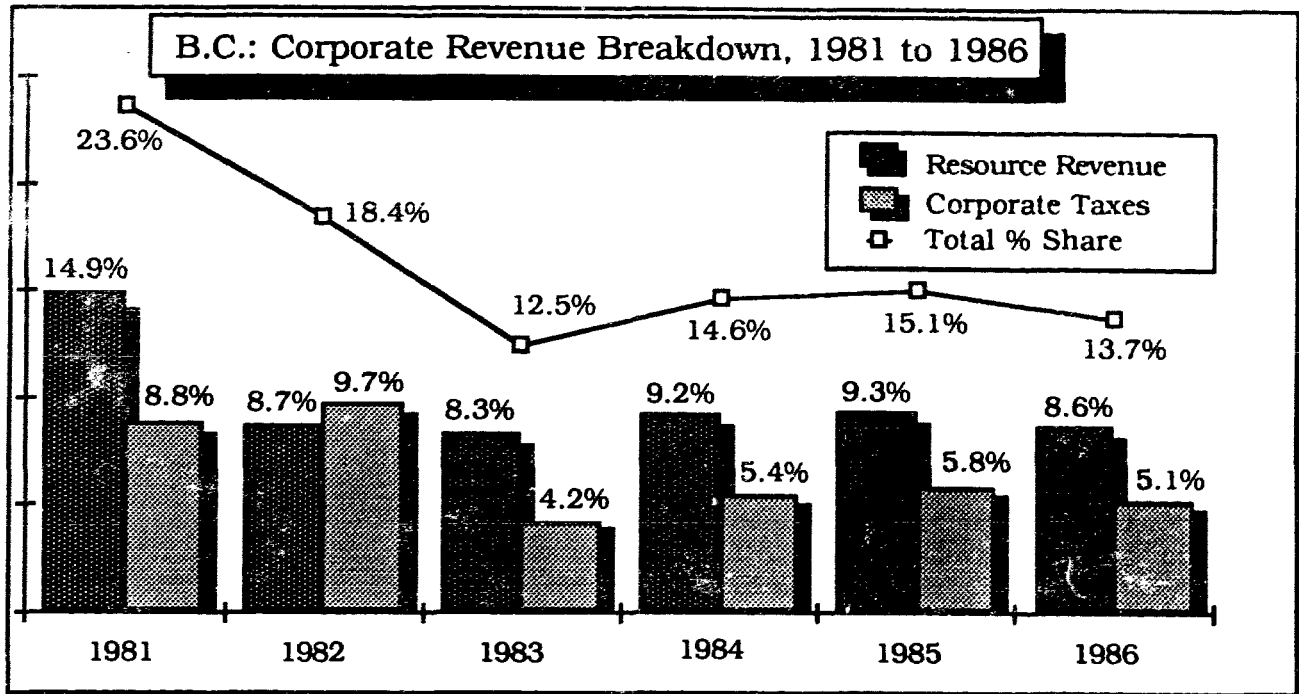
1980's saw a six to seven per cent jump in the level of provincial dependence on these sources of revenue. This upward shift underscores the provincial state's policy of tying an ever-growing share of the total provincial revenue burden to changes in working class incomes.<sup>55</sup> At the same time, the corporate sector emerged as the principal beneficiary of the shift in revenue dependence. Revenue increases in the personal income and sales tax components were matched by corresponding decreases in the major revenue obligations falling on corporate incomes and resource income flows. The following graph offers a breakdown of the total corporate share of provincial state revenue, documenting the total percentage represented by corporate income and capital taxes plus resource revenues for the fiscal years 1980/81 to 1985/86.

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<sup>55</sup> Politically, increases of this overall magnitude also reflected the tendency of provincial revenue policy to draw elements of B.C.'s working class into positions of ideological support for a fiscal austerity plan carrying the promise of limits to the growth of state expenditure. In this vein, Shields has argued that "Social Credit has played on social class divisions, especially between the blue collar working class and the more middle class professionals in the public service. Equal sharing of the recession burden was a main plank in Bennett's justification for deep cuts in the public sector." John Shields, "The Solidarity Experience: Challenges for B.C. Labour in the 1980's", paper presented at the Fourth B.C. Studies Conference, November, 1986. p. 26.



**Chart 4.16: B.C. Corporate Revenue Breakdown, 1981 to 1986**



Source: B.C. Ministry of Finance, *Financial and Economic Review*, (various)

In contrast to the experience with personal incomes and sales taxes, corporate revenues demonstrated significant dollar and percentage decrease over the course of the economic crisis; indeed, the total corporate revenue share fell close to a half between 1981 and 1986. Of primary importance here was a series of interrelated revenue policy changes and developments. Taxes on corporate earnings plummeted in fiscal year 1982/83 to a small fraction of levels attained in previous years in the face of the province's worst profit crisis in over four decades and remained at a depressed plateau for the duration of the next four fiscal years. Of primary importance here was the impact of accumulated corporate losses on net profit tax liabilities

in the period leading beyond the recession. Under Canadian tax law, accumulated earnings' losses can be carried forward as tax offsets into succeeding years making for a situation where corporations avoid profits tax obligations for extended periods. In the case of B.C., the carryover of such losses depressed corporate income tax revenues well beyond the period under study, so much so that even current dollar receipts in fiscal year 1987/88 remained more than 18 per cent below 1981/82 levels. In contrast, total provincial corporate earnings before taxes in 1987/88 showed a rate of increase of close to 119 per cent over this same period, driven in large measure by the return to near-record profitability on the part of B.C.'s largest forest and mining corporations.<sup>56</sup>

By fiscal year 1985/86, another important factor came into play in helping further reduce corporate revenues accruing to the state. The 1985 provincial budget announced a sweeping series of statutory reductions in business tax rates including profit taxes, capital taxes, water usage fees and tax levies on the small business sector. In addition, taxes owing to municipal governments and revenue assessments by selected state agencies were similarly slashed. The best examples in this regard are to be found in the areas non-

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<sup>56</sup> Tax data calculated from B.C. Ministry of Finance and Corporate Relations, Economic and Statistical Review, 49th ed., Table A2.8 and B.C. Ministry of Finance, Financial and Economic Review, 43rd Ed., Table 7.3. Profit data taken from B.C. Economic Accounts database, Table 10.

residential property taxes paid to school districts and Workers' Compensation Board premiums. Between 1984 and 1986, business property taxes in support of public schools fell from \$665 million to \$520 million only to sink further to \$454 million in 1987.<sup>57</sup>

Similarly, Workers' Compensation Board premiums levied on the province's corporate sector, fell from \$514.1 million in 1981 to \$421 million in 1986 to \$319 million the following year as a result of cabinet-directed changes in administrative policy.<sup>58</sup> All in all, these tax and assessment changes made for more than \$400 million in additional corporate tax breaks over the 1984 to 1986 period.<sup>59</sup>

The post-1981 recession also brought reductions in the other main source of corporate revenue — direct provincial resource revenues.<sup>60</sup> While resource revenue had been an engine of overall revenue growth

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<sup>57</sup> B.C. Teachers' Federation, Education Finance in British Columbia, 1986 and 1987, p. 4.

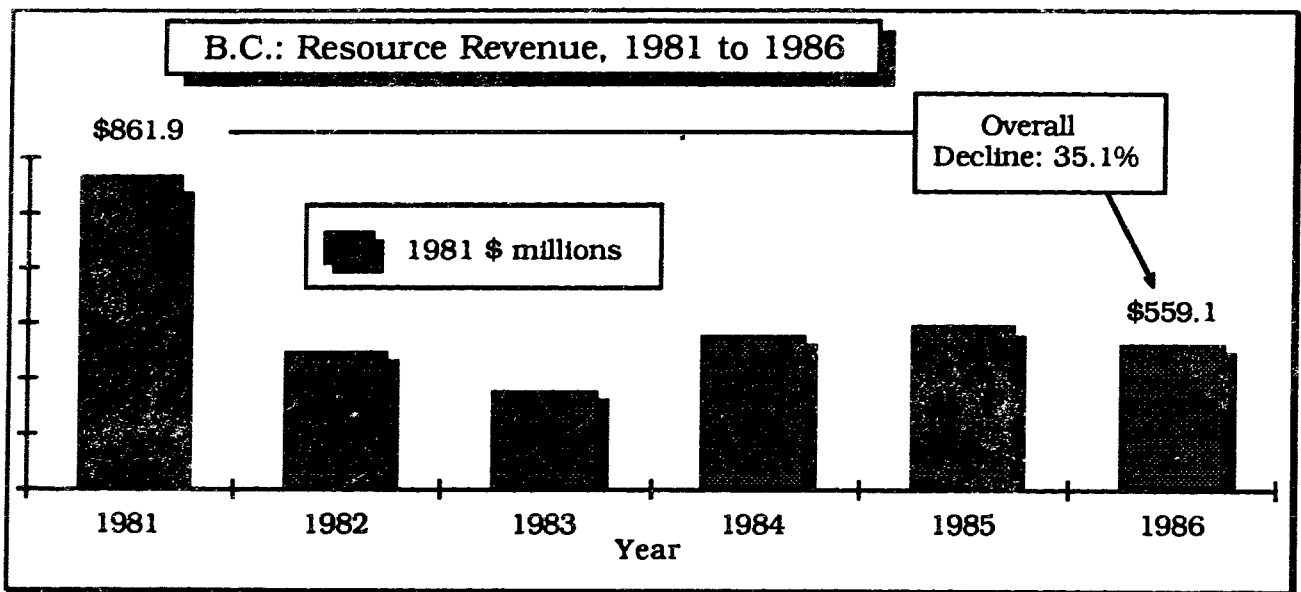
<sup>58</sup> B.C. Ministry of Finance, Financial and Economic Review, 47th Ed., p. 80, 48th Ed. p. 79. See also Business Council of B.C., Industrial Relations Bulletin, December 10, 1985 and October 21, 1986. B.C. Ministry of Finance, Public Accounts, 1981.

<sup>59</sup> B.C. Ministry of Finance, Budget 1985, Table B1.

<sup>60</sup> The primary example in this connection is the collection of provincial stumpage fees on crown forest land. In 1980, the province collected \$561.7 million in stumpage fees. Over the following two years, the figure dropped first to \$233.5 million and then to \$78.4 million. For the succeeding five provincial fiscal years provincially collected stumpage fees failed to increase beyond \$100 million in any given year. Despite the logging of record timber harvest in fiscal year 1985/86, provincial stumpage fees amounted to only \$93.4 million. B.C. Ministry of Finance, Financial and Economic Review, Table 7.7, (various).

in the 1970's, the early 1980's brought a sudden collapse. For the subsequent period, resource income remained at reduced levels under the impact of lowered commodities' prices and sluggish offshore demand for provincial exports. The following chart documents the actual constant dollar extent of this falloff for the 1981 to 1986 period.

**Chart 4.17: B.C. Resource Revenue, 1981 to 1986**



Source: B.C. Ministry of Finance, *Financial and Economic Review*, (various)

Resource incomes reached a revenue lowpoint in fiscal year 1982/83. Despite a moderate recovery through 1983/84 and 1984/85, real revenue receipts fell once again in fiscal year 1985/86. In part, this drop reflected the assumption of corporate earnings losses by the provincial state, a relationship of particular relevance in the forest sector. Marchak's analysis of the links binding provincial stumpage rates and non-competitive corporate bidding practices

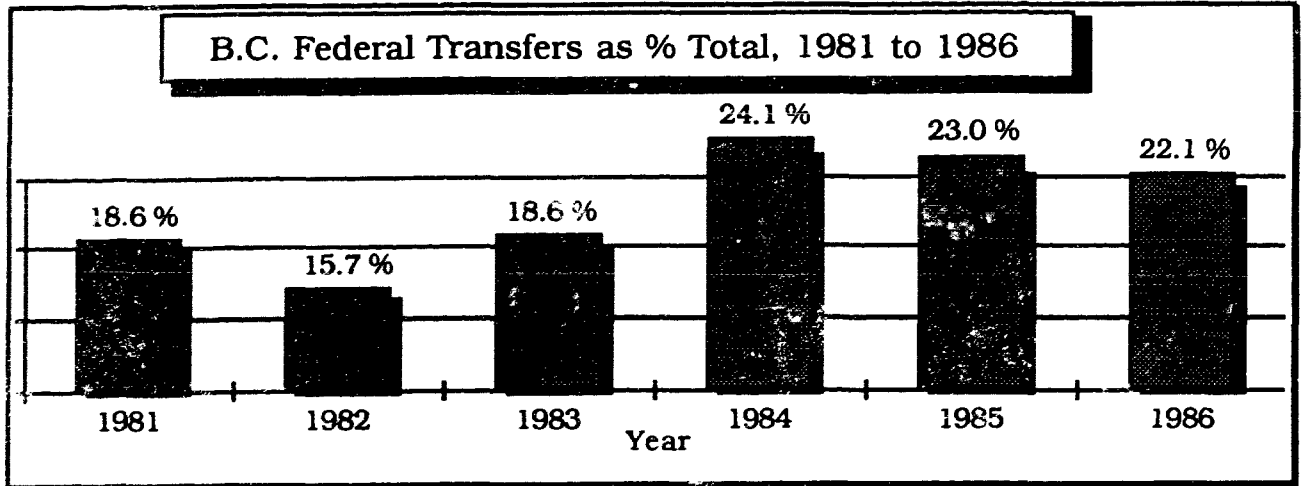
shows that provincial forest resource revenues were tied, in a *de facto* way, to average levels of corporate profitability.<sup>61</sup> Within this sector, a depression in rates of profit — such as that occurring across the breadth of the forest sector for the 1982 to 1985 period — brought commensurate reductions in provincial stumpage fees. Consequently, for the period under review, corporate resource revenues underwent a significant reduction. When analyzed in conjunction with trends affecting personal income and sales taxes, this reduction can be seen as a major element in the transference of the burden of state revenue generation away from the corporate sector.

The final major area of state revenue policy was that accounted for by federal state fiscal transfers. The previous chapter drew attention to the growth of a joint federal/provincial role in funding an expanding range of health, education and social welfare programs. In addition, it argued that these transfers functioned in a counter-cyclical manner by offsetting revenue fluctuations in other areas. Following is a graph that extends the analysis of federal state fiscal transfers into the crisis context of the 1980's.

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<sup>61</sup> Marchak offers a discussion of the precise nature of this linkage in Green Gold, (Vancouver, U.B.C. Press, 1983) pp. 66-70.

**Chart 4.18: B.C. Federal Transfers as a % of Total Revenue, 1981 to 1986**



Source: B.C. Ministry of Finance, Financial and Economic Review, (various)

For the period of the 1970's, federal transfers fell in relative weight and importance in the face of rising resource and taxation-based revenues. The above chart confirms the continued counter-cyclical functioning of federal fiscal transfers into the following decade; however, in the early 1980's, percentages represented by federal transfers moved in a direction opposite to that found in the 1970's, so much so, that by the end of the period under review, federal revenues accounted for a higher percentage of overall provincial revenue than at any other point in the history of contemporary federal/provincial cost-sharing arrangements. One outcome of this change was to provide additional and non-earmarked revenue to the provincial state at a time when other sources of revenue had entered a period of protracted decline. These increases

#### Chapter IV: Fiscal Policy and Economic Crisis, 1981 to 1986

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in revenue from the federal state, in effect, helped tide the province over the worst phase of its recession-induced falloff in revenue and, in so doing, played the objective role of cushioning the force of recession-induced adjustments in total levels of provincial revenue.<sup>62</sup> For this reason, the growth of federal transfers through this crisis period served the objective function of strengthening the provincial state's ability to pursue other components of its overall fiscal strategy.<sup>63</sup>

Overall, the analysis of provincial revenue policy and practice points to a series of initiatives aimed at redirecting the burden of revenue generation away from the corporate sector and increasingly onto the backs of the province's working population. In this way, provincial revenue policy acquired a more focused "supply-side"

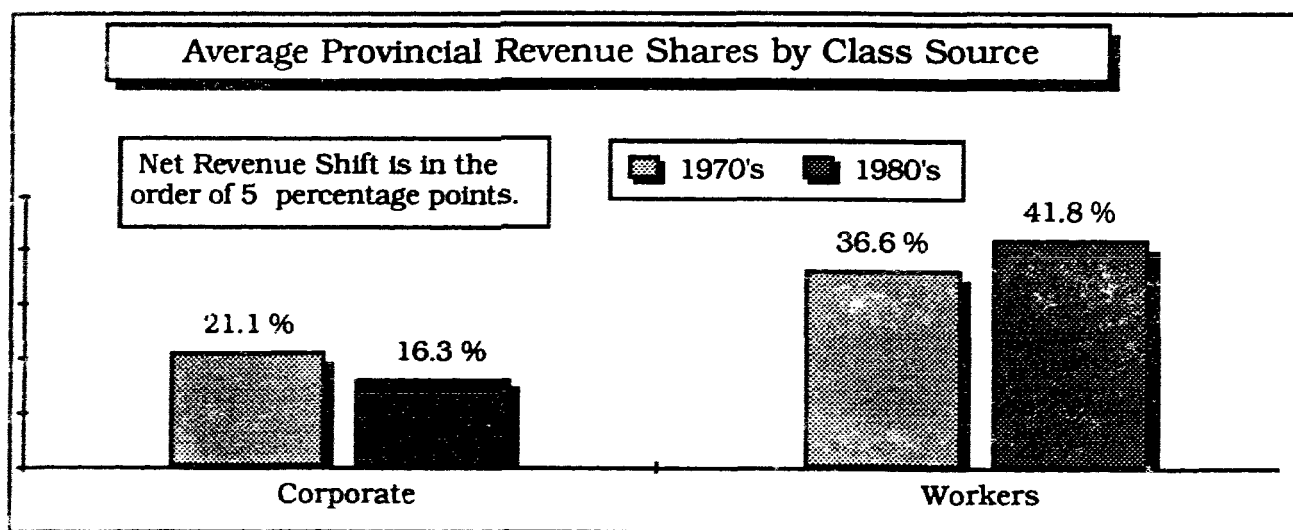
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<sup>62</sup> A portion of the growth in federal state revenues through this period derived from B.C.'s ability to draw on special federal "Fiscal Stabilization" payments of \$174 million in 1984/85 and 1985/86 as a result of the dramatic falloff in resource-derived revenues. B.C. Ministry of Finance, Financial and Economic Review, 46th ed., August, 1986, Table 7.7

<sup>63</sup> This point applies particularly in light of the non-interventionary position of the federal state with respect to the redirection of E.P.F. funds away from the post-secondary educational field. The only instance of federal state intervention in provincial fiscal policy came with a 1983 refusal to countenance the province's introduction of user fees for hospital services. Starting in fiscal year 1983, the federal state withheld health care funding — approximately \$40 million — under the authority of the Canada Health Act to pressure the province to abandon user fees. The reduction in transfers continued until the province changed the user fee to an income tax surcharge in early 1984. See B.C. Ministry of Finance, Budget, 1984, pp. 13-15.

orientation, one placing increased emphasis on an indirect subsidization of rates of capitalist profit. Owing to the increase in levels of taxation placed on workers' incomes and consumption, this shift in orientation was one realized at the cost of a significant repositioning of B.C.'s overall revenue burden to the net detriment of the working class. The following chart summarizes the overall dimensions of this shift as measured in the comparative class placement of revenue obligations for the decade of the 1970's, and for the period of fiscal year 1980/81 to fiscal year 1985/86.

**Chart 4.19: Average Provincial Revenue Shares by Class Source**



Source: extrapolated from data in B.C. Ministry of Finance, Financial and Economic Review, (various)

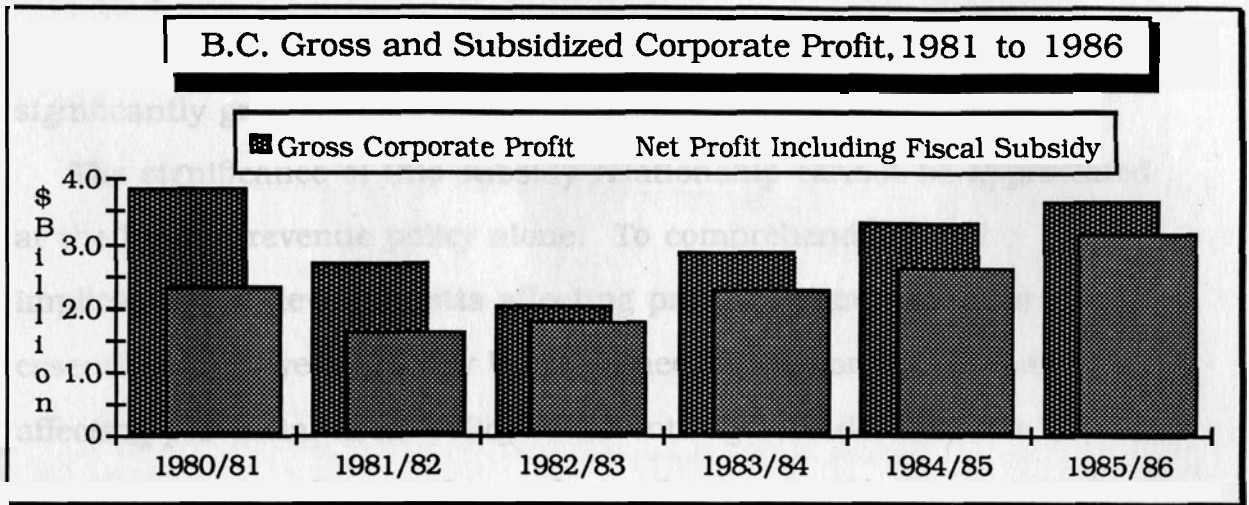
The graph demonstrates an average net revenue shift of five percentage points, one carrying overall financial implications of close to \$2 billion over a total of six fiscal years. With impetus for this shift



deriving from two parallel initiatives — corporate tax concessions and increases in workers' tax obligations — the sheer scope and financial impact of this shift confirms the central role played by state fiscal policy in easing pressure on capital accumulation within the province for the duration of the crisis.

To shed additional light on this dynamic, the following chart documents on a year-to-year basis the degree of variance between gross and net profits. Here the latter is calculated by deducting from gross profits provincial corporate tax payments (corporate income and capital taxes). To the net figure is added the fiscal subsidy represented by reduced levels of provincial corporate taxation. The calculation of fiscal subsidy uses the average corporate tax load during the 1970's as the base for deriving degree of variance in the 1980's. In total, the resulting measure provides a graphic illustration of the degree to which provincial state fiscal policy played a role in bolstering real rates of corporate profit during the period of B.C.'s economic slump.

**Chart 4.20 Corporate Profits and Fiscal Subsidies, 1981 to 1986**



Source: calculated from B.C. Ministry of Finance, Financial and Economic Review, (various); B.C. Ministry of Finance and Corporate Relations, B.C. Economic Accounts, 1961-1989.

While the background data series in this chart depicts the overall decline in corporate profitability, the reduction in the gap between the foreground and background series shows the degree to which state revenue policy helped attenuate reductions in net corporate income. At the same time, the chart data confirm the degree to which corporate rates of profit emerged as the principal beneficiary of changes in provincial revenue policy and of the process of fiscal transference set in motion by these changes. It should be emphasized as well that these calculations take no account of the extra hundreds of millions of dollars in foregone W.C.B. premiums or reduced business property taxes in support of public schools insofar as the latter fall outside the purview of the provincial budgetary process. If there were

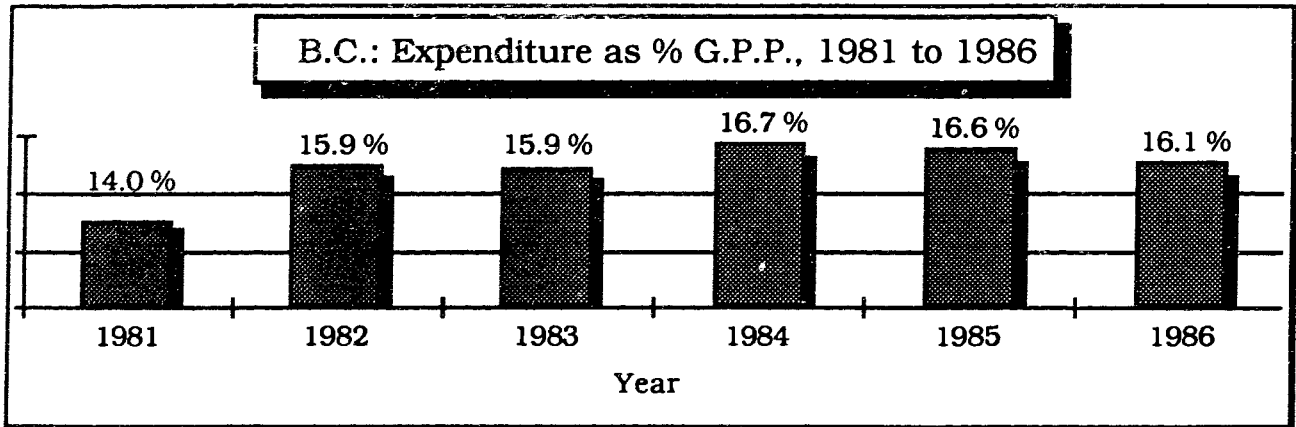
some way of factoring the real impact of these measures into the calculation, the degree of subsidy for corporate profits would be significantly greater than is suggested here.

The significance of this subsidy relationship cannot be appreciated at the level of revenue policy alone. To comprehend the full implications of developments affecting provincial revenue, it is essential that revenue policy be examined in the context of changes affecting provincial fiscal policy in its entirety. To do this, it is necessary to complement the analysis of revenue with an examination of the evolution of provincial expenditure policy through the 1980's.

#### **VII. Provincial Expenditure Policy, 1981 to 1986**

The period 1981 to 1986 brought continued growth in levels of provincial state spending, particularly in the initial stages of the economic downturn. The following chart depicts one aspect of this trend, calculating total provincial state expenditure as a percentage of Gross Provincial Product.

**Chart 4.21: B.C. Expenditure as a % G.P.P., 1981 to 1986**

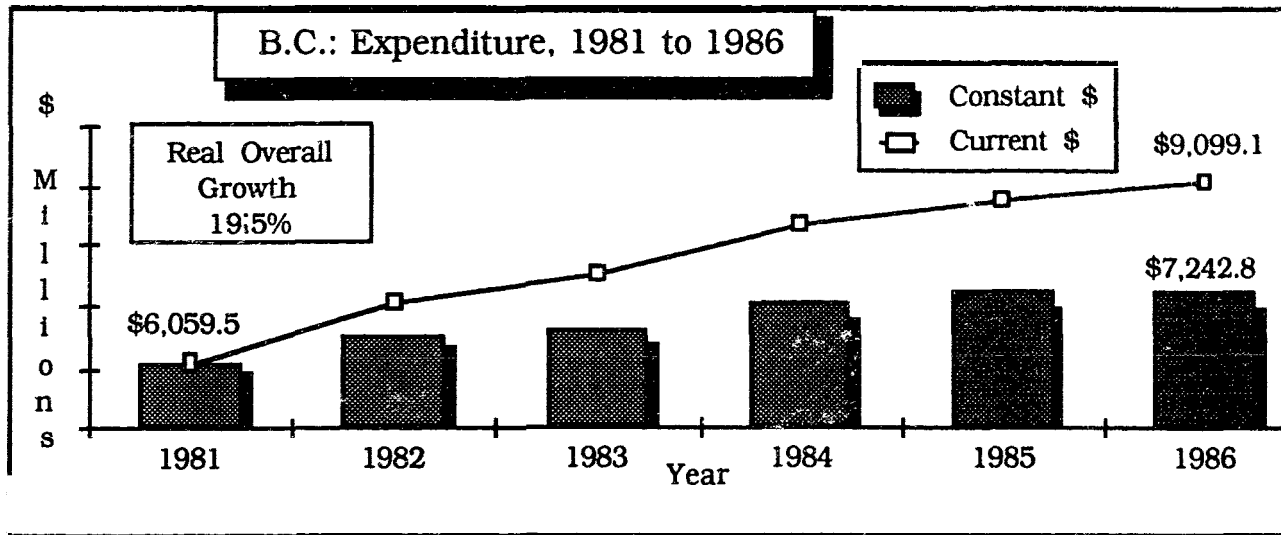


Source: B.C. Ministry of Finance, Financial and Economic Review, (various)

State expenditure rose more than two percentage points as a proportion of B.C. G.P.P. between 1981 and 1986. This growth reflects the degree to which the imposition of real austerity or "downsize" measures was effectively constrained by a reality of continued "expenditure drift" in key program areas. At the same time, growth of this magnitude suggests that, notwithstanding the rhetoric of provincial "restraint", important aspects of the state's strategy may have been predicated on discretionary increases in program expenditures. Indeed, as the following analysis will demonstrate, selective increases in expenditure were in evidence through this period, increases consistent with the provincial state's overall strategy for promoting economic growth and capital accumulation.

The following graph offers yearly constant dollar levels of provincial expenditure.

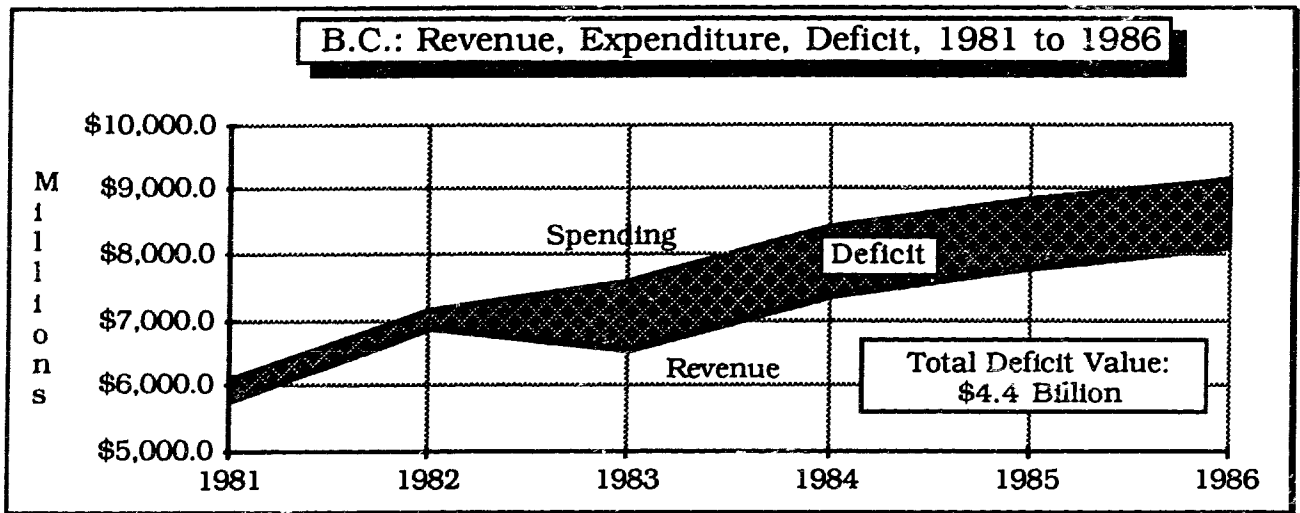
**Chart 4.22: B.C. Expenditure, 1981 to 1986**



Source: B.C. Ministry of Finance, Financial and Economic Review, (various)

Total real expenditure growth of close to 20 per cent is in evidence for the period as a whole. As the next chart indicates, spending increases of this size helped open a significant gap between the province's revenue-raising capabilities and rising year-to-year expenditure commitments. The following chart offers a year-to-year indication of the province's slide into deficit finance in the early 1980's and confirms the deterioration in provincial fiscal performance after 1981.

**Chart 4.23: B.C. Revenue, Expenditure and Deficit, 1981 to 1986**



Source: B.C. Ministry of Finance, *Financial and Economic Review*, (various).

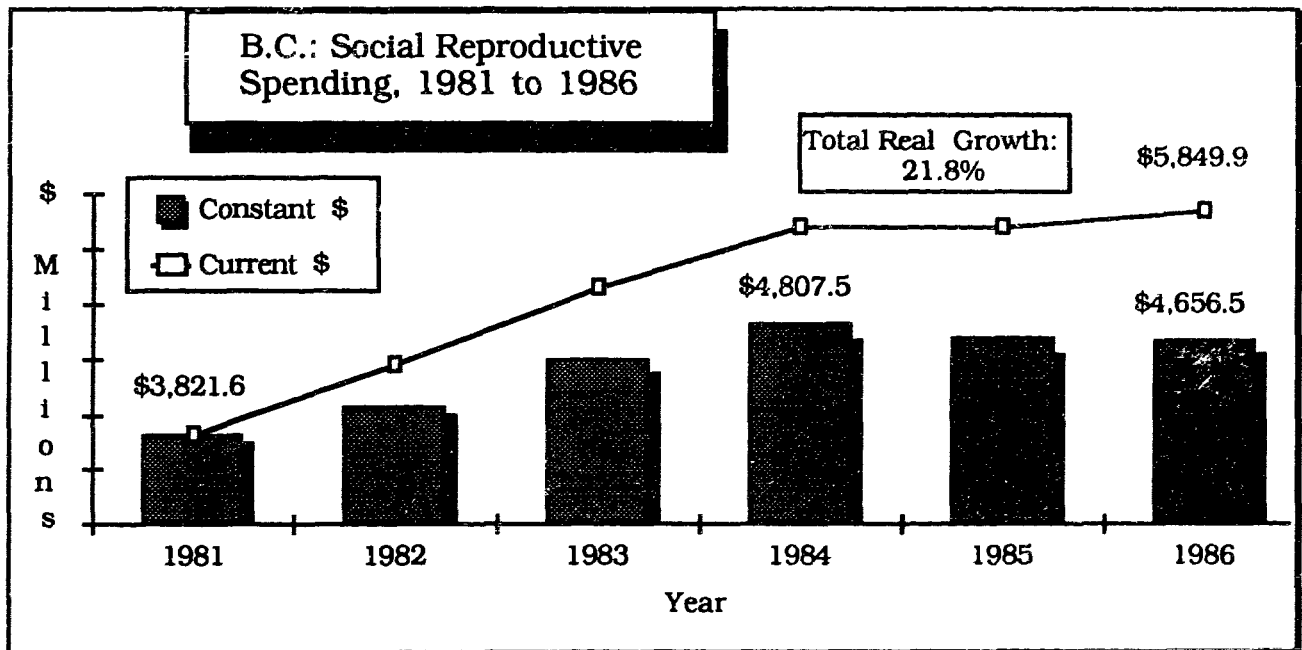
The drop in provincial revenue, the growth of provincial expenditure and the emergence of state deficit finance — together these developments undermine the tenability of any simplistic equation of provincial state austerity measures with broad "across-the-board" cuts in state spending. Indeed, the fact that significant increases in expenditure were the order of the period might challenge the argument that provincial "restraint" involved any real effect to reduce program expenditure. To penetrate the ideological veil of "restraint" and decipher the reality of post-1981 expenditure policy requires detailed empirical analysis of the major components of the expenditure profile. In keeping with the line of analysis set forth in the previous chapter, the following discussion examines trends in provincial expenditure practice, employing the conceptual distinction between its "social reproductive" and "accumulation-related"

components areas. Pin-pointing the shifting complexion of state expenditure priorities can, through use of this distinction, help evaluate the argument that the 1980's brought a neo-conservative recasting of provincial fiscal policy, one centring on the push to intensify support for accumulation-related initiatives at the direct expense of programs and services in the social reproductive arena.

### A. Social Reproductive Expenditure

The following series of graphs document changes in the year-to-year dollar and percentage levels of social reproductive expenditure in the 1980's. The first graph depicts the overall dollar magnitude of provincial social reproductive expenditure through this period.

**Chart 4.24: B.C. Social Reproductive Expenditure, 1981 to 1986**



Source: B.C. Ministry of Finance, Financial and Economic Review, (various)

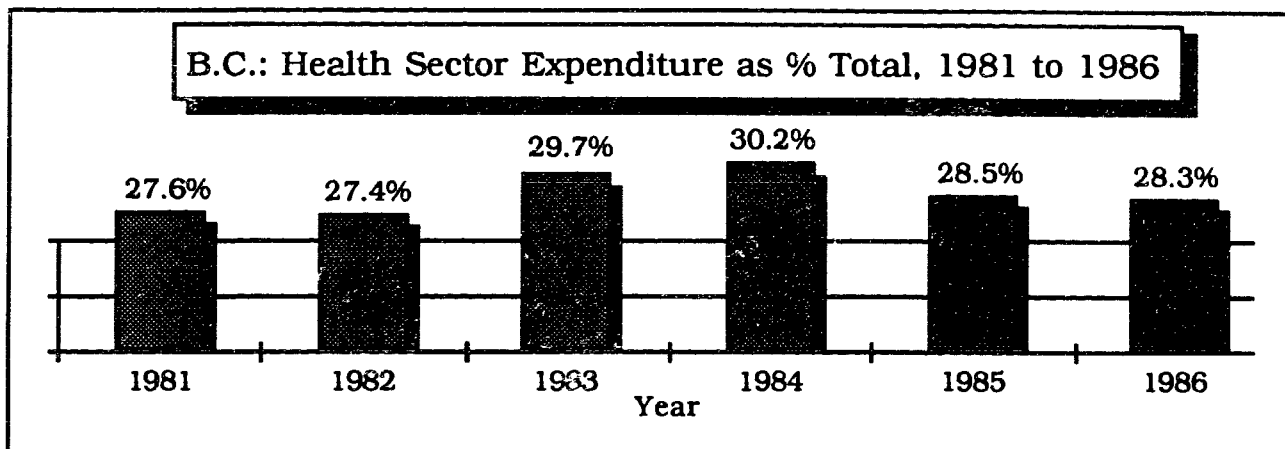
In general terms, the figures reveal significant expansion in real social reproductive expenditure in the period lasting until the end of fiscal year 1983/84. A trend of this nature accords with the earlier characterization of the "preparatory" phase of provincial austerity, a phase during which the realities of high inflation, double digit wage settlements and burgeoning program costs together hampered provincial efforts to impose real controls on social reproductive expenditure. At the same time, the chart confirms that the provincial state did register marked success in bringing about significant reductions in levels of real fiscal commitment during the final two years. This latter trend suggests that it was only following the transition to a stricter regime of targeted spending cuts in the "downsize" phase of provincial austerity that tangible gains were registered in the provincial state's battle to limit social reproductive expenditure. In addition, it shows that actual year-to-year trends in state social reproductive expenditure carry greater significance than does the overall rate of expenditure growth in this area.

The precise nature of this fiscal retrenchment process, the programs it affected and the magnitude of its overall impact are, however, areas requiring more detailed analysis and interpretation including an effort to pin-point the nature of the expenditure patterns and shifts affecting individual sub-component areas. The following graph begins this process, depicting percentage allocations to the social reproductive sub-component area which, in recent times, has



typically absorbed from a quarter to a third of total provincial expenditure — health care.

**Chart 4.25: B.C. Health Sector Expenditure as % Total, 1981 to 1986**



Source: B.C. Ministry of Finance, Financial and Economic Review, (various)

Between 1981 to 1986, provincial spending in this field rose 54.7 per cent, a rate moderately in excess of that found for provincial expenditure in total.<sup>64</sup> This expenditure consisted primarily of two major sub-components: payments to physicians under medicare, and hospital and institutional expenditures.<sup>65</sup> Over this period, grants to health institutions rose at a reduced rate of 46.9 per cent — from

<sup>64</sup> B.C. Ministry of Finance, Financial and Economic Review, (various) Table 7.8.

<sup>65</sup> In a given year, these two sub-areas together accounted for from 80 to 90 per cent of total provincial health expenditure while a variety of sundry expenditures — including administration and public health programming — made up the balance. Calculated from Ministry of Finance, Financial and Economic Review, (various), Tables 7.4 and 7.8.

\$1,084.9 million to \$1,594.2 million.<sup>66</sup> Such an increase — five percentage points below overall provincial expenditure growth and eight percentage points below total health sector increases — can be attributed to the fact that provincial austerity measures successfully targeted for reductions in rates of pay for institutional staff.<sup>67</sup> For the duration of the period under study, major collective agreements in this labour-intensive and highly-unionized sector fell subject to the restrictive purview of Compensation Stabilization Program wage guidelines. An examination of contract settlements for the major health sector unions through the crisis period shows that, between 1983 and 1985, salary schedules for the B.C. Nurses' Union, the Hospital Employees' Union and the Health Sciences' Association — the three largest health sector unions in B.C. representing the overwhelming preponderance of provincial health care workers — rose 7.1 per cent, 7.7 per cent and 8.0 per cent respectively, five to six percentage points behind overall increases in the Vancouver's Consumer Price Index.<sup>68</sup> These figures show provincial wage controls

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<sup>66</sup> B.C. Ministry of Finance, Ibid., 42nd and 46th Editions, (Tables 7.4 and 7.8 respectively) and Budget, 1988, Table I4.

<sup>67</sup> In B.C. hospitals, labour costs account for close to 75 per cent of total operating expenditures. Robert G. Evans, "Restraining Health Care: New Realities and Old Verities" in R. Allen and G. Rosenbluth eds., Restraining the Economy: Social Credit Economic Policies For B.C. in the Eighties, (Vancouver: New Star, 1986) p. 186.

<sup>68</sup> Analysis of B.C.N.U., H.S.A. and H.E.U. master agreements with the provincial Health Labour Relations Association. Evans notes that between 1980 and 1983, health sector wages in the province fell

as making for a significant across-the-board loss of real income for non-medical staff in the health care sector. When correlated with the reduced rate of growth in spending on health sector institutions, they also demonstrate wage controls to have played a major role in the imposition of fiscal austerity on that particular sub-component area of health sector spending. At the same time, the effectiveness of C.S.P. controls in limiting growth in health care workers' incomes effectively undermines the plausibility of arguments purporting to blame workers' wage increases for continued cost escalation within the health system.

Statistics for the 1981 to 1986 period also indicate a 10.6 per cent reduction in the average patient stay in provincial acute care and rehabilitative facilities, from 8.5 days in 1981/82 to 7.6 days in 1985/86. When coupled with a small increase in the overall number of hospital or institutional stays, this reduction made for an 8.5 per cent decrease in the total number of patient days in the province, a reduction which helped restrain the rate of growth of health sector expenditure.<sup>69</sup> Together with the imposition of limits on worker's wages, this decrease in usage helped restrain the impetus for continued cost escalation in the area of provincial expenditures in support of health care institutions.

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more than 10 percentage points in relation to those found elsewhere in the country. op. cit.

<sup>69</sup> B.C. Ministry of Finance, Financial and Economic Review, 41st ed., p. 51 and 46th ed., p. 50.

On the other side of the health sector fiscal equation, 1981 to 1986 saw the numbers of physicians in receipt of billings' privileges increase substantially, so much so that by mid-decade B.C. had 5 to 10 per cent more physicians per capita than the rest of the country. Moreover, these physicians were paid on a fee schedule some 25 per cent higher than other provincial jurisdictions.<sup>70</sup> Hence, despite the fact that the level of gross medicare billings by the province's physicians was subject to a centralized bargaining process involving the B.C. Medical Association and the provincial Ministry of Health, the incidence of payments made under the auspices of the Medical Services Plan as well as their overall cost implications appear to have escaped the full rigours of expenditure control visited on other areas of the provincial health budget, at least for the period up to 1984. For the subsequent two years, the combined influence of state restrictions on doctors' billing levels, overall controls on medicare spending and tightened C.S.P. guidelines brought real braking power to bear on continued expenditure growth in the health area, but not before the central "cost drivers" inherent in a structure of physician-controlled health care had left their mark. Over the 1981 to 1986 period, provincial records indicate medicare payments rising a total of 70.1

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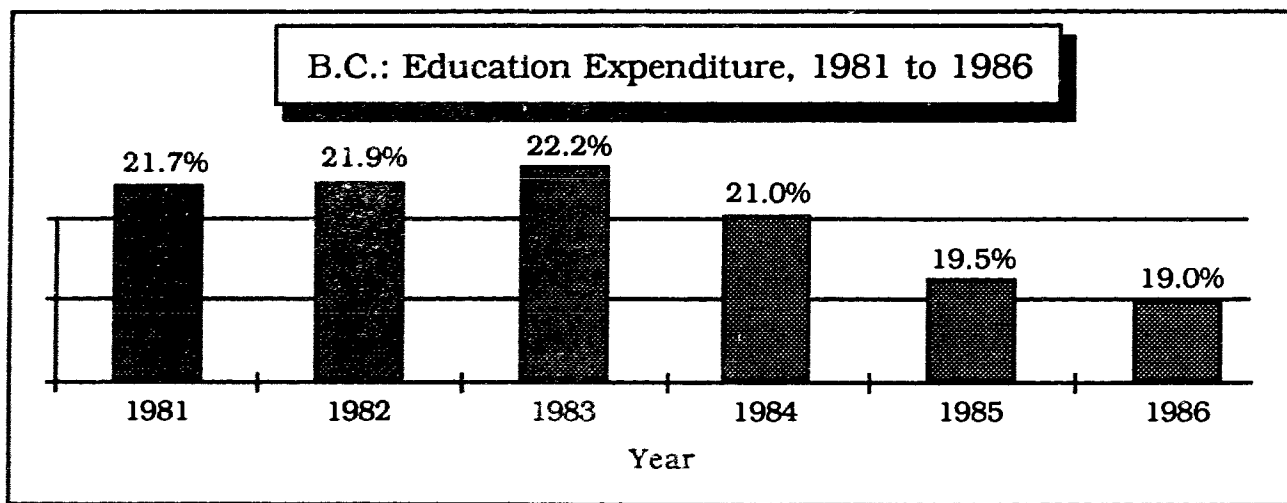
<sup>70</sup> Robert Evans *op. cit.* pp. 180 ff. and The Economy in a Changing World, p. 13. Such were the primary factors responsible for a 50 per cent rise in overall levels of medicare billings over fiscal years' 1982/83 and 1983/84. B.C. Ministry of Finance, Financial and Economic Review, 44th Edition, Table 7.4, p. 126.

per cent, from \$463.2 million to \$789.2 million, more than 15 percentage points in excess of total health sector increases. This level of increase shows that reductions in the cost of medicare billings were hard to implement and, to the extent they were set in place, they proved difficult to consolidate. It also indicates where, in relative terms, the impetus for overall health cost increases originated.

Apart from this, expenditure patterns through the 1981 to 1986 period further support the argument that fiscal austerity in this area of social reproductive expenditure followed a clear process of implementation. Gross levels of expenditure in the health sector were brought under a strict fiscal regime only after the end of fiscal year 1984/85, a fact that reveals both a reality of significant "expenditure drift" while also confirming difficulties faced in the attempt to bring growth rates under centralized control. Comparative rates of growth in health costs — institutional budgets versus medicare payments to physicians — reveal the latter to have carried a disproportionate responsibility for the overall escalation in levels of expenditures. In the final analysis, patterns of expenditure growth show health sector workers and their unions as having borne the largest share of fiscal austerity in this area. Overall, the central picture to emerge from provincial experience in the implementation of health sector "restraint" is one of only limited success with the latter largely a product of distinctive class and power relationships in that sector.

Education represents the next major area of social reproductive expenditure activity. In many respects, this sector bore the political brunt of financial cutbacks instituted through the early years of the decade, a factor which accounted for the ongoing eruption of political conflict and confrontation in this sector — from the initial 1982 to 1984 struggles over budget cutbacks to the 1985 and 1986 battles for political control of local school boards. The following chart analyses provincial expenditure practice in this area and, in so doing, helps provide fiscal background to conflicts characterizing the education sector through the period in question.

**Chart 4.26: B.C. Education Expenditure as % Total, 1981 to 1986**



Source: B.C. Ministry of Finance, *Financial and Economic Review*, (various)

The chart indicates that expenditure practice in the educational sector differed substantially from that found in health care. The initial period after 1981 saw percentage allocations to education continued

to grow, if only marginally, as the state focussed the main part of its energies on measures designed to extend centralized administrative control over the rate of expenditure growth.<sup>71</sup> However, the chart also reveals that the imposition of spending cuts started earlier than was the case with health care and that in relative terms the cuts went deeper. Starting with the mid-1983 pronouncement of the state's staff and program "downsizing" intentions, a more severe fiscal regime was set in place across the spectrum of provincial elementary-secondary and post-secondary education. In all cases, the move to heightened fiscal retrenchment followed in the wake of a series of legislative changes which afforded the provincial state more centralized fiscal and administrative control. And, as the evidence indicates, percentage expenditure shares fell sharply in the wake of these changes for the final three fiscal years under examination.<sup>72</sup>

Within the elementary-secondary public school system, imposition of a centralized, formula-driven "Fiscal Framework" system of

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<sup>71</sup> The key development in this context was the passage of the Education (Interim) Finance Act in the spring of 1982. The Act first of all gave the Minister of Education the power to prescribe limits on school district spending and secondly withdrew from local school district control the power to levy taxes on non-residential property. For further elaboration, see British Columbia Teachers' Federation, Education Finance in B.C., 1987, pp. 1-8

<sup>72</sup> In current dollar terms, education expenditure rose a cumulative total of only 31.7 per cent between 1981 and 1986, a full 20 percentage points behind the provincial budget average for the same period. B.C. Ministry of Finance, Financial and Economic Review, 42nd and 46th Editions, Tables 7.4 and 7.8 respectively.

education finance proved key in efforts to contain and subsequently reverse tendencies propelling the system in the direction of ongoing expenditure growth.<sup>73</sup> At the same time and to complement financial "cutback" initiatives, the state launched an ideological offensive designed to turn public opinion against a decade-long trend in the direction of smaller class sizes and increased staffing levels.<sup>74</sup> As part of this campaign, the Ministry of Education unveiled its intention to reduce funding to the degree necessary to return the school system to 1976 levels of gross staffing as represented in the statistical measure of "Pupil Teacher Ratio" or P.T.R.<sup>75</sup> These initiatives led to sharp increases in average class sizes and to a commensurate growth in teacher unemployment. As was the case with health care, the labour-

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<sup>73</sup> Between 1984 and 1985, total gross operating budgets for the province's 75 school districts actually declined 2.4 per cent under centralized fiscal control, from \$1,601 million to \$1,563 million. B.C. Ministry of Education, "Notices of Final Budget Determination", 1984 and 1985/86

<sup>74</sup> The political and ideological basis for the campaign was outlined in Barry Anderson and James Fleming, Financial Management of Education in B.C., (B.C. Ministry of Education Background Paper, March, 1984.)

<sup>75</sup> The campaign glossed over the fact that per capita expenditure increases in the prior decade were primarily related to rapid growth in the high cost field of special education. Between the fall of 1981 and the fall of 1985, the number of Ministry-accredited special education students rose more than 340 per cent, from 12,878 to 56,717. In the latter year, the average instructional cost of a special education student was \$3,251 — more than 54 per cent higher than the \$2,099 for a regular elementary student and 34 per cent higher than the \$2,418 it cost for a secondary student in the educational mainstream. B.C. Ministry of Education, Schools Research and Analysis data and Annual Report, 1985/86, p. 51.



intensive quality of public education helped ensure a central role for C.S.P. wage controls in the implementation of fiscal austerity. Funding allocations under the post-1983 Fiscal Framework were largely tied to teacher salary levels which, in turn were restricted by wage control legislation. Via the closed circuitry of wage controls and centralized budget setting, the new Fiscal Framework was used to contain salary-based "cost drivers" central to the financial administration of the public school system.<sup>76</sup>

The result of these administrative changes was that, between the start of 1983 and the mid-point of 1986, salary grids for teachers rose on average a total of 6.6 per cent, eight percentage points below parallel increases in the level of Vancouver consumer prices. Over the same time frame, school system operating budgets actually declined 3.6 per cent in current dollar terms under the impact of provincially-imposed spending limits and the loss of local school board access to discretionary increases in property taxes.<sup>77</sup> The confluence of these latter two trends induced a closing of the fiscal scissors on school

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<sup>76</sup> By 1984, teacher salary and benefit costs alone accounted for more than 82 per cent of total school district operating costs and when costs associated with other school system workers were factored in, the total salary and benefit share rose to the vicinity of 90 per cent. B.C. Ministry of Education, School District Budget System, "Provincial Summary of Budgets by Object of Expenditure (Function 1-7 only)", 1986

<sup>77</sup> B.C. Teachers' Federation, Education Finance In British Columbia, and Summary and Analysis of Teachers Contracts and Learning Condition Agreements, (various).

districts with local board authorities subsequently opting en masse to eliminate locally-initiated courses, layoff teaching and non-teaching staff, slash maintenance and upkeep spending and increase class sizes across the instructional spectrum.<sup>78</sup>

In the post-secondary system, imposition of budgetary and salary controls followed a similar course of administrative centralism followed by expenditure reduction. However, unlike the elementary-secondary system, post-secondary education derived the bulk of its funding in the form of direct grants from provincial budgetary revenue. Funding arrangements of this nature served to simplify the imposition of fiscal retrenchment as did changes in legislation introduced as part of the July, 1983 "restraint" package. Bill 20 — the College and Institute Amendment Act — was passed in September of 1983 and abolished local input into the governance of community colleges throughout the province. In so doing, the change complemented an already centralized process of funding allocation with a new structure of actual cabinet-level control over the levers of fiscal and program administration within the college system.<sup>79</sup>

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<sup>78</sup> John Malcolmson and Jane Gaskell, "The Impact of Cutbacks in Education in British Columbia", paper prepared for the C.U.P.E. "Preparing Our Own Future" Conference, Toronto, Ontario, February, 1986. Details of these developments are documented in a range of local teacher presentations to the 1985 People's Commission on Social and Economic Alternatives and are recorded in B.C. Teachers' Federation, Education Audit, 1986.

<sup>79</sup> The shift to a "corporate" style of community college governance is analysed in Jacob Muller, "Corporate Management and

In addition, the situation facing the post-secondary sector differed in at least two crucial respects from that confronting public school education. First of all, while public schools still experienced declines in overall enrollment through the 1981 to 1986 period, the advent of high unemployment in B.C. brought a steadily increased demand for post-secondary education services and a corresponding increase in enrolments at all levels of the post-secondary system.<sup>80</sup> Hence, unlike the public school system where falling enrolment had already brought pressures for parallel reductions in cost, a reality of post-secondary enrolment growth posed the cutback adjustment problem as one of containing cost pressures while coping with steadily increasing demands for a quantitative extension of educational services.

Secondly, the provincial state's post-secondary cutback strategy was one which took maximum advantage of the administrative

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Labour Process of British Columbia Community Colleges in the 1980's", in Terry Wotherspoon, *op. cit.*, pp. 211-229. Little structural or administrative change was directly visited on the province's universities through this period. What did materialize after 1984 was the use of tied provincial funding as means to pressure universities to "rationalize" the delivery of services and ostensibly eliminate program overlap amongst the province's three campuses. On this see D. Fisher and B. Gilgoff, *op. cit.*, pp. 72ff. and B.C. Ministry of Finance, Budget 1986, p. 16-17

<sup>80</sup> For 1981/82, B.C. had 69,976 students in part or full-time attendance at post-secondary institutions; by 1985/86 and despite cutbacks in student aid and rapidly increasing tuition fees, this figure had risen 11.2 per cent to 74,454. Statistics Canada, Catalogue 81-229, Education in Canada for 1985/86, Table 8, pp. 76-77

flexibility inherent in the post-1977 Established Programs Financing system of bloc funding. For the 1981 to 1986 period, the provincial state refused to direct proportionate E.P.F. federal transfers to their intended destination in the colleges' and universities' sectors; instead, the province elected to shift an ever-increasing portion of E.P.F. transfers from post-secondary education to health care.<sup>81</sup> Consequently, for the same period, community college and universities' grants rose only a total of 29.5 per cent, some 21 percentage points behind the growth in overall provincial expenditure and a full 41 percentage points behind the growth in received E.P.F. transfers through this period.<sup>82</sup> Figures such as these confirm the wholesale redirection of federal funding intended for the support of

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<sup>81</sup> Noting a "fundamental ambiguity" in federal provincial funding arrangements after the 1977 Established Programs Financing reforms, Simeon argues that "(p)rovinces tended to see the resulting arrangement as a simple unconditional transfer, not earmarked for specific issues. Ottawa, on the other hand, continued to link the transfers, at least notionally, to the budgets of the individual spending departments." Richard Simeon, "Fiscal Federalism in Canada", Canadian Tax Journal, Vol. 30, No. 1, January-February, 1982, pp. 42. In the early 1980's, B.C.'s decision to use the flexibility structured into the E.P.F. arrangements to accord greater fiscal priority to provincial health care involved adamant rejection of the claim that a redirection of this nature violated the underlying intention of the administrative changes made in 1977. "This approach is completely consistent with the goals of provincial flexibility and effective management which are central to the E.P.F. arrangements." B.C. Ministry of Finance, Budget 1985, Appendix F, p. 80

<sup>82</sup> B.C. Ministry of Finance, Financial and Economic Review, 42nd and 46th Editions, Tables 7.4 and 7.8 respectively.

post-secondary education services within the province.<sup>83</sup> At the same time, the imposition of an austerity program of this magnitude translated directly into significant losses in workers' and educators incomes, sharply increased tuition fees for students and a general decline in post-secondary educational accessibility throughout the province.

Together, the combined influence of these factors and relations accounted for the declining overall fiscal priority accorded the education field. The decline is clearly reflected in a downward slide in percentage expenditure shares allocated to education between 1983 and 1986. As with health care, the reduction in fiscal priority was, to a large degree, engineered administratively via the centralized budgetary control and state-directed cuts in workers' earnings. As such, this reduction played a significant role in the disproportionate concentration of political conflict in the provincial public educational system over the course of this period.<sup>84</sup>

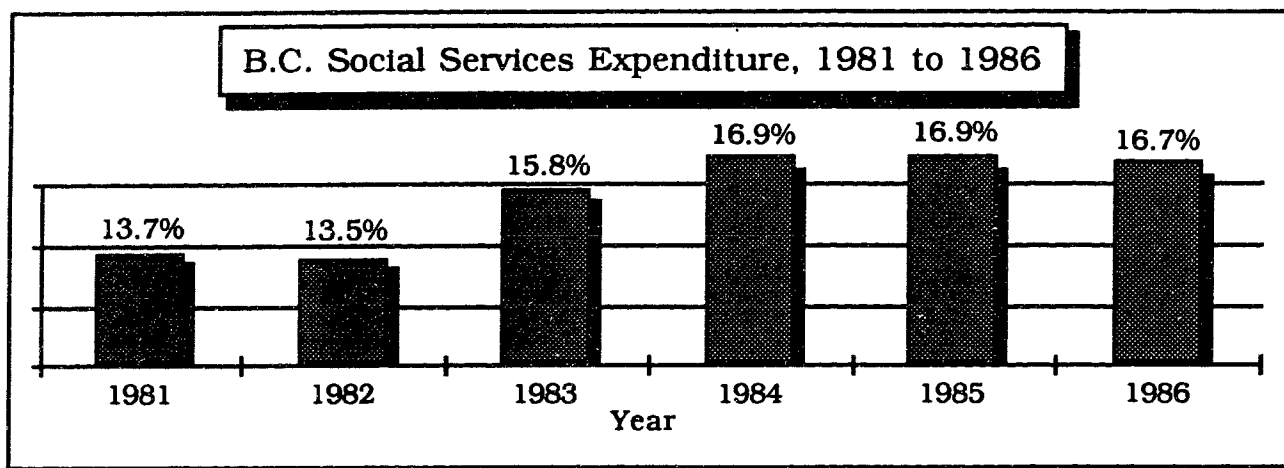
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<sup>83</sup> The reduction in provincial state funding was also reflected in a shift in percentage funding shares in the direction of student fees. For 1984/85, Guppy and Pendakur estimated that provincial funds accounted for 11.3 per cent of total university costs (the balance made up of student fees and funding from federal sources), down from a figure of 26.9 per cent only two years previously. Neil Guppy and Ravi Pendakur, "Financing Universities: The B.C. Experience", in Perception, Vol 8, No. 5, May/August, 1985.

<sup>84</sup> The period saw, among other things, the dissolution in the spring of 1986 of two locally elected school boards which had openly defied centrally-established budgetary ceilings. On this development in particular and the political climate surrounding public education in

The third major component of social reproductive expenditure was that grouped under the rubric of provincial "social services". The following chart documents the percentage of total budgetary expenditure allocated to this area for the 1981 to 1986 period.

**Chart 4.27: B.C. Social Services Expenditure, 1981 to 1986**



Source: B.C. Ministry of Finance, Financial and Economic Review, (various)

The data demonstrate that social services' expenditure in total took on heightened fiscal priority over the period in question. The largest sub-component was represented by social assistance and child welfare — labelled G.A.I.N. or Guaranteed Available Income for Need. Between March, 1981 and March, 1983, the number of people in B.C. dependent on G.A.I.N. more than doubled — from 128,403 to 257,082. In the following year, the figure increased to an historic high of 267,633, before tapering slightly to a level of 255,735 by early

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general through the later stages of the cutback period, see Crawford Killian, School Wars, (Vancouver: New Star, 1986).

1986.<sup>85</sup> Through this same period, provincial welfare expenditures rose 76.6 per cent — from \$621.1 million to \$1,096.7 million — a rate of increase far in excess of that found for overall provincial expenditure yet substantially below the rate of growth in the numbers of actual welfare recipients.<sup>86</sup> The reason for this discrepancy lies in the fact that provincial G.A.I.N. rates remained frozen and, for certain classes of recipients, benefits were actually reduced over the six year period under review. This latter policy change helped stabilize and contain a cost escalation that would otherwise have assumed even more dramatic proportions, yet at the cost of radically compressing the real incomes of the most destitute social stratum in the province. Indeed, for the fiscal years 1984/85 and 1985/86, provincial spending on this program actually decreased by three per cent in nominal terms.<sup>87</sup> The fact that welfare expenditures were held to substantially lower rates of increase confirms the degree to which concerted measures of real expenditure restraint were imposed. Yet, despite the

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<sup>85</sup> B.C. Ministry of Finance, Financial and Economic Review, 41st ed., p. 54, 44th ed., p. 57, 45th ed., p. 62 and 46th ed. p. 60. Annual figures contained in the B.C. Ministry of Human Resources, Annual Report and Supplement for "Average Monthly Number of Recipients (Including Dependents), G.A.I.N. Total Income Assistance" are slightly less than these levels. For the year 1980/81 in total, there were 124,280 persons in this category; five years later, there were 234,741.

<sup>86</sup> B.C. Ministry of Finance, Financial and Economic Review, Table 7.4 44th ed., and B.C. Ministry of Finance and Corporate Relations, Economic and Statistical Review, 49th ed., Table A2.9.

<sup>87</sup> B.C. Ministry of Finance and Corporate Relations, Economic and Statistical Review, 49th ed., Table A2.9.

underlying nuances of provincial welfare policy, increases in total G.A.I.N. payments did, in fact, constitute the major driving force behind an overall percentage growth in provincial "social service" expenditure.<sup>88</sup> In sum, the picture to emerge from an analysis of this component of social reproductive expenditure is one of persistent spending increases driven in a largely autonomous manner by the social and economic impact of the post-1981 crisis.

Changes affecting provincial social welfare spending need to be analyzed in the context of overall policy changes affecting the broad spectrum of health, education and social service programming in the province in the early 1980's. Between 1981 and 1983, all major component areas of the social reproductive profile grew in real dollar and percentage terms as a process of "expenditure drift" carried forward from the previous period of rapid cost inflation continued largely unabated. In the second "downsize" phase, however, the only segment to demonstrate continued growth of any significant dimension was the "social services" component, a component whose costs were driven in a largely uncontrolled manner by protracted economic stagnation, the rise of unemployment and increased

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<sup>88</sup> The only other area of discernible fiscal significance concerned the functional expenditure category of social service "administration". In 1981, prior to the implementation of the major austerity initiatives, social service administration absorbed \$64.3 million; five years later this figure had doubled to a level of \$127.5 million. B.C. Ministry of Finance, Financial and Economic Review, 42nd and 46th Editions, Tables 7.4 and 7.8 respectively.



demands on the province's social welfare system. In response to these pressures, the state took steps to brake cost increases that clearly could have assumed even greater proportions. For the other major social reproductive sectors — education and health care — the period after fiscal year 1982/83 witnessed the fruition of the provincial state's strategy of administrative centralization followed by selective fiscal retrenchment. Overall percentage expenditure shares fell during the 1983 to 1985 "downsize" period in the face of a far-reaching concentration of fiscal administrative power. In consequence, a central outcome of these developments was a disproportionate concentration of spending cuts in the politically vulnerable arena of public education, the latter abetted administratively by the redirection of federal E.P.F. grants on the post-secondary side and by the elimination of local school board fiscal autonomy on the elementary-secondary side.

Through this period, wages and salaries paid workers in all sectors of the state apparatus remained firmly in the grip of provincial wage controls. The initial or "preparatory" period of provincial austerity brought imposition of C.S.P. controls for the purpose of ratcheting down wage increase pressure carried over from the preceding boom. The subsequent "downsize" period saw the state redirect its attention to a formalized process of "across-the-board" retrenchment in state sector employment and service delivery. The C.S.P. played a critical role in this process by assisting in the extraction of fiscal "savings"

from the social reproductive sphere and by readying the fiscal means for the extension of corporate tax breaks in the third "tax restructuring" period. In this latter connection, wage controls can be seen to have played a central role in assisting the consolidation of changes to provincial fiscal policy direction.<sup>89</sup>

Yet, the overall meaning of these changes can only emerge when trends affecting social reproductive expenditure are examined and evaluated in light of other fiscal initiatives centring on the province's parallel role in the promotion of capital accumulation. The following section examines expenditure trends and developments taking shape in this latter field in the 1981 to 1986 period.

### **B. Accumulation-Related Expenditure**

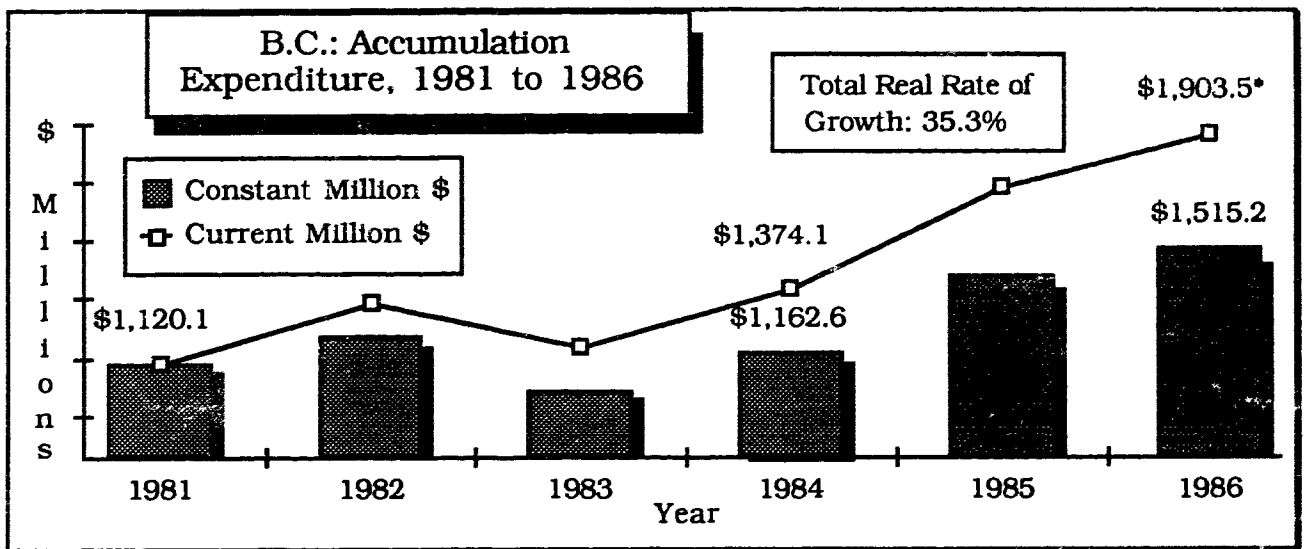
For the period of the 1980's in general, provincial experience in the field of accumulation-related expenditure ran directly counter to evidence presented in the area of social reproduction. Initially — for the fiscal year 1980/81 to fiscal year 1982/83 period — accumulation-related expenditure fell under the impact of sizeable percentage increases in the social reproductive field. This decline can be interpreted as the obverse side of "expenditure drift" — as a reduction in the fiscal priority accorded accumulation-related spending

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<sup>89</sup> Despite the winding down of Compensation Stabilization Program wage guidelines in 1987, the new Industrial Relations Act of that year placed "ability to pay" considerations at the centre of wage arbitrations in the state sector. Such a measure served to maintain the threat of "ability to pay" focused wage controls on state sector workers.

occasioned by the continued growth in social reproductive spending commitments. However, for the period after 1983, this decline was reversed as provincial state "restraint" initiatives began to bear real fiscal results. The following chart documents this trend through an analysis of both current and constant dollar expenditure levels for the 1981 to 1986 period.

**Chart 4.28: B.C. Accumulation Expenditure, 1981 to 1986**

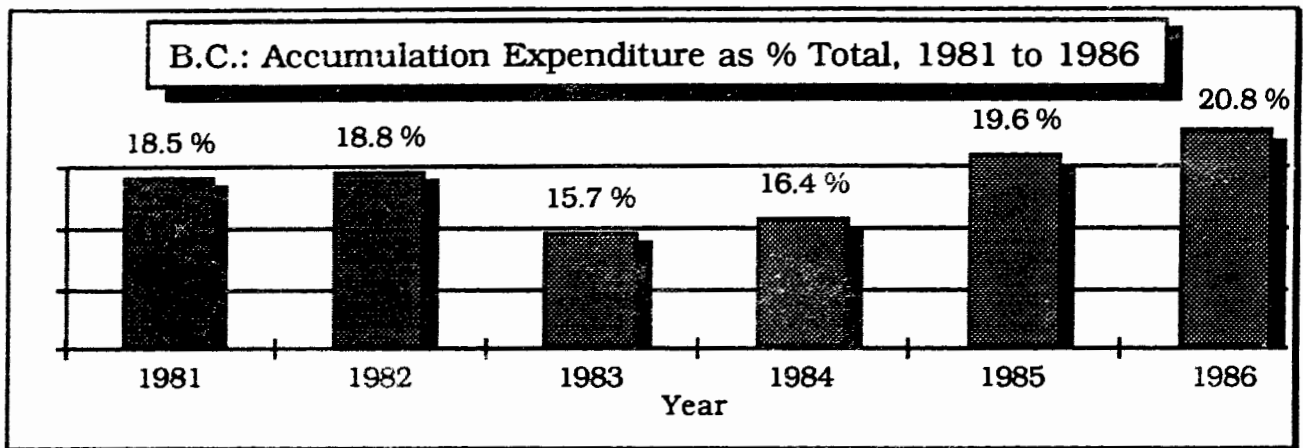


Source: B.C. Ministry of Finance, *Financial and Economic Review*, (various) \*includes tax expenditure provisions.

Over the duration of this period, accumulation expenditure levels demonstrated a strong tendency towards increase, rising close to 16 percentage points in excess of the rate of increase for provincial expenditure in total. This increase came chiefly as the product of the sharply increased spending commitments to emerge in the wake of the changes to provincial fiscal priorities with the full extent of

expenditure growth concentrated during the final three fiscal years. This relationship confirms that year-to-year trends in accumulation-related spending are of greater analytical significance than overall measures of expenditure increase. The following graph underscores this last point by calculating accumulation-related expenditure as a percentage of total provincial expenditure.

**Chart 4.29: B.C. Accumulation Expenditure as % Total, 1981 to 1986**



Source: B.C. Ministry of Finance, Financial and Economic Review, (various years)

The data confirm that accumulation-related spending did not experience a simple linear increase through the early preparatory period of fiscal retrenchment; rather, the percentage of total expenditure devoted to this area declined through to 1984 only to rebound over the following two years at a rate sufficient to surpass early decade levels. It is apparent, therefore, that any net percentage increase in accumulation-related spending was not to be had until the provincial state had firmly established the requisite means to stall the

momentum of "expenditure drift" in other fiscal areas. Experiences of this period support the interpretation that, for the initial period of so-called "restraint", provincial fiscal policy had to "crisis manage" the effects of continued expenditure increases to the short-term detriment of the fiscal priority accorded the accumulation-related areas. As such, it confirms the presence of a lag in the attainment of concrete fiscal outcomes resulting from changes in provincial fiscal policy and, in particular, delays in establishing a heightened expenditure priority for accumulation-related areas.

As with the 1970's, the largest sub-component of provincial accumulation-related expenditure was that represented by "transportation and communications". For the period running between fiscal year 1980/81 and fiscal year 1985/86, expenditures in this field close to doubled — from \$555.4 million to \$1,081.0 million — with the growth related almost exclusively to increased state "megaproject" commitments in the field of transportation infrastructure.<sup>90</sup> In this connection, spending on the Coquihalla Highway and Annacis Island Bridge crossing featured prominently in factors accounting for the sharp upward turn in expenditure levels. Additional impetus for rapid growth in this area came from a \$470 million decision in 1984 to retire B.C. Rail Corporation's "historic debt" out of "Consolidated Fund" operating expenditure.

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<sup>90</sup> Ibid.

Growth in the transportation and communications component also reflected a provincial state commitment to the acceleration of selected capital expenditures. Key to the justification of this policy was the contention that spending of this sort carried no longer-term fiscal obligation on the part of the state.<sup>91</sup> In any case, the policy reflected the emergence of a less-publicized "public works" dimension to the province's accumulation strategy, one geared to the solidification of political support amongst social classes standing to benefit from the increased expenditure — small scale capital situated in the construction and sub-contracting sectors as well as elements of the unionized working class positioned to draw on the job-creation potential of targeted expenditure growth.

The second largest accumulation-related sub-component involved provincial expenditures in the field of natural resource development. While the rate of increase here was smaller than that recorded for transportation and communication, it nonetheless exceeded by 15 percentage points that found for the provincial expenditure profile as a whole. Within this context, the largest expenditure area was that of forest management which, under the impact of increased program expenditure in the fields of timber scaling, silviculture, road access,

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<sup>91</sup> "Construction projects are particularly suitable for this purpose as the expenditure terminates with the completion of the project and the impact on the provincial economy is higher than for most other forms of government spending and much higher than for a government-induced increase in consumer spending." B.C. Ministry of Finance, The Economy in a Changing World, p. 13.

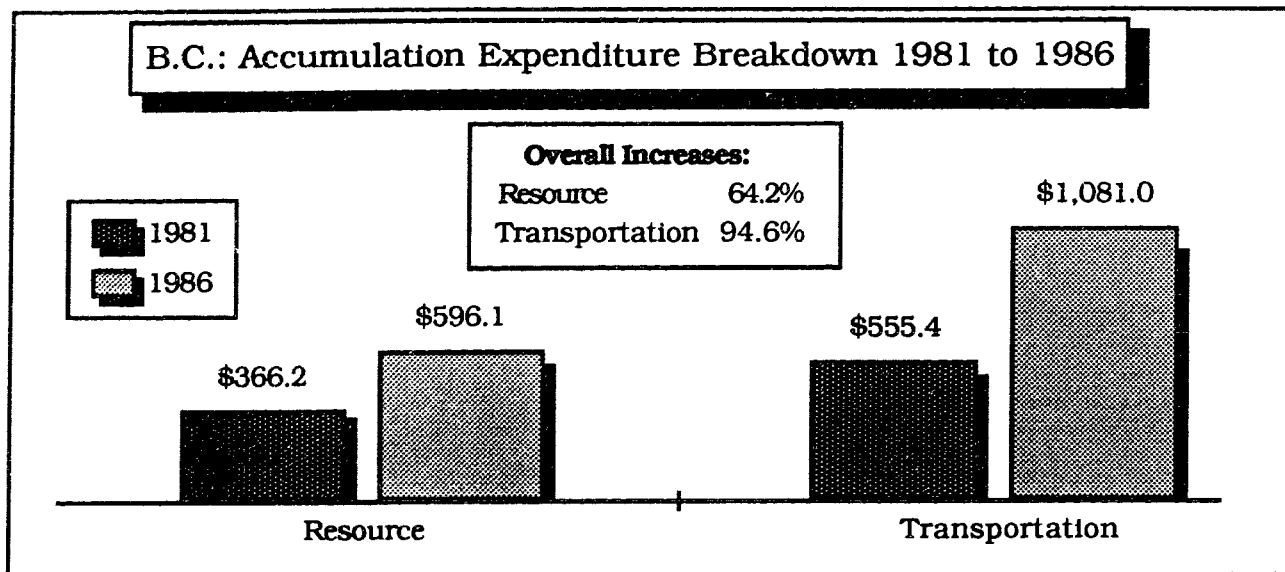
fire protection and pest control, doubled from \$183.5 to \$368.2 million. This expenditure can in general be attributed to provincial state efforts to enhance corporate opportunities for access to and exploitation of the provincial forest resource.<sup>92</sup>

The following graph documents 1981 to 1986 levels of spending and rates of percentage increase for the transportation as well as resource-related sub-components of provincial accumulation-related expenditure. As can be seen, both components demonstrated rates of increase substantially in excess of the 50 per cent rate of overall nominal expenditure growth. As such, the data confirm the presence of a provincial state priority for the redirection of increased expenditure resources to these areas.

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<sup>92</sup> The third accumulation-related area — trade and industrial development — was of decidedly smaller dimensions and actually registered a small decline over the period under review.

**Chart 4.30: Accumulation Expenditure Breakdown, 1981 to 1986**



Source: B.C. Ministry of Finance, Financial and Economic Review, (various years)

All in all, expenditure patterns in the accumulation-related fields confirm the fact that these areas emerged as the principal beneficiaries of cost reductions in and fiscal transfers out of the social reproductive field. In a graphic way, the fact that social reproductive expenditure cuts accompanied growth in accumulation-related program areas helps demonstrate the important role played by fiscal policy changes in giving expression to B.C.'s "supply-side" strategy of promoting capital accumulation through the enhancement of corporate incomes and profit rates. The state's fiscal program can therefore be characterized as one aiming to force substantial decreases in social reproductive areas upon the provincial working class while translating cost reductions into measures of major and tangible economic benefit for corporate capital within the province. That the



state was able to achieve considerable success in its efforts to reach this goal is testimony to the relative efficacy of fiscal policy initiatives set in place during the "preparatory" period of state fiscal restructuring and the "downsize" phase of expenditure and program retrenchment.

### **VIII. Conclusion**

The analysis of this chapter confirms the fact that provincial state fiscal policy underwent a process of neo-conservative restructuring and change during the early 1980's. Within this context, B.C. struggled to grapple with the regional impact of an international economic slump, an impact registered in the loss of capitalist profitability, a drop in capital investment and sizeable increases in levels of provincial unemployment. Evidence for the existence of state fiscal crisis is however, less than clear. Despite significant short-term reductions in the province's revenue-raising capacity, B.C. entered the 1981 crisis in a better position to withstand short-term fiscal deterioration than virtually any other Canadian province, a fact which alone undermines the tenability of arguments that justify recourse to fiscal and administrative neo-conservatism on the basis of either real or impending fiscal peril. Rather, the evidence points to the state's use of the pretext of fiscal crisis as a means of implementing a series of measures aimed at restructuring the social and economic conditions deemed necessary for a revitalization of provincial capital

accumulation. From a more theoretical vantage point, this process involved a clear subordination of the state's role in consolidating dominant social relations through the provision of social reproductive programs and services, to a perceived need to increase support for the development of B.C.'s productive forces and the promotion of capital accumulation. Inasmuch as the overall tenor and direction of these measures clearly fall into line with those advanced elsewhere — in the United States under the auspices of the Reagan administration, in the U.K. under successive Thatcher governments — it is appropriate to view British Columbia's experiences with public sector "restraint", with state sector "downsizing" and with the erosion of workers' rights and living standards in the 1980's as elements of a neo-conservative agenda for the re-organization of the provincial economy and society. This strategy and agenda did not diminish the overall fiscal role and presence of the state — so much is clear from an examination of relevant trends in the areas of capital expenditure, debt administration and budgetary spending geared to promoting accumulation. Rather, the neo-conservative orientation in fiscal and administrative policy to emerge through this period served to revise and in certain key areas expand the scope of the state's economic role and presence.

Three successive periods can and have been identified in the implementation of the province's neo-conservative agenda — a "preparatory" phase, a formal "downsize" phase, and a "consolidative"

phase of corporate tax restructuring. Important aspects of this process included moves to centralize effective fiscal control and administrative power, to use newly claimed provincial powers to implement selective expenditure cuts, staff reductions and program retrenchment. All of these measures afforded the provincial state an enhanced range of fiscal manoeuvre in its efforts to render British Columbia a more attractive venue for capital investment and accumulation. Key to this latter process was a significant shift in the burden of provincial revenue generation away from the corporate sector, a combined product of falling resource rents, across-the-board cuts in rates of corporate taxation and reductions in fees levied in support of specialized services such as Workers' Compensation. At the same time, provincial expenditure policy traversed a course starting with early *ad hoc* efforts to contain cost increases in the social reproductive arena. Within this context, provincial policy ran up against pressures and constraints related on the one side to the problem of "expenditure drift" and on the other, to the labour-intensive nature of state reproductive service delivery. In the first area, measures of administrative centralization followed by the implementation of major spending cuts helped reverse trends leading to continued cost increase. In the second, imposition of an overarching structure of wage controls furthered the state's fiscal plan by compressing real wage levels for state workers. The most important outcome of these changes was the elaboration of a structure

of provincial expenditure control progressively empowered to restrain the impetus for further cost increase across the diverse spectrum of social reproductive programming. At the same time, B.C. took important steps to orient its program of debt administration and capital expenditure more squarely to the promotion of capital accumulation. In this latter area, cuts in capital spending on health and educational infrastructure were matched with a commitment to crown corporate borrowing in support of economic development at rates of increase well in excess of that evidenced for provincial economic growth through this period.

In retrospect, the evidence showed that the state's fiscal initiatives began to bear fruit by 1984/85. By that point, provincial expenditures in the social reproductive arena were moving in a clear downward direction and, in so doing, were objectively facilitating a transfer of fiscal resources to the promotion of capital accumulation. In this key respect, the state's neo-conservative fiscal strategy had come to revolve on both reductions in the revenue burden falling on corporate capital as well as the translation of spending and "downsizing" cuts into measures of increased expenditure support for capital. In the dual-pronged character of this relationship lay the essence of a neo-conservative fiscal strategy aimed at assisting capital in its efforts to reverse an early decade decline in profitability and revitalize processes of provincial capital accumulation.

All in all, British Columbia's early 1980's experience with neo-conservative policy change revealed the important degree to which fiscal policy had emerged at the forefront of virtually all major state initiatives. In the final analysis, it was this element which lent B.C. neo-conservatism its distinctive character. And, in view of the later decade turn to state sector wage controls, social reproductive program cuts and tax increases on workers and consumers elsewhere in Canada, B.C.'s neo-conservative "experiment" emerges as a clear harbinger of a broader national turn in the direction of policies inspired by the new right. In this fact resides the larger relevance of a programmatic orientation which grew from a series of *ad hoc* spending cuts to embrace a co-ordinated range of policy measures having as their ultimate purpose and goal a reallocation of state fiscal resources in support of the promotion of provincial capital accumulation.

## **Chapter V: Conclusion: "Restraint" and After**

### **A. Introduction**

This study has emphasized the need to relate fiscal policy issues to larger political currents and socio-economic trends. Central to this approach is the idea that fiscal policy change cannot be understood in isolation; rather, it has to be analyzed within the context of larger state strategies aimed at regulating changing patterns of capital accumulation in a period of recurrent economic crisis. In the case of British Columbia, an analysis of the course of neo-conservative strategy in the 1980's reveals a primary reliance upon fiscal policy levers in efforts to lower the cost of capitalist enterprise in the province. For the five year period from 1982 to 1986, the provincial state set in place the requisite means to redirect fiscal resources away from areas geared directly to the reproduction of existing class relationships in favour of increased subsidies for corporate sector accumulation. The outcome was a significant shift in the logic and goals of provincial state fiscal policy, one predicated on a willingness to begin dispensing with a series of inherited state commitments to the maintenance of social reproductive services and citizenship rights. In the process British Columbia helped pioneer a series of changes — wage controls tied to a determination of fiscal "ability to pay", discretionary expenditure cuts, tax restructuring and state sector privatization — which through the

balance of the 1980's and into the 1990's would become commonplace on the Canadian political landscape.<sup>1</sup>

The study's efforts to elaborate this line of argument required that an appropriate distinction be established between the reality of early 1980's economic crisis — evidenced in indicators such as the rapid slide in Gross Provincial Product, the slump in corporate profitability and rising rates of unemployment — and the less apparent claim to state fiscal crisis. A survey of comparative fiscal trends and relationships within Canada pointed to a province well poised to weather the early 1980's economic slump without recourse to radical fiscal surgery. For this reason, B.C.'s turn to neo-conservative policy initiatives was interpreted as a discretionary change driven by the political objective of rendering the province a more attractive venue for capital accumulation. In keeping with the theoretical framework adopted for this study, this process can best be viewed as a subordination of the state's inherited responsibility for regulating dominant social relations to the increased priority accorded the goal of stimulating the growth of provincial forces of production. In all of this, state fiscal policy emerged as the principal venue of state initiative aimed at steering a path for capital out of the mire of seemingly protracted accumulation crisis.

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<sup>1</sup> See Jack Warnock, Free Trade and the New Right Agenda, (Vancouver: New Star, 1988).

The development of this argument and its documentation through the course of this study has raised a range of key issues — the status of B.C. "restraint" as one example of a larger global social, economic and political dynamic; the pre-eminent position accorded state fiscal policy in the unfolding of provincial neo-conservative initiative; the political and ideological impact of neo-right-wing policy departures; and finally the degree of success of provincial efforts to entrench and solidify these departures as a basis for the further elaboration of state policy. An examination of the study's central arguments as they relate to each of these areas can, at this juncture, help clarify their overall contribution to furthering an understanding of provincial neo-conservatism.

### **B. B.C. Neo-Conservatism: Global Connections**

It is important not to lose sight of the connections binding events in B.C. to a larger social, political and economic dynamic unfolding in the international arena and, therefore, of the need to analyze provincial neo-conservatism within the context of a broad rightward shift in the political centre of gravity of leading western capitalist democracies. The late 1970's and early 1980's witnessed the ascendancy of neo-conservative politics across the developed capitalist world, its connection to a fall in rates of corporate profit and to the ability of the neo-conservative right to capitalize on the seeming impotence of traditional Keynesian responses to the growing



intractability of economic crisis. For this reason the B.C. state was able to follow a clear lead established elsewhere in the western capitalist world. Elements of the critique of deficit finance, of the drive to roll back worker and trade union rights and of the push to privatize state enterprise derived from the experience of successive Thatcher governments in the United Kingdom. At the same time, provincial efforts to restructure revenue policy had a precursor in the Reagan administration's embrace of "supply-side" economics with the latter's emphasis on removing fiscal and regulatory impediments to the accumulation of capital. In each instance, the province's austerity program could borrow heavily on ideological themes, policy prescriptions and administrative measures pioneered in other state jurisdictions. At the same time, the similarity of state responses to accumulation crisis across these jurisdictions reveal a British Columbia subject to the same international corporate agenda as that reflected elsewhere in the western capitalist world.

Yet, despite these similarities, B.C. austerity in the early 1980's had to tailor an array of available neo-conservative policy options, both to the constitutional realities of Canada's federal system as well as to the distinctive fabric of the province's social and political history.

Recourse to a fiscal policy-oriented approach was, in large part, a product of the division of state powers and jurisdiction within Canadian federalism. As a province, B.C. lacked access to policy initiatives in the monetary field. This lack circumscribed the scope of

potential state action while accentuating the relative priority given the purely fiscal dimension of state policy initiative. At the same time, the promise of prudent and conservative fiscal management had always been an important ideological plank in the maintenance of Social Credit power in B.C. Fiscal austerity and "restraint" offered a way of adjusting this ideological theme to a reality of protracted economic slump and accumulation crisis in the 1980's. The outcome was British Columbia's particular fiscal policy-oriented approach to the implementation of a neo-conservative strategy. On the one side, development of this strategy saw B.C. occupy the role of "transmission belt" for the importation of international neo-conservative experience and policy direction into Canada. On the other, the strategy's development and elaboration helped revitalize traditional Social Credit approaches to the promotion of capitalist development in ways capable of galvanizing support for neo-right-wing perspectives, both within British Columbia as well as within the larger national context.

### **C. The Primacy of Fiscal Policy Initiative**

More than anything else, this approach saw state fiscal policy come to constitute the central "battering ram" of provincial neo-conservative initiative. It was a series of fiscal changes that brought the imposition of social reproductive expenditure cuts after early 1982 as well as the introduction of a "supply-side" program of tax restructuring. At the same time, a fiscally-oriented agenda placed state sector wage controls

at the forefront of efforts to reduce social reproductive spending, to transfer expenditure resources to the subsidy of corporate rates of profit and to shift increasing shares of the state revenue burden onto workers' income and consumption taxes. The period also saw state fiscal policy countenance significant increases in the magnitude of provincial debt obligations, the largest share of which were directed to priority "megaprojects" — roads, bridges, rail lines, power grid extensions and port facilities — to provide the infrastructure needed to hasten and facilitate a corporate-centred model of economic growth and development. Together, these initiatives formed the central motive force behind the articulation of provincial state strategy for the promotion of capital accumulation through this period.

It is important to examine the role this approach accords state fiscal policy in light of other components of the provincial state's neo-conservative program. Other perspectives on British Columbia neo-conservatism — notably those of Shields, Carroll and Ratner — focus attention on the state's role in transforming the conduct of provincial labour relations.<sup>2</sup> B.C.'s turn to neo-conservative policy prescriptions did indeed bring major parallel shifts to the conduct of provincial

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<sup>2</sup> John Shields, British Columbia's New Reality: The Politics of Neo-Conservatism and Defensive Defiance, (University of British Columbia, Ph.D. Thesis, Department of Political Science, 1989). W.K. Carroll and R.S. Ratner, "Social Democracy, Neo-Conservatism and Hegemonic Crisis in British Columbia", Critical Sociology, Vol. 16, No. 1, Spring, 1989.

labour relations policy. In mid-1983, the province introduced, as part of its budgetary and legislative package, a number of bills aimed at re-defining the laws and judicial procedures governing employer-employee relationships, particularly those in the state sector. These initiatives were followed by a series of Labour Code amendments in 1984 and by a complete re-working of provincial labour law in 1987 with passage of The Industrial Relations Act (Bill 19). Throughout this process, provincial labour relations policy came to acquire the same kind of neo-conservative zeal as was reflected in the fiscal policy field. The province's drive to blunt union organizing initiatives, to restrict picketing activity, to interfere in the internal functioning of trade unions and to superimpose a logic of "public interest" on the conduct of union affairs all coalesce as elements of a neo-conservative conception of the need to erode the organizational presence and economic power of trade unions as a means both of strengthening corporate power and of removing barriers in the path of the state's strategic plan.

More detailed analysis of this phenomenon, however, shows labour relations policy changes between 1982 and 1986 to have occupied a basically subordinate position *vis à vis* the pursuit of efforts to moderate the growth of provincial state expenditure. The "Kelowna accord" of November, 1983 saw the province abandon its frontal assault on the government employees union contract, The Public Service Labour Relations Amendment Act, as well as the "right to fire

without cause" provisions of another bill, The Public Sector Restraint Act, in return for a clear and unobstructed administrative hand in the fiscal "downsizing" of the state apparatus, the latter given effect through across-the-board layoffs and "ability-to-pay" wage controls. Hence, while the "Accord" did succeed in blunting a legislative dismantling of public service workers' collective agreement and in placing clear limits on whose employment might be terminated, the subsequent demise of Operation Solidarity left the province without significant opposition to its fiscally-driven objective of state sector "downsizing". More than anything else, the unfolding of this latter dynamic helps confirm the state's early willingness to abandon central elements of its labour relations agenda in return for an enhanced ability to pursue its more tangible short-term fiscal objectives.

Hence, for much of the "restraint" period proper, policy change in the labour relations fields had a clearly subordinate status in the evolution of the state's neo-conservative program. The battle for the political supremacy of the state's neo-conservative agenda had, for all intents and purposes, been won by the end of 1983. If anything, the Solidarity showdown confirmed the state's success in splitting public and private sector unions away from a common front of opposition to the state's budgetary and legislative program in 1983.<sup>3</sup> These actions

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<sup>3</sup> Jack Munro, president of the International Woodworkers of America, worked assiduously to insulate his union from the threat of a province-wide general strike. The first chapter of his biography Union

## Chapter V Conclusion: "Restraint" and After

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doomed efforts to broaden and consolidate the base of effective trade union opposition to the province's neo-conservative agenda. In this context, the changes to the provincial labour law to emerge in mid-1984 — toughened certification requirements, eased employer interference in organizing drives and the banning of "political strikes" by unions — helped solidify in law the terms of defeat visited upon the provincial labour movement the previous November while setting the stage for a later, more concerted effort aimed at re-defining the legal parameters of capital-labour relationships in the province.

It would be mid-1987 before the labour relations components of the state's longer-term neo-conservative agenda came fully to the fore. Indeed, the renewed eruption of labour unrest in 1987 can be seen to signal a new stage in the evolution of provincial neo-conservatism, one characterized by an effort to graft a full-fledged neo-conservative labour relations policy onto the foundation provided by the earlier exercises in fiscal policy centralization and restructuring. The provisions of Bill 19 — The Industrial Relations Act — further enshrined in law the conditions of defeat imposed upon Operation Solidarity four years earlier. At the same time, the Act sought to qualify union rights to engage in strikes and job actions with a

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Jack, (Vancouver: Douglas and McIntyre, 1988) is titled "Derailing the Solidarity Coalition Express" and details his central role in defusing the 1983 mobilization.

broadened definition of "public interest" that opened the door to increased potential state interference. These changes helped ensure that labour's efforts to benefit both in economic terms as well as organizationally from the province's return to conditions of profitable capital accumulation would be limited.<sup>4</sup> Its initial success in meeting this objective was confirmed in the trade union movement's retreat into a timorous posture of "non-compliance". If anything, this latter posture confirmed the political weakness and isolation of the labour movement in the face of transition to this new stage in the provincial state's neo-conservative program and strategy.

#### **D. The Impact and Aftermath of Provincial Austerity**

While labour relations issues came to dominate the province's neo-conservative strategy after 1986, the evolution of this strategy had also to take account of a rapidly changing economic and political situation. By the following year, "privatization" and governmental "decentralization" had come to displace "restraint", "cutbacks" and "downsizing" as the dominant watchwords of B.C. state policy. In crucial respects, these newer notions reflected a shift in political

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<sup>4</sup> The percentage of the non-agricultural labour force represented by trade unions fell consistently through the 1980's — from a peak of 46.3 per cent in 1982 to 37.5 per cent by 1989 — indicating that, despite a return to conditions of economic growth and labour force expansion, the change in labour laws had rendered new union organizing considerably more difficult. B.C. Ministry of Labour, B.C. Labour Directory, 1989. p. 9.

vocabulary rooted in a reality of changing economic circumstances as the province's economy began to regain a significant growth momentum. Over the course of the following two years, the momentum picked up as corporate incomes and capital investment rose to post-recession highs and rates of provincial unemployment retreated from peaks reached only a few years earlier. By the end of 1987, union contract bargaining in the province was also showing signs of emergence from under the juggernaut of concession demands, job layoffs and real wage decline. All of these developments underlined the considerable economic as well as political distance traversed in the wake of the cutback battles and expenditure austerity of 1982 to 1986.

Indeed, a late 1980's return to conditions of positive economic growth soon brought significant liberalization to the more overt aspects of provincial "restraint" pioneered earlier in the decade. Significant improvements in the province's economy brought pressure for an abandonment of overall fiscal restraint and for the restoration of lost incomes, services and programs. In the four years after fiscal year 1985/86, budgetary expenditure in British Columbia rose close to a third, a rate far in excess of that evidenced in the rest of the country. At the same time, that portion of the budget geared specifically to the social reproductive fields of health, education and social welfare rose



at an even faster pace.<sup>5</sup> Clearly, the relaxation of overall provincial fiscal control had brought the release of a sizeable demand for catchup in both wages and service levels, one whose major impact was concentrated in the social reproductive arena. All of this underlined the tendency for social reproductive expenditure to resume its upward spiral once the more stringent controls on state expenditure were lifted.

In an overall sense, the shift in fiscal logic evidenced by the lapsing of expenditure "restraint" might be seen to confirm the argument that welfare state capitalism represents an historical reality not easily overturned, that the growth of state programs targeting for the social reproduction of contemporary class relationships reflects a largely irreversible historical trend subject only to temporary and partial limitation.<sup>6</sup> Elements of this approach carry a partial validity inasmuch as they emphasize both the historic significance of changes wrought by the Keynesian transformation of state fiscal policy in the postwar capitalist west and the difficulty inherent in any effort to undo

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<sup>5</sup> B.C. Ministry of Finance and Corporate Relations, Economic and Statistical Review, 49th ed. Table A2.8. Statistics Canada, The Consumer Price Index, Catalogue 61-001. The rate of increase in these areas was close to double that of the Vancouver Consumer Price Index.

<sup>6</sup> This argument is found in Goran Therborn, "Classes and States: Welfare State Developments, 1881-1981" in Studies in Political Economy, No. 13, Spring, 1984, and "The Prospects of Labour and the Transformation of Advanced Capitalism" in New Left Review, No. 145, May/June, 1984.

this transformation. At the same time, however, a perspective of this type clearly underestimates the strength and political "staying power" of contemporary neo-conservatism. In addition, it is clear that a focus on the short-term "crisis management" aspects of provincial neo-conservatism — one emphasizing the fortunes of particular fiscal or administrative measures in abstraction from a broader view of the strategic coherence of state policy — is inappropriate to the task of analyzing and interpreting B.C.'s early 1980's neo-conservative experience. Considerable evidence has been presented to substantiate the argument that individual policy initiatives in the province formed part of a larger strategic plan. Any analysis that fails to recognize the existence of this plan or assess its success or failure at a general level is therefore inadequate to the task of analyzing the logic and development of provincial state fiscal and administrative policy through this period.

Nonetheless, the sheer degree of post-"restraint" expenditure growth reveals the existence of real limitations in state efforts to implement fundamental fiscal change. The reason for these limitations resides in the necessarily longer-term nature of neo-conservative efforts to restructure provincial state fiscal responsibilities and, therefore, in the incomplete nature of efforts to dispense with traditional Keynesian conceptions of fiscal policy's role over the short run. While B.C.'s strategy reflected a clear effort to embrace neo-conservative policy directions, the implementation of

provincial austerity could not, over the space of five to six years, do more than begin the process of undermining the state's historically acquired role in the delivery of social reproductive programs and of redefining the nature of the state's future involvement in these areas.

Nor could the province's 1980's austerity program really succeed in blocking the ability of trade unions to recoup losses in relative wage levels once the slump of the 1980's had run its course. Provincial wage controls between 1982 and 1987 fell short of a full-scale effort to impair fundamentally the ability of provincial trade unions to fight for improvements in wages and working conditions. If anything, they represented a short-term interruption of inherited patterns of provincial wage determination. A more major or complete sundering of these patterns would have required a frontal assault on trade union power and autonomy in its entirety as well as an effort to dispense with a network of inherited norms, institutions and practices associated with the determination of workers' wages, rights and working conditions. Provincial state success in the effort to restructure this network was at best mixed as state sector wage settlements for the period 1987 to 1990 saw unions recoup much of the ground lost in real income over the previous five years.<sup>7</sup> This fact

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<sup>7</sup> Between 1987 and 1991 (first quarter levels), state sector wage settlements averaged a cumulative 34.0 per cent, more than nine percentage points ahead of consumer price increases over the same period. B.C. Ministry of Labour, Collective Bargaining Information, (various).

alone confirms only temporary success on the part of the state's efforts to reduce provincial trade union power. Hence, while the implementation of wage controls between 1982 and 1986 reflected a clear tactical defeat for labour, it also revealed the limited reach and efficacy of neo-conservative policy initiative in this crucial area.

Yet, it is important to examine the late 1980's liberalization of state fiscal control not only for the postures and policies that were abandoned, but also for the changed administrative practices and structural relationships that were left fully intact. While controls on budgetary expenditures and workers' wages were relaxed in the face a return to conditions of rapid economic growth, the centralized mechanism of provincial fiscal and administrative control elaborated over the preceding period remained fully in place. Indeed, province-level control over all major aspects of the budgeting process strengthened in this period as a result of continued efforts to erode the remaining vestiges of local government fiscal autonomy.<sup>8</sup> Consequently, when British Columbia again faced the advent of recession in the early 1990's, the structures of centralized fiscal accountability and control inherited from the previous decade were available for immediate re-deployment without the kind of

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<sup>8</sup> The main example of this procedure was the complete removal in 1989 of any remaining element of school board autonomy in the setting of residential property taxes.

administrative time lag experienced between 1982 and 1984 during the early stages of provincial "restraint".

For this reason and despite a late decade relaxation of expenditure control, the 1980's did leave core elements of the neo-conservative program intact in the province, elements capable of guiding and supporting state responses to the fiscal and administrative challenges of the next decade. As a result, state policy at the end of the decade can be seen to reflect contradictory signals and implications — relaxed short-run fiscal discipline on the one side, and tightened administrative structures and control mechanisms on the other. Further evolution of this contradictory dynamic into the new recessionary downturn of the early 1990's would set the stage for a return to conditions of political crisis and fiscal turmoil.

#### **E. The Microcosm of Public School Education**

Nowhere are the contradictions of provincial neo-conservative change — the unstable admixture of administrative centralism, fiscal control and recurrent pressure for expenditure growth — more evident than in the area of provincial public schooling. The period immediately following the end of expenditure "restraint" in 1986 brought a significant infusion of new funding as school boards used their new found opportunity to levy "supplementary" increases in residential property taxes to repair the "restraint" damage wrought to school programs and services. At the same time, the lifting of C.S.P.

wage controls in 1987 allowed teacher and other school sector unions to seek and attain compensatory wage increases. As a result, operating costs in the public school system jumped a total of 50 per cent between 1986 and 1990. These developments confirm the degree to which the relaxation of central fiscal control and the return to a semblance of budgetary normalcy worked to unleash pent-up demand for the restoration of lost earnings' levels and services.

Yet, at the same time, these developments also reveal the degree to which neo-conservative changes to the structure and control of provincial public schooling remained intact. Maintenance of centralized control over both provincial grant levels and rates of business property taxation was important in forcing local school boards to finance growth by way of significant increases in levels of residential property taxation.<sup>9</sup> Provincial efforts to insulate capital from discretionary property tax increases meant therefore that the rapid run-up in school costs had to be borne disproportionately by homeowners. In 1988, the provincial Royal Commission report A Legacy for Learners recommended a shift to greater funding stability in anticipation of a return to potentially disruptive economic cycles as well as reduced reliance on residential property taxation. In response,

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<sup>9</sup> The portion of net (after Home Owner Grant) school costs borne by residential property taxes rose from a 1985/86 level 12.0 per cent to 20.2 per cent by 1989/90. British Columbia Teachers Federation, Education Finance in British Columbia, 1986 Edition, p. 4, and 1989 Edition, Table 4(c) and p. 46.

the state imposed an even greater degree of centralized system of provincially-mandated block funding, one which removed all local recourse to property tax revenue except that sanctioned by voter referendum. Changes of this nature confirmed the loss of any remaining vestige of local school board budgetary autonomy and the consolidation of a fully provincially-determined system of financial control, a system well suited to the imposition of more stringent provincial spending limits and state sector wage controls as the province again faced a return to recession in the early 1990's.

In effect, a decade-long trajectory of public school fiscal administration had run an apparent full circle — from initial inflation-driven expenditure growth through fiscal centralization and retrenchment buttressed by provincial wage controls, to a subsequent relaxation of fiscal and administrative controls, a new round of expenditure growth and finally a new phase of tightened central control and expenditure reduction. Despite the vicissitudes of this process, its overall outcome was not a return to the *status quo ante*; rather, the provincial state emerged from a decade of education struggle and turmoil with a tightened structure of fiscal control firmly in its possession. This outcome confirms the status of provincial public schooling as a microcosm of tendencies affecting the overall edifice of provincial state finance. Taken together, these experiences depict a neo-conservative strategy intent on safeguarding the "gains" wrought from the early decade assault on social reproductive programs

through recourse to tightened central fiscal control. In a more immediate sense, however, what this strategy offered most was the likelihood of recurring political crisis regarding the implications of fiscal policy changes for the future delivery of services in this and other social reproductive sectors.

#### **F. Conclusion**

The general significance and importance of this study's research centres on its contention that a varied range of fiscal policy instruments came to the fore as critical levers in state efforts to refashion its strategic approach to the promotion of capital accumulation. Indeed, state fiscal policy between 1982 and 1986 became **the** pre-eminent vehicle of this restructuring process. Fiscal policy change in B.C. cumulatively brought into being a full-scale effort to transfer both revenue and expenditure resources away from the provision of social reproductive services to the extension of subsidies to corporate-centred capital investment and economic growth. These measures became the central motive force driving changes to the coherence and direction of provincial state strategy. At the same time they gave expression to an emergent neo-conservative agenda in the province, an agenda centring initially on efforts to cushion downward pressure on rates of profit and thereafter to insulate capital from vagaries of a fiscal policy process subject to democratic pressure for a



resumption in state social reproductive spending and a broadening of state social reproductive responsibilities.

Through the early 1980's, prosecution of this strategy brought the state considerable success. The strategy's short-term value lay in its ability to extend concrete fiscal subsidy to a capital accumulation process mired in serious crisis. At the same time, its longer-term importance lay in the more fully centralized structures and mechanisms of fiscal and administrative power it helped establish and consolidate. However, by the start of the 1990's, the social and political strains inherent in this strategy posed a real threat to its continued hegemony. In essence, the chief vulnerability of provincial neo-conservatism lay in the fact that its project remained only partially complete by the end of the 1980's. In the meantime, the fortunes of provincial neo-conservatism had grown more uncertain in the face of the mounting evidence of political exhaustion on the part of British Columbia's ruling Social Credit party. Indeed, by mid-1991, the state's inability to control the proliferation of a succession of governmental crises appeared to pose the most imminent threat to the political longevity of B.C.'s fiscally-centred neo-conservative experiment.

## **Appendix: Issues Arising from the Examination**

The purpose of this appendix is to address a series of specific issues and concerns raised in the course of the thesis' oral examination. The issues fall into four areas: the problematic nature of statistical measures such as "Gross Provincial Product"; the definition of the concept of "crisis" as used in the study; the theoretical and empirical distinction between "social reproduction and "capital accumulation" as it relates to state fiscal policy; and finally, the relationship of "description" to "explanation" within the specific context of the study. The issues and concerns related to them will be examined in sequence.

### **1) The Problematic Nature of Economic Measures and Concepts**

The study's use of concepts like "economic growth" and statistical measures such as Gross Provincial Product (G.P.P.) relied upon standard orthodox definitions of these entities. The primary reason for this approach was that the statistical data series released by the provincial Ministry of Finance and Corporate Relations — the study's primary source of statistical information — were developed based upon an acceptance of these definitions.<sup>1</sup> In the absence of a viable

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<sup>1</sup> The British Columbia Ministry of Finance and Corporate Relations' use of standard statistical measures is in line with the "Canadian System of National Accounts" method used by Statistics Canada in its National Income and Expenditure Accounts series (Catalogue 13-533). The latter bears a close relationship to

## Appendix: Issues Arising from the Examination

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alternative empirical method for measuring trends such as economic growth, the study had little option but to default to orthodox formulations and methods in these areas.

Nonetheless, criticism can be levelled at this approach for its failure to acknowledge the problematic character of these methods. In recent years, the adequacy of orthodox statistical approaches is an area that has come under increased scrutiny and debate. Block and Burns argue that the standard statistical measure of productivity growth used by the American Bureau of Labour Statistics represents but one of a series of possible approaches to this area.<sup>2</sup> In so doing, their analysis draws attention to an element of arbitrariness in the determination of standard statistical indices. The authors trace the origins of standardized productivity measures to the rise of Keynesian macro-economic policy in the 1930's and 1940's and the latter's efforts to overcome capitalism's tendencies in the direction of chronic stagnation. At the same time, they note the role productivity analysis played, both in helping to regularize and institutionalize emergent collective bargaining relationships as well as in conferring increased legitimacy on the role played by trade unions in this process. Noting an inherent tendency for statistical measures to become reified over

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international standards set forth in the United Nations' System of National Accounts (UNSNA).

<sup>2</sup> Fred L. Block and Gene A. Burns, "Productivity as a Social Problem: The Uses and Misuses of Social Indicators", American Sociological Review, Vol. 51, No. 6., 1986, pp. 767ff.

time, they see continued acceptance of established indices in this area as something obstructing necessary in-depth analysis of capitalism's "productivity crisis" in the 1980's and the political agenda served by widespread belief in the actuality of this "crisis".

In a parallel manner, Marilyn Waring's 1988 study If Women Counted challenges the United Nations System of National Accounts (UNSNA) method of determining the the nature and size of income and expenditure flows and pace of national economic growth.<sup>3</sup> Waring's critique centres on the fact that orthodox methods of national accounting focus only on "cash-generating" forms of economic activity. As such, these methods are blind to the reality of what women do in the household as well as to forms of traditional non-waged labour found in Third World economies. At the same time, she argues, orthodox approaches to statistics and economic accounting are incapable of imputing real economic value to the pursuit of qualitative social goals like preservation of the natural environment. As a result, policy initiatives designed to reduce pollution, enhance environmental conservation or advance struggles for world peace and disarmament carry diminished economic and hence political weight.

The issues to emerge out of this discourse have a direct bearing on this study. If, as the thesis argues, the underlying logic of neo-conservative policy initiative centred on efforts to enhance state

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<sup>3</sup> Marilyn Waring, If Women Counted: A New Feminist Economics, (San Francisco: Harper and Row, 1988). pp. 1-13.

support for capital accumulation at the expense of measures designed to facilitate social reproduction, a failure to acknowledge the inherent "problematicity" of received methods of economic accounting lends implicit credence to the neo-conservative view of social reproductive expenditure as carrying lesser intrinsic value than measures designed to stimulate economic expansion. In view of this, an effort to establish the problematic character of concepts like "productivity", "G.P.P." and "economic growth" can play an important role in the development of alternatives to the hegemony of neo-conservative discourse in the social and economic policy field as can a recognition that the fixing of definition and meaning is itself an arena of struggle. Clearly, though, much remains to be done in articulating an alternate discourse capable of providing concrete guidance to studies forced to rely on these indicators.

## **2) The Concept of "Crisis"**

The concept of "crisis" is used throughout the study to denote a variety of related phenomena — "economic crisis", a crisis in Keynesian state administration and "state fiscal crisis". Despite reliance on the concept in these areas, its underlying definition was not always clearly established. For this reason, an attempt to clarify the meaning attached to usage of this term can help to establish its overall relevance to the line of argument presented in this study.

From a general vantage point, "crisis" can be defined as a period in the development of a social system where internal capacities for further progress on the basis of a given set of conditions or relationships encounter real barriers.<sup>4</sup> In this sense, a capitalist "crisis" denotes a point at which the social and economic structure's capacity for continued growth and future survival is placed in jeopardy. Transcending the crisis involves surmounting barriers by transforming a series of social, economic and political relationships, including inherited roles and responsibilities of the capitalist state. In the Marxian tradition, the concept of "economic crisis" has carried different nuances depending on how capitalism's internal laws of motion have been conceptualized.<sup>5</sup> Common to most approaches, however, is the view that capitalism is in a state of "crisis" if the health and vitality of underlying processes of capital accumulation are fundamentally impaired. More specifically, "economic crisis" typically refers to a situation of significant and protracted decline in rates of profit. At this point, the system faces at least two alternatives. Failure to address underlying causes of profit decline — whether they be cyclical or structural in nature or a combination of the two — can yield

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<sup>4</sup> "(C)risises arise when the structure of a social system allows fewer possibilities for problem-solving than are necessary to the continued existence of the system." Jurgen Habermas, Legitimation Crisis, (Boston: Beacon Press, 1975). p. 2.

<sup>5</sup> A summary of respective positions and alternatives is offered in David Wolfe "Capitalist Crisis and Marxist Theory" in Labour/Le Travail, No. 17, Spring, 1986.

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a slide into protracted economic stagnation. On the other hand, movement out of economic crisis to a restoration of real growth momentum depends on the articulation of new productive arrangements and class relationships capable of revitalizing capital accumulation. References to "economic crisis" throughout the study are, broadly speaking, framed in this sense.

It would be useful at this point to elaborate briefly on some of the differences separating state responses to economic crisis in the 1930's with responses found in the 1980's so as to highlight the latter's distinctiveness and to understand its role in facilitating the rise of neo-conservatism. Economic slump in the 1930's centred primarily on an absence of sufficient effective demand throughout the western capitalist system. Faced with this, capitalist countries moved to implement stimulative fiscal policy measures. Along with rising labour productivity, growth in real wage levels and ultimately the advent of world war, these measures helped ensure capitalism's passage up from the depths of the crisis. The economic crisis of the 1980's differed substantially in that it derived more from longer-term downward pressure on rates of capitalist profit borne out of a climate of increasing global competitiveness. In this latter context, corporations used the spectre of a loss of international competitive standing as a lever in the push to restructure state fiscal and administrative policies. The end product was the declining efficacy of Keynesian practices of state administration pioneered a half-century

earlier and the ascendancy of neo-conservative strategies centring on reductions in the fiscal and regulatory burden placed on capitalist enterprise.<sup>6</sup>

The concept of "state fiscal crisis" used in the study is closely related to the dynamic of contemporary economic crisis. In general terms, the concept has been used to analyze changes to the inherited fiscal role and responsibility of the capitalist state to emerge in the context provided by contemporary economic crisis. In this sense, "state fiscal crisis" — to the extent that it is a real entity — can be viewed as a derivative phenomenon driven by changes affecting underlying patterns of capital accumulation. The study drew attention to James O'Connor's pioneering work in furthering contemporary analysis of the phenomenon of state fiscal crisis.<sup>7</sup> Briefly stated, O'Connor's approach to fiscal crisis illuminated the deleterious impact of capitalist monopoly on the state's ability to raise revenues. His analysis centres on the contention that monopoly control of the levers of production and profit generation progressively starves the state of revenues sufficient to meet its responsibilities in the areas of capital accumulation and legitimization. In a 1980's context of advancing globalization of capital, this proved to be a factor of major importance.

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<sup>6</sup> This approach is developed in Alain Lipietz, "The Globalization of the General Crisis of Fordism, 1967-1984", in John Holmes and Colin Leys, eds., Frontyard Backyard: The Americas in the Global Crisis. (Toronto: Between the Lines, 1987).

<sup>7</sup> James O'Connor, The Fiscal Crisis of the State. (New York: St. Martin's Press, 1973).



The ability of large corporations to turn the quest for increased international "competitiveness" into a wholesale exercise in corporate tax reduction represents an important factor underlying tendencies in the direction of increased fiscal shortfalls.<sup>8</sup>

At the same time, a trend of this nature needs to be situated in the concrete conjuncture of the early 1980's — the global economic slump, the rise of inflation, the emergence of monetarist policy and the neo-conservative ascendancy — to contribute to a more complete understanding of issues surrounding current applicability of concept of "state fiscal crisis". This relationship between contemporary economic crisis, the advancing internationalization of capitalism and the emergence of a neo-conservative agenda in British Columbia was, however, not adequately presented in the course of Chapter IV's discussion of the reality of "state fiscal crisis" in British Columbia. The study challenged the idea that British Columbia was characterized by a full blown "state fiscal crisis" in the early to mid-1980's. Rather, it viewed the neo-conservative strategy developed by the provincial state as a response to political opportunities inherent in the advent of a major economic downturn. Yet, inasmuch as this strategy reflected the beginnings of a move away from inherited norms of state fiscal administration, a case could be made for the argument that British

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<sup>8</sup> John Calvert, Government Limited, (Toronto: Canadian Centre for Policy Alternatives, 1984) documents this trend in the area of Canadian state policy and finance from the 1970's forward.

Columbia's experience did give expression to an emergent "crisis of Keynesianism".

### **3) Social Reproduction, Capital Accumulation and State Fiscal Policy**

The study raised the need to develop basic concepts capable of guiding an evaluation of the overall nature of the state's fiscal role. Largely by way of a critique of O'Connor's breakdown of state fiscal policy into its "accumulation" and "legitimization" functions, the analysis tried to situate fiscal policy in the theoretical context provided by Marx's distinction between capitalism's forces and relations of production. In so doing, it sought to provide an alternative to a Weberian focus on normative foundations of the state's claim to political legitimacy and the role played by fiscal policy in buttressing this claim.

Within this framework, the category of "social reproduction" was used to refer to state policy involvement in solidifying a given set of social relations. Inasmuch as state support for the provision of services in the health, education and social welfare fields assists in the reproduction of a labour force available for participation in the capitalist labour market, the state's role in this area can be seen as central to the ongoing reproduction of dominant social relations. Conversely, state fiscal support for the promotion of capital accumulation was framed in terms of the state's involvement in supporting growth of capitalism's forces of production. Provision of

concrete state assistance in the development of material infrastructure, public utilities and transportation networks assists capital directly in its efforts to invest and accumulate. On the basis of these formulations, the neo-conservative assault on the provincial state was seen to express a dialectical interplay of forces and relations of production at the level of provincial fiscal and administrative policy. Changes introduced as part of the state's neo-conservative agenda, it was argued, had the effect of changing a given set of social relations for the purpose of removing barriers to further growth of the province's productive forces.

Problems do exist in building a theoretical framework on the foundation provided by these categories. First of all, might social reproduction not simply be seen as a lesser adjunct to the state's primary interest in the promotion of economic growth? Such an approach might be seen to dovetail with a range of so-called "human capital" theory whereupon investment in areas such as health care and education is seen as a form of capital investment in its own right, geared to enhancing the value of labour as an input into processes of production. Yet, the problem with this formulation is that it fails to situate state fiscal policy on the terrain of social class relations and the opposition between dominant and subordinate class interest. For this reason, it is incapable of analyzing the impact of political and economic crisis in the 1980's at the level of state policy direction.

Secondly, as the discussion of Chapter I indicated, the categories of social reproduction and capital accumulation do not account for the full range of state fiscal activity. Revenues related to government enterprises, miscellaneous taxes, permits, fees and lottery funds are not easily factored into this type of breakdown. Similarly, expenditures related to areas such as debt servicing, general government administration and law enforcement are not easily categorized. And finally, certain areas of state expenditure defy efforts aimed at precise categorization. Do capitalists not also avail themselves of health and education services? Do workers not use roads facilities built to promote accumulation? And what of state investment in an area like forest management — does it not also enhance environmental conservation at the same time as it facilitates capital accumulation?

However, in each of these cases, evidence was presented to show that the amounts of total state revenue or expenditure called into question were small in relative terms. To admit, therefore, to the presence of problems in these area does nothing to undermine the validity of the categories used in the classification of the main component elements of the state's fiscal profile. This study opted for the conceptual tools it did because a breakdown between the social reproductive and accumulation-related components of state fiscal policy appeared to offer the best available approach to categorizing the fundamental elements of state policy and practice in this area.

**4) The Difference Between "Explanation" and "Description"**

Part of the criticism raised in the course of the examination revolved around a tendency at times for the study to shift into a descriptive mode detached from an explanatory connection to an underlying theoretical framework and argument. This criticism is a serious one in that it goes to the heart of the study's claim to represent a valid contribution to the explanation of how and why neo-conservative fiscal policy measures came to reach a position of political hegemony within British Columbia in the 1980's.

In an general way, the concept of explanation refers to the development of analysis in support a central argument or dominant theme. Inasmuch as the latter defines the overall objective of a study, reference to supportive empirical or descriptive material provides the evidence necessary to substantiate an argument. If, however, the link is not clearly established between argument on the one side and evidence on the other, then such evidence will tend to remain at a descriptive level, falling short of fulfilling its role in documenting and substantiating the central arguments at hand.

The central argument of this study has been that British Columbia's turn to measures of financial and administrative austerity in the face of real economic crisis in the early 1980's reflected the implementation of a neo-conservative strategy for recasting the inherited role of the provincial state and that state fiscal policy played a key role in the prosecution of this strategy. To support this argument, the study has

attempted to marshal evidence to the effect that B.C.'s strategy could indeed be described as neo-conservative, that fiscal policy did play a pre-eminent role and that the outcome of this strategy was a significant change in fiscal orientation of the part of the province. Whatever supportive or descriptive material was presented — in documenting the centralization of effective fiscal powers, the use of state sector wage controls as the battering ram of expenditure reduction, the transference of fiscal resources necessary to finance corporate tax reductions — was assembled with the sole view of substantiating the basic underlying premise and argument. In this sense, the material aspired to a status and role above that of a simple exercise in description.

If a problem did exist in establishing this connection, it was to be found in establishing a consistent definition of "economic crisis" capable of accounting for the emergence of neo-conservatism and its impact on the fiscal role of the provincial state. To a large degree, this problem has already been discussed elsewhere in this appendix, in the section dealing with the concept of "crisis". To the extent that this connection was either weak or not fully explicated, efforts made to assemble the full range of empirical information intended to substantiate the argument may have fallen short of their intended purpose. In this event, the study ran the danger of weakening the connection between argument and empirical documentation and, in consequence, may have drifted periodically in the direction of a more

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descriptive mode. The key to rectifying this problem lies in establishing a clearer link between the onset of economic crisis and the ability of corporate capital to use a threatened loss of international competitive position to its advantage in pressing for the implementation of supportive fiscal and administrative measures.

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