POLICY BRIEF:
The last government pay cut

Colin Craig & Gage Haubrich | August 2020

Executive summary

Since the COVID-19 outbreak in Canada this past March, those working outside government have faced far greater financial consequences than those who work inside government.

Not only have private sector employees suffered more in terms of layoffs and reduced hours, but there have also been numerous news stories of private sector workers taking pay reductions.

Conversely, while there have been a few news stories about temporary layoffs in government, we have not seen media reports of pay reductions occurring in the public sector since COVID-19 emerged.

This dichotomy prompted SecondStreet.org to research when the last time was that governments actually reduced employee pay.

SecondStreet.org filed Freedom of Information requests with 13 major cities in Canada, all 10 provinces and the federal government. Specifically, we asked for details on the last pay reductions negotiated with various government employee bargaining units.

Highlights from our research, include:

- The federal government indicated they have "no data or any information" that indicates there has ever been a negotiated pay reduction;
- Quebec's last pay reduction was temporary and occurred in 1982, while the last broad pay reductions in Prince Edward Island and Alberta were implemented in 1994. New Brunswick provided data showing there have been no pay reductions dating back to the 1970s. Many other provinces indicated they have no information on pay reductions; and
- At the municipal level, Mississauga and Moncton indicated they have never reduced employee pay. Despite its ongoing economic woes, the City of Calgary provided data that shows no pay reductions between 1974-2020. Many other cities indicated it has been decades since their last pay cut or they simply had no records available.

As governments cope with the enormous financial consequences of COVID-19, it's clear that pay reductions could be an option for governments to consider. Pay reductions could help governments avoid tax increases and reduce deficits while maintaining service levels. Further, pay reductions could help level the playing field for those outside government and help avoid the more drastic measure of layoffs.

Some officials maintain that it's difficult to change labour agreements in the middle of a contract. However, many private sector entities have done just that in order to stay solvent. Layoffs are an option governments could pursue if employee unions refuse to accept pay reductions.

Background

Since COVID-19 took hold in Canada, the private sector has felt the brunt of the economic consequences.

Writing for the Financial Post in May 2020, University of Calgary professor Jack Mintz noted:

> *"Almost all of the current job losses (96 per cent) are in the private sector, with hours lost varying from 63.8 per cent in accommodation and food services to just 8.7 per cent in the utility sector. Public sector workers have been little affected with working hours down only 5.6 per cent since February, less than in any other sector."*[1]

In addition to layoffs, many businesses and non-profit organizations have reduced pay levels in order to remain solvent and stay afloat. For example:

- Postmedia reduced salaries for rank and file employees by five per cent while more senior staff faced reductions as high as 30 per cent.[2]
- The Winnipeg Free Press temporarily reduced pay for employees by 12 to 20 per cent while the newspaper's publisher cut his own salary by 50 per cent.[3]
- Thomson Reuters reported that Fiat Chrysler Automobiles would be asking employees to take a temporary pay cut of 20 per cent.[4]
- Cenovus Energy Inc. reduced salaries across the company, including a 25 per cent reduction for the firm's CEO.[5]
- Cineplex Inc. reduced pay for full-time employees by up to 80 per cent.[6]
- Several CFL teams have also reduced employee pay.[7]

While workers outside of government have faced significant financial difficulties, government employees have largely been insulated.

Perhaps the most noteworthy example we found occurred at the federal government where a reported 76,804 employees were allowed to take months off work – fully paid – during the pandemic. This arrangement has cost taxpayers an estimated $623 million.[8]

Some government employee unions even managed to negotiate pay increases during the pandemic, such as the Public Service Alliance of Canada and the Elementary Teachers' Federation of Ontario.[9] [10]

Since COVID-19 emerged, millions of Canadians have been unable to work, instead relying on Canadian Emergency Response Benefits (CERB), which reach a maximum of $2,000 per month. This taxable monthly benefit works out to an annual salary of $24,000 – leaving many households with a sizeable gap between monthly earnings prior to COVID and funds received through CERB.[11]

The closest example we found to a pay reduction in the public sector occurred in Manitoba where the government negotiated for employees to take five unpaid days off this year.[12] This arrangement works out to a reduction in earnings of approximately two per cent. It is important to note that this approach differs from a pay cut as employees' hourly wages or salary were not reduced – employees simply worked less and earned less. Had employees received a pay reduction, future pay increases would occur on top of each employee's reduced pay level, rather than on their original figure.

To be sure, examining changes to government employee pay during a recession is important research. However, it's equally important to consider how an employee's compensation compared with similar positions in the private sector before the recession.

The Fraser Institute and Canadian Federation of Independent Business (CFIB) have conducted extensive research on this topic, regularly concluding that government employees tend to receive more in total compensation than people working in similar positions in the private sector.

For example, a 2020 report by the Fraser Institute found that government employees earn about 9.4 per cent more than people doing similar work in the private sector. Further, while most government employees receive the most expensive type of pension (79.6 per cent receive a defined benefit pension), most private sector employees (77.5 per cent) do not have a workplace pension.[13] The study also found that government employees retire approximately 2.4 years sooner, were far less likely to be laid off and took more personal time.

Similarly, a 2015 report by the CFIB calculated that government employees enjoyed total compensation that was 18-37 per cent more than private sector employees who do similar work.[14]

Methodology

In early May, SecondStreet.org filed freedom of information requests with the federal government, all 10 provinces and 13 major cities to determine when the last time was that governments negotiated pay reductions with employee bargaining units.

We received responses from the federal government, all 10 provinces and 13 cities.

Note: Not all government employees belong to a bargaining unit. Political staff and elected officials would be examples of people employed by the government whose compensation would not fall under such agreements. However, the data we obtained would cover the majority of employees employed by each government.

Findings

Federal government

The government of Canada informed SecondStreet.org:

> *"Our sector officials indicated that there is no data or any information that indicates that there has ever been a negotiated pay reduction."*

SecondStreet.org confirmed with the federal government that there have also never been any legislated pay reductions.

Provincial governments

Prov.	Summary
BC	British Columbia did not have a summary document available and did not provide data on the last negotiated pay cut.
AB	According to the data, the only bargaining unit to receive a pay cut since the early 2000s was a bus drivers union (2.88% pay cut in 2012). The last broad pay reduction we are aware of occurred in 1994 – a 5 per cent reduction.[15]
SK	Data provided from the Saskatchewan government for various provincial unions dates back to 1998. No pay reductions have occurred since that time.
MB	The Manitoba government indicated that they have no records available. This either means they have no records of ever reducing pay levels or there are no records of ever doing so. Similar to the recent 2020 unpaid leave measure, the government legislated 10 unpaid work days for government employees in 1993.[16]
ON	The Government of Ontario did not provide a summary document with information on past agreements. However, they indicated there have been no pay reductions over the past five years. Similar to Manitoba, the Ontario government passed legislation in 1993 that required employees (who earned over $30,000 at the time) to take up to 12 days of unpaid leave.
QC	The Province of Quebec indicated the last pay reduction for employees was a temporary measure that was legislated in 1982.
NL	The Newfoundland government did not have a summary document available and did not provide data on their last pay cut.
NS	The Nova Scotia government provided data for contracts with its unions dating back to 1998, showing no pay reductions since that time.
NB	The New Brunswick government provided data for contracts with its unions dating back to the early 1970s. No pay reductions appear in the data.
PEI	PEI responded that in 1994 there was a legislated pay cut of 7.5% for provincial employees.

Municipal governments

City	Summary
Vancouver	Vancouver did not come up with any data, indicating there were no records available. This could mean that there have been no pay cuts or no records available.
Edmonton	Data provided for the City of Edmonton's union agreements dates back to 1985 and shows no pay reductions since that time.
Calgary	Data provided for the City of Calgary's unions agreements dates back to 1974 and shows no pay reductions since that time.
Saskatoon	Saskatoon did not come up with any data, saying that there were no records available, which could mean that there have been no pay cuts or no records.
Regina	Data provided for the City of Regina's union agreements dates back to 2008 and shows no pay reductions since that time.
Winnipeg	Winnipeg did not have a summary document available and did not provide data on the last pay cut provided.
Mississauga	Mississauga indicated they have not negotiated any pay cuts, noting "The City has not negotiated a pay reduction with a bargaining unit."
Toronto	Toronto did not have a summary document available and did not provide data on the last pay cut provided.
Ottawa	The City of Ottawa indicated they have no data available, and that there have been no pay reductions since amalgamation in 2001.
Montreal	Montreal did not provide any data, noting that there were no records available, which could mean that there have been no pay cuts or no records.
Moncton	Moncton noted, "at no point have pay reductions been issued to bargaining units (Unions)."
Halifax	Data provided for the numerous City of Halifax unions dates back to 1997, with no pay reduction recorded since that time.
St. John's	Data provided for the numerous City of St. John's unions dates back to 2007 with no pay reduction recorded since that time.

Related Statistics Canada data

SecondStreet.org's findings are consistent with Statistics Canada data. Between 1999-2019, the agency's data indicates there were a dozen instances of industries experiencing an overall drop in average hourly wages.[17] For example, the agricultural sector saw average wages drop from $15.87 to $15.59 between 2012-2013.

Conversely, during the same 20-year period, data for the public administration category shows no instances of overall pay reductions. Wages in the public administration sector rose 82.3 per cent – significantly higher than the increase in the national average (72.1 per cent).

When government pay "freezes" are actually pay increases

Data provided to SecondStreet.org suggests many governments have negotiated pay freezes with their employees in the past. This is noted by "0%" entries in compensation tables for various agreements over time.

However, readers should note that some "0%" figures in government employee compensation tables may actually include pay increases.

This is due to the fact that government employees often receive pay increases through two means – a general pay increase that all employees receive and a second increase that employees receive if they still have "step" increases in their employment contracts.

For example, in 2017, the Alberta government announced several pay freezes for various unions, including the province's teachers' union. However, the Canadian Taxpayers Federation investigated the contracts and later reported that upwards of 20,000 teachers would still receive pay increases equal to more than $3,000 each as their contracts provided for step pay increases. The CTF estimated this measure cost taxpayers approximately $200 million over two years.[18] At the same time, the Alberta government negotiated a true pay freeze for its non-unionized employees.

Policy options

Scaling back government employee compensation could assist governments in several ways.

First, it could help reduce resentment among those working outside of government who have watched their incomes decrease while government employees were largely isolated from the financial costs the pandemic has brought. Reducing pay in the public sector could help level the playing field.

Second, reducing employee compensation could help governments address sizeable deficits across the country while minimizing the impact on services provided to the public. For example, instead of closing a library or cutting back on grass cutting in a city park, a pay reduction would allow the work to still be completed.

When the City of Calgary faced financial difficulties in 2018, the city shutdown ice skating services at its popular Prince's Island location. A small reduction to employee compensation could have yielded millions in savings, allowing services such as this to continue.

Third, scaling back employee compensation could help governments avoid raising taxes on citizens. Tax increases at the present could be especially punitive, as many citizens and businesses are struggling to stay afloat. This is especially pertinent at the municipal level where governments are required to balance their budgets and many cities have continued to raise taxes instead of curtailing expenses.

According to Professor Jack Mintz, hiking taxes would be" the worst economic choice" right now for growth and fiscal sustainability."[20]

While we're unlikely to see governments reduce compensation significantly for existing employees (and close the compensation gap with people working in the private sector), it would be more politically realistic to see larger compensation reductions for new hires. Considering Canada's high unemployment rate, many workers would be pleased just to have a job even if pay levels were, say, 10 per cent lower and the jobs came with less costly pension plans, fewer sick days, etc.

Elected officials and union officials have often argued that governments cannot simply reduce employee pay, as existing agreements are in place. However, many private sector organizations that reduced pay also had agreements with their employees. In order to avoid layoffs, it is not uncommon for private sector employees to agree to reopen agreements and to accept pay reductions.

Thus, layoffs are an option for policy makers if government employee unions refuse to accept pay reductions. In the current economic environment, it seems likely that a majority of government employees would accept a modest pay reduction rather than the potential for being laid off.

Conclusion

Government employees have largely been shielded from the financial consequences brought on by the COVID-19 pandemic. This research shows that in many cases, it has been decades since government employees have had to cope with actual pay reductions.

Scaling back government employee pay could help governments balance their budgets without service cuts while avoiding tax increases on struggling families and businesses. Pay reductions in the public sector could also help governments level the playing field when it comes to sharing the financial consequences of COVID-19, as well as avoid layoffs in the public sector at a time few can afford to lose their job.

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