POLICY BRIEF:

The last government pay cut (2021 edition)

Colin Craig & Gage Haubrich | September 2021

As COVID-19 emerged in Canada, many workers felt the pinch financially. Many companies and non-profits had no choice but to reduce employee pay or lay workers off.

But one employer was different: the government.

SecondStreet.org's 2020 report "*The last government pay cut*" summarized freedom of information responses filed nation-wide after we asked governments a simple question – when was the last time you cut employee pay? The report covered the federal government, all ten provinces and 13 major cities. Responses ranged from decades ago to never.[1]

A year later, SecondStreet.org once again asked governments for information on any pay reductions. Our research found:

- Out of several million government employees covered by our nation-wide freedom of information requests, we did not identify any pay cuts. However, four library positions in Mississauga will see lower levels of pay once current employees in those roles move on;
- While pay cuts have been non-existent in the public sector since the pandemic began, the Manitoba government *did* require employees to take five unpaid days off in 2020;
- The federal government does not have any records of ever reducing employee pay. In fact, thousands of federal employees received new, negotiated pay increases during the pandemic;
- Provincial governments have not reduced employee pay in decades. The last pay cuts appear to have occurred in Alberta (1994) and Prince Edward Island (1994). Ontario (1993) and Manitoba (1993, 2020) have required employees to take unpaid time off; and
- Major cities have also not reduced employee pay in decades – if at all.

There is justification for governments to reduce employee pay – especially when one considers the abundance of research that shows a large compensation gap between government employees and comparable positions outside of government.

Pay reductions could help governments reduce their deficits, balance their budgets, avoid tax increases and show solidarity with those working in the private sector.

Introduction

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."

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

According to Canadian HR Report, after more than one year into the pandemic, 59% of Canadian workers who indicated they received pay cuts have not seen their pay return to pre-pandemic levels.[8]

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

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. Research by the Canadian Taxpayers Federation concluded that over 312,000 federal employees received a pay increase since the pandemic began (some from existing contracts, some from new contracts).[9]

Perhaps the most notable example we found occurred at the federal government where the Office of the Parliamentary Budget Officer has estimated that 118,108 federal employees were allowed to take time off work – fully paid – during the pandemic. In many cases, employees took months off work and could spend their free time watching television, fixing their decks, relaxing at the cottage, etc. all the while receiving a full paycheque.[10] This perk cost taxpayers an estimated $1.2 billion between March 2020 and November 2020.

Since Canada entered the pandemic, millions of Canadians have been unable to work, instead relying on the Canadian Emergency Response Benefits (CERB), which reached a maximum of $2,000 per month. This taxable monthly benefit works out to $24,000 per year for individuals – leaving many households with a sizeable gap between monthly earnings prior to COVID and funds received through CERB.[11]

The closest example of pay restraint in the public sector that we identified occurred in Manitoba. The prairie province negotiated five unpaid days off for its employees in 2020.[12] This arrangement works out to a reduction in earnings of approximately 2%. It is important to note, however, that this approach differs from a pay cut. Employees' hourly wages or salaries were not reduced; employees simply worked less and earned less. Had employees received a pay reduction, they would have worked the same amount of time, but at a lower compensation rate. Further, future pay increases would have been based on each employee's lower 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% more than people doing similar work in the private sector. Further, while most government employees receive the most expensive type of pension (79.6% receive a defined benefit pension), most private sector employees (77.5%) do not have a workplace pension. 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.[13]

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

Methodology

In early June 2021, 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 vast majority of employees employed by each government.

Findings

Unless otherwise stated, the following information was obtained through filing freedom of information requests with the government in question, whether federal, provincial or municipal. Each government's response is available at www.secondstreet.org.

Federal government

The government of Canada informed SecondStreet.org in 2020: "*Our sector officials indicated that there is no data or any information that indicates that there has ever been a negotiated pay reduction.*"

In June 2021, the federal government informed SecondStreet.org that they still do not have any records of staff receiving pay reductions.

Provincial Governments

Province	Summary
BC	No pay cuts since the pandemic began. It is not clear when the last time was (if at all) that employees received a pay reduction.
AB	No pay cuts since the pandemic began. According to data provided last year, 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 identified occurred in 1994 – a 5% reduction.
SK	No pay cuts since the pandemic began. Last year, the Saskatchewan government provided data going back to 1998 that showed no pay reductions.
MB	No pay cuts since the pandemic began. The Manitoba government did, however, require employees to take five unpaid work days in 2020. This was similar to the 1993 practice of requiring employees to take 10 unpaid work days.[15]
ON	No pay cuts since the pandemic began. It is not clear when the last time was that the Ontario government reduced pay. 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.[16]
QC	No pay cuts since the pandemic began. Last year, the Quebec government informed SecondStreet.org that the last pay reduction for employees was a temporary measure that was legislated in 1982.
NL	No pay cuts since the pandemic began. It is not clear if the government has ever reduced employee pay.
NS	No pay cuts since the pandemic began. Last year, the Nova Scotia government provided data for contracts with its unions dating back to 1998, showing no pay reductions since that time.
NB	No pay cuts since the pandemic began. Last year, the New Brunswick government provided data for contracts with its unions dating back to the early 1970s. No pay reductions appear in the data.
PE	No pay cuts since the pandemic began. Last year, PEI responded that in 1994 there was a legislated pay cut of 7.5% for provincial employees.

Municipal Governments

City	Summary
Vancouver	No pay cuts since the pandemic began. The city has no data on any past pay reductions.
Edmonton	No pay cuts since the pandemic began. The city provided data last year that went back to 1985 showing no pay cuts.
Calgary	No pay cuts since the pandemic began. The city provided data last year that went back to 1974 showing no pay cuts.
Saskatoon	No pay cuts since the pandemic began. The city has no data on past pay reductions.
Regina	No pay cuts since the pandemic began. The city provided data last year that went back to 2008 showing no pay cuts.
Winnipeg	No pay cuts since the pandemic began. In 2020, the city indicated they're not aware of any previous pay cuts for unionized staff.[17]
Mississauga	No pay cuts since the pandemic began. However, the city informed SecondStreet.org that two types of library employee job classifications were determined to be too high. Future employees hired for those roles will now start at a lower amount, but existing employees will see their pay frozen.
Toronto	No pay cuts since the pandemic began.
Ottawa	No pay cuts since the pandemic began. Last year, the city provided data back to 2001 that showed no reductions.
Montreal	No pay cuts since the pandemic began.
Moncton	Last year, the city indicated there has never been a pay cut, noting: *"at no point have pay reductions been issued to bargaining units (Unions)."*
Halifax	No pay cuts since the pandemic began. Last year, the city provided data back to 1997 that showed no reductions.
St. John's	No pay cuts since the pandemic began. Last year, the city provided data back to 2007 that showed no reductions.

When government pay “freezes” are actually pay increases

Data provided to SecondStreet.org for last year’s report 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 because some employees may still have “step” increase in their contracts. (Automatic movement into a new pay level for each year of service completed.)

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. At the same time, the Alberta government negotiated a true pay freeze for its non-unionized employees.[18]

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.

Policy makers would be wise to review the City of Mississauga’s “red circling” approach. After determining compensation levels were too high for two library job classifications, the city reduced the pay rate for those positions for future hires. However, existing employees would see their existing compensation frozen until 2023.

In order to tackle their deficits, governments could utilize a similar approach. For example, existing employees could receive, say, a 5% pay reduction while new hires would be paid 10% less. Similarly, new hires could be provided with less costly pension benefits. Thus, over time, as current employees move on and new employees are hired, the compensation rates in government would decrease and would more closely align with the private sector.

Conclusion

Government employees have largely been shielded from the financial consequences brought on by the COVID-19 pandemic. Just as our 2020 report concluded, in the vast majority of governments, it has been decades since their employees have had to cope with actual pay reductions (if there has ever been a pay reduction at all).

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.

About the authors

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