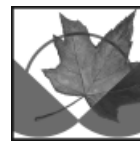


THE HIDDEN COSTS OF HEALTH CARE WAGE CUTS IN BC

SUMMARY

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Download the full report, *The Hidden Costs of Health Care Wage Cuts in BC*, at www.policyalternatives.ca

Summary

This study looks at the personal, family and organizational impacts of wage cuts in British Columbia's health care sector. We report the results of a survey of Hospital Employees' Union workers who received a 15% hourly wage cut in 2004. The survey was conducted by the McIntyre and Mustel Group polling firm, based on a random sample of current HEU workers, about six months after the wage cut came into effect.

The HEU covers a diversity of job categories. Most members are women and many are from visible minority and immigrant backgrounds. Two-thirds of those surveyed have dependents, and 71% report income of less than \$40,000. Thus, our sample includes many for whom a 15% wage cut represents a sizeable share of disposable income.

A growing literature finds that businesses rarely impose wage cuts, even in recessions (layoffs are the preferred option), because doing so hurts the morale of workers. Pay cuts damage morale because of their effect on personal finances and because they are perceived as insults. Negative impacts on morale, in turn, may be detrimental to organizations in terms of increased turnover, higher rates of absenteeism and decreased productivity.

These factors are related to workers' perceptions of fairness. During the same period that health support workers were forced to accept a pay cut, the total health care budget was increasing and groups such as doctors and nurses were receiving pay increases. Although it might be possible to make all workers accept a pay cut without harming morale (if, for example, the health care system were under severe financial stress), this was clearly not the circumstance facing HEU workers.

Our survey results raise some important questions about whether the wage cut — designed to save \$200 million in costs to the health care system — will achieve this objective when a number of "hidden costs" are considered. While we cannot make definitive conclusions, this research does raise concerns about how the wage cut and related policies such as contracting out will affect the quality of service in the health care system. We recommend that the Auditor General of BC do follow-up research to assess the impact of these policies.

Key Findings

At the level of health care organizations, there are some major implications for morale and quality of care:

- Almost 70% reported that their job satisfaction was negatively affected by the wage cut.
- Two-fifths reported that their organizational commitment had been negatively affected.
- Some 44% responded that quality of care had been affected in some way. A substantial percentage reported seeing increased frictions between workers, increased absenteeism, decreased productivity, and increased staff turnover.
- Workers with higher levels of formal education, such as technicians, were more likely to report adverse impacts on morale.

Recruitment and retention impacts are extremely important in ensuring that there is an experienced, skilled and stable workforce, particularly given skill shortages in health care and in the broader economy (e.g. in skilled trades). Our survey found that:

- Almost half of respondents said they have considered leaving as a result of the wage cut (and this number, by definition, excludes those who have already left).
- When asked if they have considered leaving as a result of the wage cut, 63% of technicians said yes.
- Preliminary reports from colleges suggest that while demand for graduates has not changed, recruitment into training programs for care aides — the largest segment of HEU's workforce — has become more difficult as a result of the wage cut.

The study also looked at impacts on individuals and families. Diminished morale at work is the result of both diminished personal finances and impacts on health and psychological well-being.

In terms of personal and household finances:

- The most pervasive response to the wage cut was reduced or deferred personal expenditures. Other major responses included longer hours of work, higher personal debt and reduced personal savings.
- More than four in five respondents said that they had cancelled or reduced expenditures in their household.
- In most cases, these were discretionary expenditures, such as entertainment and eating out, or family outings and vacations.
- However, one in ten reported that their housing and/or mortgage situations have been adversely affected, and one in six reported they had diminished or eliminated use of their car.
- The wage cut had a greater financial impact in households with more dependents and where a spouse was in an insecure employment situation.

Individuals and their families have also responded by working longer hours:

- One-quarter have responded to the wage cut by working overtime or casual shifts.
- Compared to a survey of HEU workers in 2002 (also by McIntyre and Mustel), about twice as many workers are working additional jobs in health care or jobs outside of health care in response to the wage cut.
- More than a quarter of interviewees reported that their spouses and children are working more to compensate for the impact of the wage cut.

The wage cut has had a notable impact on the health and psychological well-being of workers:

- More than two-thirds of those surveyed reported some effects on their health, or physical and emotional well-being.
- The most frequent response was increased stress. Other responses included feeling depressed, with almost as many reporting feeling devalued, worthless or looked down upon by colleagues. Others reported feeling angry, cranky or bitter.
- In the realm of physical health, the numbers are smaller but interviewees talked about feelings of fatigue, lack of energy, sleep loss, being sick more often, anxiety and high blood pressure.
- The psychological impact on technical workers appears to have been greater, in spite of their higher wages (perhaps *because* they have higher wages and more marketable skills).
- More than two-fifths reported that their family relationships had been affected by the wage cut. Almost one-fifth reported more friction/stress at home.
- More than a third reported that the wage cut affected their ability to participate in community and volunteer activities.

A key policy recommendation arising from this study is to avoid wage cuts in the future. Trust in an employer and high levels of morale take a long time to build among workers, but can be swept away in an instant. Treating workers with respect and providing them with decent pay is a better route to an improved workplace.

The wage cut also raises some important issues with regard to inequality in BC. Why are we willing to cut the wages of workers at the low end of the income ladder, many of whom are among the most vulnerable and marginal workers in the province?

A few months after the HEU strike, the provincial government issued a press release boasting that BC leads the country in the proportion of workers making \$16 per hour or more, an acknowledgement that it takes such a wage to raise a family in an expensive province like BC. Yet the same government used a legislated wage cut to push a large number of HEU workers with earnings above that wage to earnings below it.

As a society, the tax and transfer mechanisms of government can only go so far in combating inequality. The labour market must do more of the heavy lifting. The public sector can contribute by paying higher wages that pull up those in the private sector. Rolling back public sector wages in response to low private sector wages is precisely the wrong move.