CCPA
CANADIAN CENTRE
for POLICY ALTERNATIVES
BC Office

CCPA Submission to BC Budget Consultations 2017

SUBMISSION TO THE SELECT STANDING COMMITTEE ON FINANCE AND GOVERNMENT SERVICES OF THE LEGISLATIVE ASSEMBLY OF BC

Canadian Centre for Policy Alternatives, BC Office

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Introduction

We are pleased to offer this submission to the 2017 BC Budget Consultations on behalf of the BC Office of the Canadian Centre for Policy Alternatives to outline some of our views and recommendations on the 2017 provincial budget. This submission highlights key findings and directions from our research.[1]

Established nearly 20 years ago, the BC Office of the Canadian Centre for Policy Alternatives investigates the key challenges facing our province—the high rate of poverty, economic insecurity, the extreme concentration of wealth, and threats to our environment and climate—providing independent research, analysis and expertise. We work with a team of over 50 staff and volunteer research associates to develop workable solutions, and share our findings as widely as possible to advance social, economic and environmental justice in BC—and to challenge the message that there is no alternative.

[1] All publications available at: https://www.policyalternatives.ca/offices/bc/publications.

Economic and fiscal outlook

ECONOMIC OUTLOOK

The global economy was weighed down in 2015 and 2016 by a major slowdown in China and continuing uncertainty in Europe. Weaker-than-expected growth in the US—Canada's largest trading partner—has not helped. Resulting low commodity prices have been a drag on growth in Canada with Alberta and Saskatchewan particularly hard hit. Low prices adversely affect the economy by reducing the monetary value of Canadian exports, but they have also led to a major drop-off in new business investment. Energy prices have seen the sharpest decline with oil tumbling from over $100 a barrel in early 2014 to $45 a barrel in August 2016.

While it has been claimed that BC is leading Canada in terms of economic performance, a closer look at BC's recent economic performance suggests that growth has been imbalanced and is fundamentally unsustainable.

Much of BC's economic growth over the last year was driven by an overheated Metro Vancouver housing market. Indeed, the real estate sector alone accounted for 30 per cent of BC's GDP growth in 2015. The flip side of this growth is rising housing unaffordability with all of its negative social and economic consequences. Recent municipal, provincial and federal policy measures to slow down home price inflation, if successful, will undercut BC's economic growth. After a decade of defying gravity, the possibility of a major correction in overheated real estate markets in Metro Vancouver and Toronto remains a significant risk to the Canadian economy as a whole according to the Bank of Canada's latest *Financial System Review*.

BC consumer debt levels per capita continued to increase in 2015, and remain the highest in the country (14 per cent higher than the Canadian average).[2] Canadian household debt hit a new record in the second quarter of 2016 (nationally; provincial data is not available). Growing debt levels are thus propping up both consumer spending and real estate markets.

A stronger US economy and low Canadian dollar were expected to boost exports and contribute to growth, but exports have under-performed expectations. Increases in exports of forest products and consumer goods have not fully offset the major declines in exports of energy, metals and minerals. In light of lower global demand, the value of BC exports is forecast to decline this year.[3] Moreover, BC's ambitious plan to launch a liquefied natural

[2] Chartered Professional Accountants of BC. 2016. *BC Check-Up*.

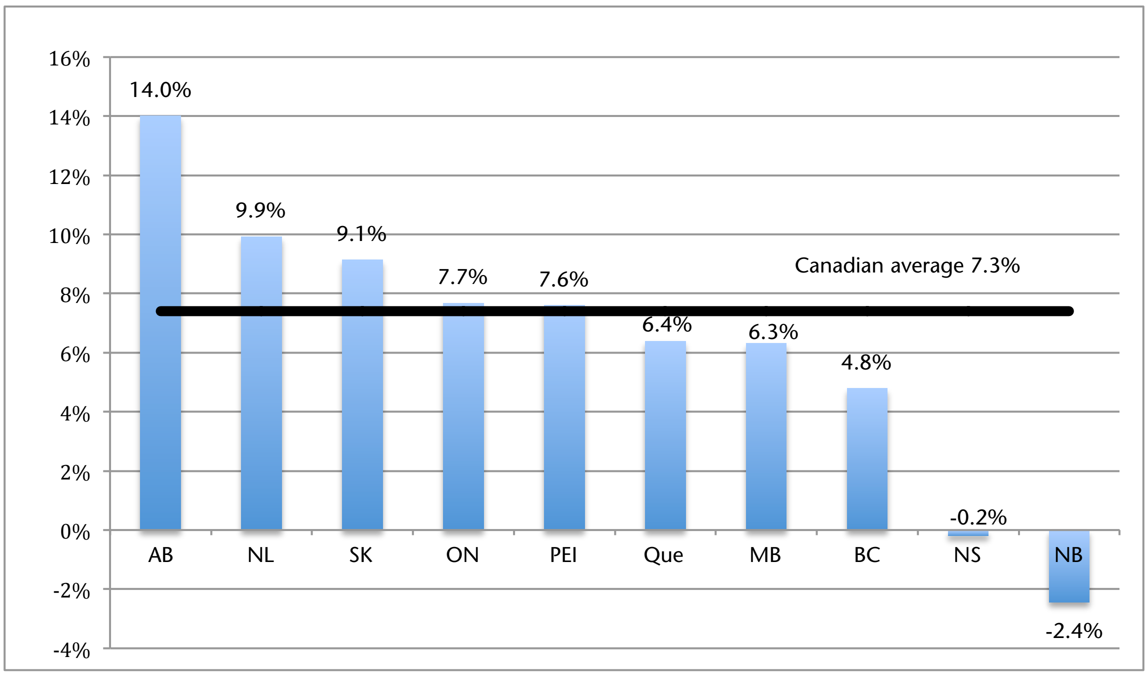
[3] BC Ministry of Finance First Quarterly Report September 2016 and 2015.

gas (LNG) export industry is unlikely to come to fruition as current prices for landed LNG in Asia are far below the break-even price for exporters.

EMPLOYMENT OUTLOOK

Employment growth in BC has been very strong so far in 2016 with the province posting the highest employment growth in the country (3.2 per cent, compared to an average of 0.6 per cent). However, this strong employment growth comes on the heels of six years of slower-than-average job creation since the 2008/09 recession. BC ranked eighth among provinces in jobs created between 2009 and 2015, ahead of only New Brunswick and Nova Scotia.

Figure 1: Employment growth by province since the recession (2009 to 2015)

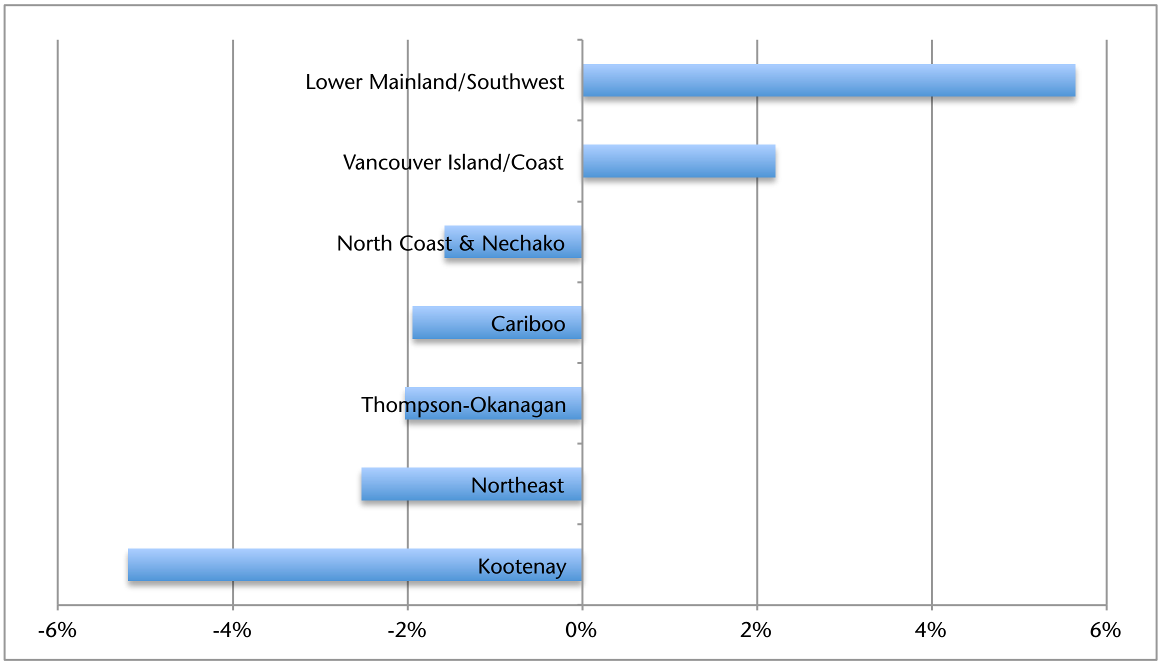


Source: BC Stats. *Labour Force Statistics Data, September 2016*. Table 3a. Employment growth by province since 2009 as a share of employment in 2009.

The employment rate of working-age (15-64) British Columbians—the share of people who have jobs—averaged 72.5 per cent in the first nine months of 2016. This is on par with the Canadian average but is much lower than BC's 74-per-cent employment rate in 2007 and 2008. This indicates that new jobs created in BC since the 2008/09 recession have not kept up with population growth. BC would need over 40,000 more jobs just to return to the province's pre-recession employment rate.

Another worrying sign is that despite strong economic growth and job creation, prosperity has not been broadly shared. Virtually all of the net new jobs created so far in 2016 are located in Metro Vancouver and Greater Victoria. Other regions of the province lost jobs this year and have yet to recover the jobs lost in the recession seven years ago.

Figure 2: Employment growth by economic region in the first nine months of 2016



Source: BC Stats. *Labour Force Statistics Data, October 2016*. Table 9. Employment growth by economic region January to September 2016 compared to the same period last year.

With much of the government's attention ill-advisedly devoted to encouraging a dramatically expanded natural gas sector, BC's most-important natural resource industry—forestry—has been left to languish. There is an urgent need for the government to address current trends in BC's forests and forest industry in order to better protect the provincial economy as a whole and the economy of rural, resource-dependent communities in particular.

At the end of 2015, nearly 65,500 people worked in BC's forest industry, down considerably from the 84,000 that worked in the province's forest sector 10 years ago.[4] The sector's workforce is heavily weighted to logging and wood product manufacturing, notably commodity lumber. Other Canadian jurisdictions such as Ontario have higher overall employment figures per unit of wood processed. Ontario currently generates one full-time

[4] Based on Statistical Data on the Natural Resources Canada website available at https://cfs.nrcan.gc.ca/statsprofile/employment/bc

forest industry job for every 221 cubic metres of wood harvested compared to one full-time forest industry job in BC for every 1,020 cubic metres harvested.[5] This is because of the different mix of forest products in the two provinces with low-value-added lumber products in BC responsible for the low number of jobs per unit of wood processed.

Finally, a closer look at job quality reveals that many of the new jobs available in BC are part-time, temporary or low paid. Statistics Canada's Job Vacancy and Wage Survey shows that among the ten occupations with the most job vacancies in BC in the first quarter of this year five paid less than $12/hour. These are not family-supporting wages.

Table 1: Occupations with the highest number of vacancies in BC, first quarter of 2016

	Job vacancies Q1 2016	Average offered hourly wage
Food counter attendants, kitchen helpers and related support jobs	4,320	$11.30
Retail salespersons	3,505	$11.70
Professional occupations in nursing	2,555	$31.70
Chefs and cooks	2,450	$14.40
Occupations in food and beverage service	1,855	$10.50
Motor vehicle and transit drivers	1,840	$19.80
Other sales support and related jobs	1,630	$11.20
Computer and information systems professionals	1,580	$33.10
Assisting occupations in support of health services	1,525	$21.00
Agriculture and horticulture workers	1,500	$11.50

Source: Statistics Canada. Job Vacancy and Wage Survey. 2016. CANSIM 285-0003.

This helps explain why having a job is no longer a guaranteed path out of poverty. One of nine British Columbians who used food banks last year was working but not earning enough to afford groceries. A recent CCPA study[6] found that over 100,000 working-age adults in Metro Vancouver alone are working but still stuck in poverty, not counting students or youth living at home with their parents.

An imbalanced job market, in combination with record-high household debt levels and a potential real estate market correction, points to weaker consumer spending ahead.

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5 Logging data from provincial governments of British Columbia and Ontario for 2014, and forest industry employment figures from Natural Resources Canada.

6 Ivanova, Iglika. 2016. *Working Poverty in Metro Vancouver*. Vancouver: CCPA-BC.

FISCAL OUTLOOK

Investment in the public sector is needed more than ever if we're going to tackle the pressing problems we face in BC. Yet real government spending per person is currently budgeted to decline over the near term (2017/18 and 2018/19) despite anticipated steady improvements in real GDP per person, which is a reflection of our province's ability to pay for public services.

This reduction in per-person expenditures is reflected in: larger class sizes in schools and higher education institutions and a growing reliance on foreign students who pay higher fees; less protection for vulnerable children in care, which increases the likelihood of abuse and neglect; reduced access to public services like seniors' care and community health services; and diminished ability to provide proper regulation and oversight, increasing the risk of disasters like the Mount Polley spill.

The evidence is clear: BC does not have an "overspending" problem. In fact, when measured as a share of the economy, provincial government spending has declined significantly since the late 1990s and is projected to continue downward. Budgeted increases for key public services are lower than the projected rate of economic growth, and in many cases represent actual cuts, once inflation and population growth are considered.

Heading into Budget 2017, BC is in a fiscal position to make much-needed strategic public investments given the strong revenue projections announced in the Ministry of Finance First Quarterly Report. A strong, well-resourced government goes hand-in-hand with a healthy economy. In fact, it is often government spending, including ensuring staffing levels that create and enforce appropriate regulation, which creates the conditions for communities and businesses to thrive.

A large surplus was delivered in 2015/2016, and even larger surpluses are projected in the next three fiscal years, despite generous forecast allowances and contingency allocations—$800 million in 2016/17 and $1 billion in 2017/18 and 2018/19, double the $500 million budgeted from 2013/14 and 2014/15. This 2016/17 fiscal year has also seen windfall revenues from the property transfer tax.

The expiry of the higher top personal income tax bracket is also notable. Brought in for 2014 and 2015, this new top tax bracket increased the tax rate on individual income above $150,000 to 16.8 per cent from 14.7 per cent.

BC is also not getting fair value for its natural gas resources due to a flawed royalty regime. Lower natural gas prices are having an adverse impact on royalty revenues, but royalty credits for fracking operations have dramatically lowered the amount companies pay the province for exploiting this public resource. In spite of record-high levels of production in recent years, the public return has continued to fall. Natural gas royalties in 2016/17 are now expected to total $189 million, one-sixth of the royalties received in 2007/08 and 2008/09 when total gas production was actually one-third less.

Budget projections likely understate available revenues over the coming fiscal years. For example, government revenues are projected to grow by a total of 8.1 per cent over the next three years or less than two thirds as fast as the provincial economy, which is anticipated to grow by 13.2 per cent (nominal GDP).

We are concerned that tax cuts over the last 15 years have disproportionately favoured the wealthiest British Columbians, and have significantly reduced provincial fiscal capacity. BC now collects a smaller share of tax revenues from corporations than it used to and a larger share from households. As our 2013 report *Progressive Tax Options for BC* observed, there is room to increase BC taxes without undermining our economy, and there is public support for changes to the provincial tax system to enable new or enhanced public services.

BC's current fiscal position also includes a manageable debt-to-GDP ratio of 16.4 per cent forecasted for 2016/17, down from the post-recession peak of 18.1 per cent in 2013/14. BC's debt-to-GDP ratio is one of the lowest in the country and provincial debt is projected to decline going forward.

In the Ministry of Finance First Quarterly Report, the BC government has chosen to use a large chunk of its surplus to pay down debt faster than scheduled, and to contribute to a "Prosperity Fund" that was supposed to be financed from new LNG revenues. This is unnecessary and means resources are not available to make critical investments to help children growing up in poverty, youth struggling with mental illness or frail seniors stuck in a hospital bed longer than medically necessary simply because there's nowhere else for them to go.

Given current record-low interest rates, weak business investment and regionally imbalanced job creation, we recommend the government consider borrowing to make strategic public investments necessary to address the pressing economic, social and environmental deficits facing the province. Government leadership can play an important role to diversify the economy and green our infrastructure, which will make BC less vulnerable to swings in international commodity markets, and lead us on a path towards good jobs, shared prosperity, and sustainable income growth.

BC Budget 2017 priorities

The Canadian Centre for Policy Alternatives recommends that the 2017 BC Budget prioritize measures to establish the foundation of a more just and sustainable economy, which is less dependent on resource extraction and commodity exports.

We recommend the following eight priorities for BC Budget 2017. Taken together, these action items represent a bold and effective jobs plan:

1. Investment in the widely endorsed $10-a-Day Child Care Plan.
2. A comprehensive poverty-reduction plan.
3. Adequate funding for K–12, adult basic education and health care.
4. Investments in housing affordability, including building 5,000–10,000 new affordable rental units per year.
5. Climate action initiatives including instituting annual $10-per-ton increases in the carbon tax with a generous low- and middle-income carbon tax credit.
6. Infrastructure investments for municipalities, including transit investments.
7. A renewed focus on forestry to diversify BC's forest products and create jobs in rural, resource-dependent communities.
8. Measures to improve fairness in the tax system, including striking a Fair Tax Commission, eliminating MSP premiums, and increasing the corporate and top personal income tax rates.

1. INVESTMENT IN THE WIDELY ENDORSED $10-A-DAY CHILD CARE PLAN

There is a massive affordability crisis for BC families that need child care. Fees can run upwards of $10,000 per year—higher than university tuition—and regulated spaces are available for only 27 per cent of BC children under age five. There's no question that the status quo—a fragmented patchwork of child care programs with exorbitant prices, inadequate spaces and inconsistent quality—fails to meet the needs of BC families.

A large body of international and Canadian evidence demonstrates that affordable, high-quality child care and early education programs yield large social and economic benefits. High-quality early childhood education promotes healthy child development and increases educational achievement for all children, with particular benefits to the most vulnerable. It also promotes social inclusion, advances gender equality by allowing mothers to return to work, and strengthens the economy.

Yet BC and Canada are laggards by international standards, investing far less than what is required to ensure that all children can thrive. Small enhancements to the status quo (like the BC Early Years Strategy) are not sufficient and priorities must change.

The good news is the new federal government has signaled increased interest in this file over what we have seen in the last decade. The 2016 federal budget earmarked $400 million specifically for the development of a national framework on early learning and child care, with an additional $100 million for Indigenous child care and early learning on reserve. Although the funding will not be disbursed until next fiscal year (2017/18), the federal government is currently in negotiations with the provinces over what such a framework would look like in Canada. Now is the time for the BC government to show leadership on early education and child care and work closely with the federal government to ensure that the available funds flow quickly.

We recommend that BC Budget 2017 provide the investment needed to establish the widely endorsed $10-a-Day Child Care Plan.[7] The call to increase public investment in quality, affordable child care is neither new nor controversial. It is supported by a diverse group of organizations from child care advocates to family physicians, early childhood development experts, the TD Bank's chief economist and many others.[8] It is beyond time to extend our public education system to cover early education and care.

During last year's provincial budget consultation, the committee of elected representatives unanimously recommended that BC "provide funding and support for the development and implementation of an affordable child care plan."[9] This was the third consecutive year that the committee made the same recommendation.

Investing in a system of affordable, high-quality child care that is accessible to all BC families who need it will have ripple effects across the provincial economy: it will take some pressure off young working families freeing resources to pay off their student loan and mortgage debt; it will provide a good start for all BC children; it will allow more mothers to

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[7] The $10-a-Day Child Care Plan refers to the community plan for a public system of integrated early care and learning developed by the Coalition for Child Care Advocates and the Early Childhood Educators of BC. For more information and lists of the individuals, organizations and academics who have endorsed the $10-a-Day Plan see http://www.cccabc.bc.ca/plan.

[8] TD Economics published a report on the benefits of early childhood education, co-authored by their chief economist (TD Economics. 2012. *Early Childhood Education Has Widespread and Long-Lasting Benefits*) and titled its accompanying press release "Make Early Childhood Education a High Priority." In 2014, the Royal College of Physicians and Surgeons of Canada called for more public investment in early childhood programs (RSPSC. 2014. Early Childhood Development. Royal College position statement). A number of families, businesses and organizations have endorsed $10 a day child care in BC.

[9] Legislative Assembly of BC 2015. Select Standing Committee on Finance and Government Services. 2014. Report on the Budget 2016 Consultations.

participate in the workforce, increasing tax revenues almost immediately; and it will create new jobs. It should be noted that BC has low female labour force participation compared to the rest of the country.

A CCPA study published last year shows that the $10-a-Day Child Care Plan is entirely affordable either as a federal-provincial partnership or as a BC-only program like the one in place in Quebec. [10] Drawing on research from Quebec, which has had a provincial child care plan since the 1990s, CCPA Senior Economist Iglika Ivanova estimates that $10-a-day child care in BC would be largely self-financing through the considerable boost to provincial and federal government revenues from more women participating in the workforce.

2. A COMPREHENSIVE POVERTY REDUCTION PLAN

Tolerating high rates of poverty and homelessness is unfair and unnecessary in a wealthy country like Canada. It is also very expensive both for the BC government and for society as a whole. The CCPA has calculated that poverty costs BC between $8.1 and $9.2 billion annually in higher costs to the criminal justice system, in lost productivity, lower school success, and higher health costs.[11] This represents close to five per cent of the total value of our economy.

BC has one of the highest rates of poverty in Canada, ranking among the worst two provinces nearly every year since 2002 (when Statistics Canada's Market Basket Measure was introduced).[12] BC's higher-than-average poverty rates have persisted during both an economic boom and a recession. In 2014, the latest year for which data is available, one in seven BC children lives in a family with income below Statistics Canada's Market Basket Measure. Half of all children living with single mothers (49 per cent) lived in poverty in 2014.

Our 2008 report *A Poverty Reduction Plan for BC* outlines a comprehensive set of recommendations that policy-makers can draw on.[13] Many of these recommendations would boost the incomes of those at the bottom of the income ladder who spend their income purchasing goods and services because they don't have the luxury of saving. Most of these expenditures occur in local communities, and thus, would provide a much-stronger boost to the local economy than personal or corporate tax cuts.

[10] Ivanova, Iglika. 2015. *Solving BC's Affordability Crisis in Child Care: Financing the $10 a Day Plan.* Vancouver: CCPA-BC.

[11] Ivanova, Iglika. 2011. *The Cost of Poverty in BC*. Vancouver: CCPA-BC.

[12] The only two years in which BC didn't rank among the worst two provinces were 2005, when BC ranked 3rd worst, and 2013, when BC ranked 4th worst.

[13] Klein, Seth, Marjorie Cohen, T Garner, Iglika Ivanova, Marc Lee, Bruce Wallace and Margot Young. 2008. *A Poverty Reduction Plan for BC.* Vancouver: CCPA-BC.

CCPA's funding priorities for BC Budget 2017 include immediately and substantially increasing income assistance rates. The basic rates have been frozen for nine years during which time inflation has significantly eroded their purchasing power. After being frozen for nine years, benefit rates for those with disability status were increased as of September 2016. But the increase was far too meager—up to $77/month. And after clawing back an annual bus pass program, for many the increase was a mere $25/month. Income assistance rates must be set at a level that meets actual costs of living in this province and be indexed to inflation. As an immediate and interim measure, rates need to be increased by $200 to $400 a month depending on family size.

Investments in child care, as noted above, are also consistent with poverty reduction measures. Other priority investments include increasing the stock of BC's social and affordable housing, making mental health services more accessible to British Columbians who need them, supporting community-based health initiatives focused on prevention, and enhancing seniors' care services. Gaps in the accessibility of these services put pressure on the most-expensive component of the health care system—emergency rooms and hospitals—costing us more in the long term. Well-targeted investments in these areas have the potential to tremendously improve the health and well-being of British Columbians in addition to reducing future health care costs.

Overall, BC must join the ranks of all other provinces in adopting a comprehensive poverty-reduction plan with ambitious legislated targets and timelines.

3. ADEQUATE FUNDING FOR EDUCATION AND HEALTHCARE

Budget 2017 should increase funding for BC's K-12 education system, which has been seriously eroded. BC has among the lowest per-student levels of public education funding in the country, and funding has fallen substantially as a share of our economy. This is an indicator that major reinvestment is both possible and affordable.

The provincial government has also downloaded an array of rising costs to local school districts. These are costs the government largely controls but doesn't provide sufficient funding to cover: a doubling of MSP premiums since 2001, a 60-per-cent increase in BC Hydro rates since 2008, the carbon tax (plus an additional carbon levy on public sector organizations like schools), increased WorkSafeBC rates, and mandated computer upgrades among others.[14]

When costs are increased without sufficient compensating dollars flowing into our schools, the system experiences enormous financial pressure.

[14] For further discussion of these issues, see Alex Hemingway's analysis "What's the real story behind BC's education funding crisis?" posted on PolicyNote.ca on August 24, 2016.

Budget 2017 must also make the necessary investments in our public schools to ensure that students with learning disabilities, special needs, and those for whom English is not a first language receive the support they need to reach their full potential. One in four classes in the public school system had four or more children with special needs during the last school year—a dramatic increase over the past decade.[15]

Furthermore, Budget 2017 must restore funding for tuition-free adult basic education. The BC government's recent decision to allow colleges and universities to charge tuition for high-school level courses seriously undermines access to education. The vast majority of basic education students are low-income earners who enroll because their high school marks or courses do not qualify them for entry into trades or other college and university programs that allow them to get jobs that pay a living wage.

The new adult upgrading grant that is supposed to assist low-income students is flawed. It starts getting clawed back at income levels well below the poverty line, meaning that many students who cannot afford the tuition will not qualify for the grant.

In terms of health care, spending as a share of our economy has been relatively steady in recent years, and is projected in Budget 2016 to fall somewhat from 7.8 per cent of GDP in 2009 to 7.5 per cent in 2018. But if we want to enhance care and reduce wait times in the context of an aging population, renewed government leadership and investment are needed.

For example, substantial cuts to BC's home and community care system have forced seniors to rely more heavily on emergency room visits and increased the need for inpatient beds. These pressures, in turn, lead to overcrowded hospitals and longer wait times for surgeries.

There are, however, many solutions already at our fingertips that don't have to involve more contracting-out and privatization. We recommend that Budget 2017 include measures to:

- Help seniors stay healthy and independent by reinvesting in home and community care like home support services to help with cooking and bathing, home nursing, long-term residential care, and end-of-life palliative care.
- Improve patient care by developing interdisciplinary teams of healthcare professionals who work closely together. These could include physicians working with dieticians, physiotherapists and nurse practitioners.

[15] BC Ministry of Education 2015-16 report: http://www.bced.gov.bc.ca/reporting/province.php. See also Seth Klein and Tyson Schoeber's piece "One year after the BC teachers' strike, what's happening for kids with special needs?" posted on PolicyNote.ca on September 7, 2015.

- Reduce surgery wait times by actively managing wait lists and adopting best practices in surgical procedures and patient care like those already developed by local surgical teams here in BC, and by public health systems in other provinces and countries.

These types of policies both increase quality of care and help contain costs. The failure of the BC government to make proper long-term investments in the public health system means we spend more to get less.

4. INVESTMENTS IN HOUSING AFFORDABILITY

Growing housing insecurity is being felt in almost all segments of the market. Most news headlines have focused on double-digit increases in real estate prices, but there is also an affordability crisis in the rental housing market. While there has been a boom in new housing construction, the private sector has no incentive to build new housing for households with little or no income and wealth.

The new 15-per-cent property transfer tax on foreign purchases of residential real estate in Metro Vancouver is a welcome shift in policy orientation as is the City of Vancouver's effort to tax vacant homes. However, these efforts should be viewed as parts of a broader, long-term plan to manage the local housing market in the interests of those who live and work in the city.

As in other parts of Canada, the supply of Vancouver's housing is predominantly left to the whims of market forces. The end of federal (in 1993) and provincial (in 2001) programs to build new social housing units is particularly notable. These units comprise a small but important share of the existing affordable housing stock (about 3 to 4 per cent), and are currently facing challenges with aging buildings in needs of upgrades.

Budget 2017 needs to include a comprehensive housing affordability plan for Metro Vancouver and other parts of BC facing affordability challenges. The BC government's recent announcement of $500 million for new housing (funded out of windfall property transfer tax revenues) is a welcome start, but the province has much catching up to do.

Annual commitments to support new affordable housing units are needed. To keep up with demand, about 5,000 new rental units are needed annually. In addition, a diverse range of housing options, from housing for people who are homeless to assisted living and residential care for seniors to innovative tenure arrangements like community land trust models could also be financed.

This translates into an annual investment of between $1.25 to $2.5 billion per year to build 5,000 to 10,000 units annually, less where land is contributed or development charges waived. Most of these costs would be repaid over time through rent so the finance aspect is reasonable after the upfront cost.

In addition, Budget 2017 should support and upgrade the existing affordable housing stock through a Housing Renewal Fund. In particular, cooperatives and social housing run by non-profits, as well as interventions in the private rental market, are needed and could be combined with energy-efficiency retrofit programs.

To finance these essential housing developments, and to make the tax system fairer, our property tax must be progressive. The surge in real estate prices has further increased the gap between rich and poor, creating winnings for homeowners more like winning the lottery than earned from hard work. A portion of those winnings should be taxed to build the affordable housing we need. Moreover, in contrast to the property transfer tax, a progressive annual property tax regime would provide a more-stable source of on-going income from which to fund new social and coop housing.

For example, a property surtax kicking in at $1 million of assessed value would exempt two-thirds of homeowners in BC, and with a series of tax brackets as value rises would raise $1-2 billion per year. Similarly, the windfall capital gains from housing price escalation should be subject to tax as is income from working or to a lesser extent income from selling stocks. A lifetime capital gains exemption of $500,000 could be included with only gains above this amount taxed.

5. CLIMATE ACTION INITIATIVES

Canada is now a signatory to the Paris Agreement to fight climate change. The federal government and provincial/territorial governments are currently in negotiations to develop a pan-Canadian plan, and the federal government has signaled its intention to set a national floor on carbon pricing. However, both the federal and BC governments have also expressed interest in expanding fossil fuel production, infrastructure and exports.

BC's carbon tax is often held up as an ideal carbon pricing policy although its actual impact has been greatly overstated by carbon pricing advocates. The carbon tax has not led to economic catastrophe nor has it driven reductions in BC's emissions. This is because the tax itself is relatively small, and its effects are vastly outweighed by the swings in market price of gasoline at the pump.

The BC government rejected increases to its carbon tax in its updated climate plan last August. Instead, BC should re-assert leadership on carbon pricing with new annual increases of $10 per tonne starting in 2017, and reaching $70 per tonne in 2020. Before increasing the carbon tax, however, the tax and revenue recycling framework needs to be fixed. In particular, the government should break with its obsession with revenue neutrality, the premise that all revenues should be converted to tax cuts. The design of Alberta's new carbon tax is a good example of one that should be replicated.

New carbon tax revenues should be available to fund new investment in green infrastructure, and public transit in particular, which would reinforce climate action. Funding should also be made available to make schools, hospitals and other public buildings more energy efficient. And, some carbon tax revenues could be used to redress challenges in rural parts of BC and to support just transition policies to ensure BC resource industry workers and their communities are not left behind.

We also recommend a reformed carbon credit system that would reach a larger share of BC households. Carbon taxes are regressive with lower-income households paying more as a share of their income than higher-income households, and the existing Low Income Credit is not sufficient to compensate low-income households. We recommend that half of carbon tax revenues flow into a reformed carbon credit with a structure for the credit that would result in the poorer half of households getting more from the credit (on average) than they pay in the carbon tax, making them net beneficiaries of the tax. This credit would gradually phase out as income rises, but overall, 80 per cent of households would receive at least a partial credit.

Finally, the additional carbon offset fee of $25 per tonne paid by public sector organizations should be phased out. The government should abandon its offset purchases in the name of "carbon neutral government," and instead aim for achieving real emission reductions across the economy. Some offset projects may fund worthwhile objectives, like forest conservation, and those could instead be funded from carbon tax revenues. They should not be used, however, to pretend emissions are being reduced elsewhere.

6. INFRASTRUCTURE INVESTMENTS FOR MUNICIPALITIES, INCLUDING TRANSIT INVESTMENTS

New federal infrastructure funds are anticipated in the coming years, including investments in green infrastructure and public transit. The federal government has also stated it will fund up to 50 per cent of costs for new projects. If the BC government were to increase its commitment to 40 per cent of costs, municipal governments would be in a much better position to initiate new infrastructure projects than until recently when they were expected to raise 33 per cent of all costs.

There is an urgent need for stable, long-term funding for rapid transit in Surrey and Vancouver, and related infrastructure deficits facing BC municipalities. Government investment in convenient, high-quality transit can reduce costs for many households, and may even make car ownership unnecessary for some. There are short-term benefits arising from infrastructure investment in the form of stimulating economic activity, and also long-term benefits associated with higher productivity.

With dedicated funding for transit expansion, more-efficient, higher-capacity transit networks could be built in Metro Vancouver and other parts of BC. Existing transit infrastructure could be more-efficiently utilized if funding were made available. Transit investments are good for business, improve air quality, boost public health, and help reduce the greenhouse gas emissions causing climate change. Our current auto-dominated transportation system also imposes costs in other ways: injury and death from accidents, time wasted due to idling on congested roads and highways, and noise pollution.

An efficient transportation system is also a matter of justice. Transit is particularly important to low-wage and immigrant workers who often have to commute long distances to work, and who frequently work night shifts when transit options are limited. And it's of special importance to youth, seniors and people with disabilities, all of whom rely more heavily on transit.

As a start, we recommend the reallocation of the $3.5 billion earmarked for a new bridge to replace the Massey tunnel, and new revenues from a rising carbon tax (see previous section) could also be marshaled in support of new infrastructure.

7. PROACTIVE FORESTRY MANAGEMENT

The most challenging issue facing the forest sector is that the amount of forest logged on the coast and in the interior continues to decline: 12 per cent on the coast, and 16 to 22 per cent in the interior over the past decade.[16] The decline in the province's interior is driven by the extensive damage to forests caused by successive mountain pine beetle infestations and the intense logging in response to those events. On the coast, contributing factors include diminished old-growth forests.

Across BC, revenues to the provincial Crown from logging activities have steadily declined since 2006. On the coast, the decline in stumpage revenues was just over 10 per cent while in the southern interior it was nearly double that at 18 per cent, and in the northern interior 47 per cent.[17]

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[16] Based on data obtained through the Harvest Billing System maintained by BC's Ministry of Forests, Lands and Natural Resource Operations. Configured data requests can be made on-line at: http://www2.gov.bc.ca/gov/content/industry/forestry/competitive-forest-industry/timber-pricing/harvest-billing-system

[17] Based on data obtained through the Harvest Billing System maintained by BC's Ministry of Forests, Lands and Natural Resource Operations. Configured data requests can be made on-line at: http://www2.gov.bc.ca/gov/content/industry/forestry/competitive-forest-industry/timber-pricing/harvest-billing-system

Policies that place a premium on creating more jobs per unit of wood processed can help counteract such declines. On the coast, priority should be placed on maximizing value from second-growth logs. In 2015, the most-recent year for which data on raw, unprocessed log exports from BC is available, nearly seven million cubic metres of logs or 37 per cent of all logs harvested that year were exported. The majority were second-growth logs.[18]

We recommend that the Province set as an objective eliminating all raw log exports. In particular, the government should steadily increase the "fee-in-lieu of manufacture" that logging companies currently pay the government when they export raw logs until the point is reached where it is no longer economically advantageous to do so. All fee-in-lieu of manufacture revenues should be earmarked for investment in new forest and community revitalization funds to assist communities most directly affected by current log exports.

The government should also explore all means to increase the overall amount of stumpage collected per unit of wood harvested, and any new stumpage scheme should earmark all additional revenues to forest and community revitalization funds. New methods to sell and market logs, such as regional log markets, are one possible method of doing this.

8. MEASURES TO IMPROVE THE FAIRNESS OF THE TAX SYSTEM

BC's overall tax system is now remarkably regressive as we document in the CCPA report *Progressive Tax Options for BC: Reform Ideas for Raising New Revenues and Enhancing Fairness*.[19] When all BC personal taxes are considered—income, sales, property, carbon, and MSP premiums—we find that lower-income households pay a higher overall tax rate (what economists refer to as *effective tax rate*) as a share of their income than higher-income households. This is unfair and should be urgently remedied.

We recommend that the provincial government strike a Fair Tax Commission to objectively review the BC taxation system and make recommendations to meet provincial revenue needs in an equitable way, consistent with our economic development and climate action goals. The Commission should meaningfully engage with British Columbians from all walks of life throughout the province about the services they want and how we can fairly pay for them. All taxes and natural resource royalty programs should be on the table.

As a priority item, we recommend that Budget 2017 eliminate the highly regressive MSP premiums that have more than doubled since 2001, rising from $432 to $900 per year for

[18] For 2015 data see: http://www2.gov.bc.ca/gov/content/industry/forestry/competitive-forest-industry/log-exports/bi-weekly-advertising-lists

[19] Ivanova, Iglika and Seth Klein. 2013. *Progressive Tax Options for BC: Reform Ideas for Raising New Revenues and Enhancing Fairness*. Vancouver: CCPA-BC.

individuals and from $846 to $1,800 for families of three or more. A two-parent family with a combined income of $40,000 currently pays $1,800 per year, the same as a family making $400,000. That's 4.5 per cent of the first family's income and only 0.45 per cent of the second's. CCPA recently published a report[20] modeling two specific options to replace that revenue in a way that would be dramatically fairer and result in savings for a majority of BC families.

We recommend that costly natural gas royalty credits that serve as a subsidy to fracking operations be ended. BC should consider a shift to a gas royalty regime that ensures a minimum royalty to the province for each unit extracted rather than the current approach that only pays reasonable royalties when market prices are very high.

More broadly, BC has the lowest top marginal income tax rate in Canada, the lowest corporate income tax rate, and the third-lowest small business tax rate (after Manitoba and Saskatchewan). Partly as a result, provincial public spending has shrunk as a share of GDP even as public investment is urgently needed to tackle the range of collective challenges we face. If BC set tax rates closer to the average of other Canadian provinces we would create the budgetary room to implement the types of crucial investments our submission recommends. Instead, *lack* of public investment is actually costing BC billions each year (as discussed earlier), and, more importantly, perpetuating poverty, putting the environment at risk, and ultimately damaging people's lives.

Conclusion

The BC Budget measures outlined in this submission will help reduce a number of deficits facing our province: our large social deficit in poverty and inequality, the environmental deficit, the jobs deficit, and the affordability deficit. Failing to make these investments now represents a false economy—it makes the books look good today, but sets the province on a path of lower productivity, increased social ills, and higher total costs over the long term.

There is no better time than now to tackle the big social, economic and environmental challenges currently facing our province. We are running surpluses, interest rates are at a record low, our debt level is manageable, and our taxes are some of the lowest of all provinces. With sufficient revenue reform—as outlined in Recommendations 4, 5, 7 and 8—this could be achieved without incurring a large operating deficit.

[20] Ivanova, Iglika. 2016. "BC should eliminate the MSP. Here are two better options." Policy Note. July 6, 2016.

In the current economic and fiscal environment, we believe that the narrow focus on accumulating budget surpluses and paying off debt at the expense of making strategic public investments is tremendously short-sighted and should be reconsidered.

The Canadian Centre for Policy Alternatives appreciates the opportunity to share our research and recommendations on BC Budget 2017 with the Legislative Standing Committee on Finance and Government Services.