British Columbia Budget 2000 Brief
Submitted to: The Honourable Paul Ramsey, Minister of Finance and Corporate Relations

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Summary
The Canadian Centre for Policy Alternatives believes that the 2000 Budget provides an opportunity for the government to make a number of progressive policy choices that can capture the imagination of British Columbians. A stronger economy than anticipated in the 1999 Budget will mean a much smaller deficit for 1999/00, and consequently, more latitude in the 2000 Budget for the type of policy changes recommended in this brief.

As an overall constraint, we recommend that the government cap the increase in provincial debt-to-GDP at 23.9%, the level projected for the 1999 Budget. The fiscal room available should be used to rebuild key areas of social support that have been eroded in the 1990s. Tax cuts for upper income earners would be a moral outrage given the situation facing the province's poorest citizens.

The government should make a bold commitment to an anti-poverty strategy. Such a strategy should reform BC Benefits by increasing welfare rates, ending the clawback of the Child Tax Benefit for families on social assistance, and creating incentives for education and training, among other things. Other components of a strategy should focus on building and supporting new social housing, and targeting funds towards Vancouver's Downtown Eastside.

The government should expand BC's public services through first-year funding of a multi-year plan to bring child care into the public sector. Defending existing public services by countering trends towards privatization and contracting out is also a priority. In education, funding levels for K-12 should be restored, in real, per-pupil terms, to 1990/91 levels, while limiting the access of private schools to public funds. The post-secondary tuition freeze should be continued, with an aim towards making undergraduate tuition free in the medium-term.

In health care, capital funding is required to build new long-term care facilities, home care and supportive housing, to take the pressure off of expensive acute care beds. The government should also provide seed funding towards the development of more integrated models of health care delivery, including lobbying the federal government for a national Community and Home Care Act.

On the revenue side, overall tax levels should be capped, while engaging in two areas of revenue neutral tax reform. First, the progressivity of the tax system should be enhanced through the introduction of new low income tax credits, offset by the creation of a third surtax for those earning

more than $150,000. Second, the tax system should be "greened" through study and implementation of various tax shift incentives.

Introduction

Budgets are about choices. Since the release of the first Alternative Federal Budget by the CCPA in 1995, the idea that there are choices and alternatives has been a core theme of our work. Yet, popular commentary suggests exactly the opposite: that we have very few choices other than the policy prescriptions favoured by a small elite of conservative commentators.

The focus of the media and the business community has been to campaign for massive tax cuts–particularly at the top of the income ladder–while also pushing for a balanced budget, backed by legislation. In our view, this would be a disaster for BC, due to the devastating spending cuts that would be required in social programs. Evidence suggests that the economic benefit of tax cuts would be modest, while the net impact of tax cuts, combined with a balanced budget and spending cuts would be a drag on growth.

The province, of course, must be cautious with regard to the size of deficits and more importantly, the debt-to-GDP ratio. Both debt and deficit have grown in recent years, though neither is excessive when compared to the economic situation facing the province. Compared to other provinces, BC continues to have an enviable fiscal position, a fact that increases the ability of the government to make progressive public policy choices.

This Budget brief sets out a plan for the province that we feel can capture the imagination of the public, while making a financial commitment in areas that reflect the priorities and values of British Columbians. It is organized in four parts:

Economic Outlook

Budget Balance

Expenditures

Revenues

Economic Outlook

In 1999, CCPA-BC noted that due to continued slow economic activity, accompanied by a relatively strong fiscal position, the government should further increase the deficit to support demand in the economy. We feel that the government’s projected deficit of $890 million was a bold move in this direction, despite severe opposition from business critics.

It is worth noting that the 1999/00 deficit of $890 million (based on CRF) represents approximately 0.8% of GDP. With real economic growth projected to be 1% for 1999 (the Ministry's September estimate; the 1999 budget forecast growth of only 0.5%), following a balanced budget policy would have substantially reduced economic growth in the province to less than 0.2%. In other words, based on economic assessments at the time, this was good fiscal policy.

The most recent data suggest that projections for 1999 were overly pessimistic. As late as September 1999, Ministry estimates of real GDP growth were -0.5% for the 1998. Recently released figures from Statistics Canada note that BC actually achieved a 0.2% increase in real GDP for 1998. While not a spectacular growth rate, this is a notable upward revision from the consensus of private sector forecasters, all of whom predicted a recession in BC for 1998.

There is good reason to believe that even the Ministry's most recent estimates of growth in 1999 are too low. Year-to-date revenue growth has been substantially higher than budgeted. The Ministry's second quarter report, released at the end of November, notes that revenue growth in the first six months of 1999/00 was 4.7% above that forecast in the 1999 Budget, while expenditures were 0.5% higher than predicted. This indicates an underlying strength to the BC economy that has not been widely acknowledged by business commentators.

BC's economy in 1999 has been bolstered by an increase in the volume of exports, largely to the US market. Higher commodity prices, particularly in wood products and energy, have also been a significant contributor to the value of BC's exports. Value added products continue to increase as a share of total exports, though certainly, more needs to be done in this area. However, it is important to note that diversification and greater value added better insulated the BC economy from the impacts of the downturn in Asian markets.

Recent employment growth has been strong, with total growth of 2.2% in 1999. The 1999 unemployment rate fell to 8.3% from 8.9% in 1998. Of note, October's unemployment rate, at 7.4%, was the province's lowest since September 1981.

In the year ahead, a major area of uncertainty has to do with the state of the US economy, and whether it can continue its record expansion. Prudence would suggest that the US economy could slow down and possibly undergo a mild recession in coming years, particular in the face of record high levels of private sector and consumer debt, added to unprecedented stock market prices.

If the US economy was to slow down, BC would feel the impact. In the aftermath of the Asian crisis, BC exporters have shifted their focus from Asian to US markets. Exports to the US have been rising as a share of total exports, with export gains almost entirely explained by increased demand south of the border. But because exports to the US now constitute two-thirds of total exports, BC is much more susceptible to a US downturn than it was a few years ago (for example, in 1995, the share of BC exports to the US was 49.4%).

Exports have also been improving to Asian markets as these economies continue to recover–in some cases, like South Korea, very rapidly. However, they too are dependent on a strong US market for their economic prospects. A US downturn would affect demand conditions in these nations and would, therefore, have a secondary impact on BC exports to Asia.

Given these underlying factors, the following should frame the context for the 2000 BC Budget:

Because the provincial economy has performed much better than projected in the 1999 BC Budget, the deficit will probably be substantially lower than the forecast $890 million (based on consolidated revenue). In addition to economic factors, the budget balance is reinforced by including the contingency reserve of $230 million.

Due to the federal government's favourable fiscal position, transfers to BC and other provinces will likely increase in 2000/01.

A lower than anticipated deficit in the 1999/00 year will lower the fiscal year-end debt-to-GDP ratio below the 23.9% forecast in the 1999 Budget. BC remains in an enviable position compared to other provinces with regard to its finances, and the provincial government definitely has more room to manoeuvre in the 2000 Budget.

How the government should utilize this room to move is the object of this brief. The government should resist the temptation to provide tax cuts to higher income earners, or to move too quickly in reducing the deficit. Instead, this opportunity should be used by the province to re-invest in social programs, particularly in the area of social assistance.

Budget Balance

The improved economic outlook suggests that the government has more room to move than previously believed in the first half of 1999. For the coming year, continued economic growth will allow the government to address the priority areas that we have highlighted in the next section.

The Ministry's revised forecast put the 1999/00 deficit (CRF) at $811 million. However, there is a significant degree of prudence built into the new forecast–the Ministry projections underestimate revenue growth and overestimate expenditure growth for the rest of the year, in spite of improved economic conditions. Add in the reserve cushion and it seems quite reasonable to assume that this new deficit estimate is also overstated.

This suggests that the provincial debt-to-GDP ratio will be lower than the 1999 Budget forecast of 23.9% (taxpayer-supported debt). We recommend that the debt-to-GDP ratio for 2000/01 be capped at the previously forecast 1999/00 level of 23.9%. Current price GDP in 2000 is expected to be approximately $116.5 billion. At a debt-to-GDP ratio of 23.9%, this means taxpayer-supported debt could rise to a maximum of $27.8 billion (from $25.9 billion projected for March 31, 2000).

This implies substantial scope for accommodating a deficit that could target the areas mentioned in this submission. Unofficial Ministry reports suggest that revenue growth will be around 4.3% in 1999/00. With real GDP growth expected to rise to 2% in 2000, this suggests that revenue growth will continue to be strong in 2000/01. Assuming revenue growth of 5% (a reasonable estimate given the historical trend for revenue growth at around 9% per year since 1985), this means an increase in revenues of just over $1 billion.

We acknowledge that wage and staff increases in existing contracts, plus population growth, will increase expenditures by approximately $1.3 billion. This is greater than the anticipated increase in revenues. This means the available room to expand spending to meet the priorities set out in this brief is approximately $1.6 billion. Some of this money will go for capital spending and for Crown corporations, but this still leaves a great deal of room for our fiscal plan.

Expenditures

We feel that the 2000 Budget offers the opportunity to rebuild key areas of social support that have been eroded during the 1990s. While we have not costed out each item, below we suggest a number of progressive policy priorities that the government should move forward on.

Towards an Anti-Poverty Strategy

While the provincial government deserves congratulations for responding to federal cutbacks from 1995 onward by maintaining funding in health and education, social assistance programs have borne most of the weight of cutbacks. In recent years, both income inequality and poverty have increased, as can be readily seen in the rising number of people that are (or are on the verge of being) homeless, and the proliferation of food banks. We do not believe it overstates the case to say that delivering tax cuts that disproportionately benefit upper income earners, when child poverty remains near 20% and homelessness is a national emergency, would be a moral outrage.

Reforming BC Benefits

The introduction of BC Benefits in 1996 was a watershed in how the province treats its poorest and most vulnerable. Current income assistance levels are inadequate to sustain the well-being of those in need. The system itself has become highly punitive and mean-spirited, blaming the poor for their condition, without providing a meaningful way of getting out of their situation.

The government's recent decision to reinstate the flat rate earnings exemption is a good start towards rolling back elements of BC Benefits that have hurt those unfortunate enough to require social assistance. A strong economy is also clearly part of the solution, but even when growth is strong, there are many who fall between the cracks of our tattered social safety net.

The coming budget should make a bold commitment towards an anti-poverty strategy. Additional measures to reform BC Benefits should include:

Raising current welfare rates for single employables and families. Current levels do not provide enough income on which to survive and can trap people in a cycle of poverty.

Ending the current clawback by the province of the federal Child Tax Benefit for people on welfare. Any increases in the federal CTB from the coming federal budget should also be free of any clawbacks.

Providing free transit passes for those on welfare. This would enhance their ability to apply for work, which is currently severely restricted–with only $175 per month (less than $6 per day) allocated to cover meals, clothing and any other living expenses.

Eliminating the requirement that older recipients apply for CPP early, a measure that can lead to a 30% reduction in benefits over the long term.

Creating incentives for increased education and training. This would include providing benefits to social assistance recipients who are engaged in educating themselves, at both post-secondary and secondary school equivalent levels. In addition, youth should not have to wait nine months in order to qualify for relevant training programs

While not a budgetary measure, increasing the minimum wage would be a proactive move that would reinforce the above elements by improving incomes for those working minimum wage jobs. A recent CCPA study that examined the minimum wage suggested that it be raised to $8 an hour immediately, with planned increases to bring the minimum wage up to $9.15 an hour, equivalent to Statistics Canada's low income cut-off based on a 35-hour work week.

Social Housing

A second element of an anti-poverty strategy should focus on the need for social housing. As one of only two provinces that are continuing to support the development of new social housing, BC has a good foundation to build on, with established linkages with various municipalities. Still, housing remains a fundamental issue for the least well-off in our society. The absence of decent and affordable housing can severely undermine other aspects of an anti-poverty strategy.

To address the housing and homelessness crisis in the province, the government should:

Dedicate 1% of the provincial budget to the construction of new social housing. The province should, at a minimum, match BC's share of the federal government's new (albeit modest) homelessness funding initiative.

Build on existing non-profit and cooperative housing initiatives to expand the total number of subsidized spaces for low income people.

Work with municipalities to protect existing rental housing and to encourage the legalization of secondary suites in homes.

Funding for Downtown Eastside

A final element of an anti-poverty strategy should target Canada's poorest postal code, Vancouver's Downtown Eastside. The province should establish a fund for priority initiatives in a variety of non-law enforcement areas, such as drug prevention, harm reduction and rehabilitation programs; women's shelters; youth shelters; support for food banks; etc. While the serious problems encountered in this area cannot be addressed entirely in one budget, this fund would work towards stabilizing the situation, and could lead to a model that could then be rolled out across the province.

Towards a Child Care Program

A national child care program has long been sought in Canada, and is connected to an anti-poverty strategy. Such a program is vitally important for fairness, early child development and labour market participation.

The federal government has hinted that its own 2000 budget will have enhanced funding to support a "children's initiative". Whether this will develop into a national child care program remains to be seen, though there is some cause for optimism on this front.

Should this be the case, the provincial government should be prepared to commit matching funds to realize this program in BC. This will likely form a first move toward a broader multi-year commitment that brings high quality child care into the public system.

Other indications are that the federal government, rather than initiating a child care program, will only provide an enhanced child tax benefit. In this case, it is imperative that the provincial government not claw back this benefit for those on social assistance, as is the case with the existing child tax credit.

Defending Public Services

Privatization and Contracting Out

CCPA-BC is concerned about increasing pressures to privatize public services, or to engage in outsourcing and public-private partnerships. The experience of such practices is a shaky one, particularly with regard to health care and education.

There are different options available to ensure that the public interest is protected. One option would be for the provincial government to set up a Review Board for Privatization and Contracting Out that would have functions similar to that of a combined Ombudsperson and Auditor. An alternative approach might be to expand the scope of the existing Auditor-General to encompass these functions.

In addition, the current system of FTE reporting does not account for contractors and those in Crown corporations. It thus creates incentives for contracting out in order to reduce reported payroll figures. Changes to the reporting requirements should be made to fully account for contractors and employees of Crown corporations.

Education

Education is a broad determinant of the type of work people will find and the subsequent income that they will derive from work. Many commentators in recent years have noted that Canada is in the midst of a transition to a "knowledge-based economy", where ability to add value through application of information and knowledge is fundamental.

From a policy perspective, education is a profitable public investment. According to calculations by CCPA research associate Robert Allen, so-called "social rates of return"–which combine the return to the individual through higher earnings and the return to the Treasury through higher tax revenues–range from 20-40% for completing high school to 8-16% for completing university or college. Because government can borrow money cheaply at about 5%, and can make a 10% to 20% "profit", education spending is simply good business.

K-12 Education

During a time of national cutbacks at the K-12 level, BC has put more money into education than any other province. However, in real, per-pupil terms, education funding at the K-12 level has been essentially flat since 1993/94, and is $281 per pupil (or 4.5%) lower than in 1990/91. Additional funding would improve the quality of education by better supporting programs, providing resources to teachers and increasing the total number of teachers.

With regard to teachers, in 1998/99, due to the hiring of new teachers as a result of a new collective agreement between the government and the BCTF, the student-educator ratio of 16.71 was at its lowest level since 1992/93. However, this is still higher than 16.12 at the start of the decade.

Key priorities for the 2000 Budget at the K-12 level include:

Restore funding in real, per-pupil terms to 1990/91 levels. This would mean an increase to $6,273 per pupil, from the 1999/00 level of $5,992 per pupil.

Part of this funding increase should be used to hire 1300 teachers, a move that would restore student-educator ratios to 1990/91 levels. This should support continued reduction of class sizes at the K-3 level and initiate a process for reducing class sizes at higher levels.

Better funding support is required for both special needs and ESL students. Any improvements in funding should allocate resources to these two areas.

Limit the ability of private schools to get access to public funds. The 1999 Budget allocates $141 million in grants to independent schools, which are not accountable to elected officials, while absorbing funds from the public system. To the greatest extent possible, public funds should not go to private schools. At a very minimum, the combination of tuition and public funding should be capped at levels consistent with the average per-pupil allocation in the public system.

Post-secondary Education

The provincial government has been supportive of post-secondary education during the 1990s. In part, this represented a "catching up" to other provinces, but nonetheless, by 1997 per capita post-secondary expenditures in BC were the second highest in the country, at $372 per person. In addition, BC has capped increases in tuition fees in recent years, making it one of the most affordable jurisdictions in Canada.

To better enhance the affordability of the province’s post-secondary education system, the government should, in the short-term, maintain the current tuition freeze. In addition, the government should examine making first-year tuition free, with a medium-term plan to provide all undergraduate education free of tuition.

The government should also review the student loan system, with an aim of moving away from subsidizing the commercial banks and towards government-guaranteed loans.

Health Care

In the 1990s, BC has not undergone the radical downsizing seen in provinces like Ontario and Alberta. Despite cuts in federal transfers, BC has generally opted to maintain funding levels for health care, even at the cost of larger deficits.

Of course, spending more money does not necessarily lead to improved health outcomes, but spending too little is a guarantee of poor performance. In the short-run, maintaining funding levels is necessary to support the delivery of quality health care in BC. The longer-term challenge is for governments to be more innovative in finding better ways to deliver care, rather than just adding more money to the existing structure.

While funding has increased over the 1990s, a disproportionate amount has gone towards physician care and pharmaceuticals, leaving acute care services to compete with long-term and community care services for funds, while funding for new equipment and buildings has been largely neglected.

To contain costs within the health care system, longer term planning is required. Institutions have difficulty planning under the current year-to-year approach, and would benefit from the ability to plan for capital and operating expenditures. A good example is in the area of mental health, where a ten-year plan is already in place. Longer-term planning may increase costs in the short-run, but will ultimately avert dramatic increases down the road.

The government should also initiate a program of seed funding toward new models of delivery in the health care system. A recent report, Blended Care, released by the Hospital Employees Union, BC Nurses Union and BC Government Employees Union suggests a number of worthy structural changes that would increase quality of care and the integration of the health care system as a whole. Among their recommendations are: moving away from the fee-for-service model for physicians to a salary model; instituting a primary care program of community health centres, based on the model of multidisciplinary teams; and, extending the public health care system into new areas beyond hospitals and physician services.

As a first step, the government should be proactive in lobbying for a federal Community and Home Care Act, that would extend the principles of the Canada Health Act and the purview of the public health system into these new areas. For many years now, both federal and provincial governments have cited the need to move more health care into the community. It is time that this rhetoric is matched with an appropriate legislative framework and funding support.

Funding the development of long-term care facilities, home care and supportive housing–in the public system–will also take the strain off of more expensive acute care beds. A key priority is in building new long term care facilities and increasing the stock of supportive housing for seniors. This will take the pressure off the acute care system and allow as many seniors as possible to stay in their own homes. Estimates suggest that about 5,000 new long-term care beds will be required over the next five years, plus an additional 4,000 replacement beds.

At present there is no capital funding dedicated to long-term care construction, with the potential result that within the next five years, the sector will predominately be private and for-profit. An alternate approach would be possible with the creation of a Community Development Corporation, with capital funding for not-for-profit seniors' housing and long-term care developments. With this type of community development approach, resources from the not-for-profit sector could be married with resources from government to create a more community-focused and cost-effective solution.

Revenues

The government should hold the line on overall tax levels (as a share of provincial GDP) in the 2000 Budget. Already announced tax changes that lower the second provincial surtax rate from 19% to 15% in 2000 represent a windfall exclusively to those earning over $80,000 per year. Further tax cuts for upper income earners should not be part of the 2000 Budget.

While upper income earners (rightly) pay higher taxes in BC, taxes for most British Columbians are among the lowest in Canada. When total provincial taxes are considered, income earners from $20,000 to $75,000 in income would pay lower taxes only in Alberta (and this is offset by higher out-of-pocket costs for services).

This is not to suggest that there is no scope for tax reform at the provincial level. Changes to the provincial tax system should be aimed in two principal directions:

Increasing the progressivity of the tax system; and,

Changing the nature of incentives built into the system to be more ecologically-friendly.

It is important that both of these initiatives be addressed at the same time, as "green taxes" have the potential to be regressive, depending on how they are designed, and are often suggested by promoters as replacements for existing taxes that are progressive in nature.

To improve the progressivity of the tax system, the government should implement a new refundable tax credit, which would raise the threshold at which low income people begin to pay tax. This threshold has been falling since partial de-indexation was introduced federally by the Mulroney government in 1986. Currently, those with very low incomes in BC are taxed at a higher rate than in several other provinces. In 1998, for example, someone earning $10,000 in BC would pay combined federal and provincial taxes that amount to 5.1% of income, while in Quebec this would only be 1.8%.

Lowering or eliminating taxes for the lowest income earners could be offset by the creation of a third provincial surtax, to be paid by the highest income earners in the province. This would affect less than 1% of BC tax filers, and would reverse some of the tax cuts that the highest income earners have benefited from in recent years.

Another area for consideration is in regard to measures that make the incentives created by the tax system more ecologically friendly. Currently, BC's fuel taxes are among the lowest in Canada. A primary goal should be to increase BC's fuel taxes to discourage automobile usage and urban pollution. This type of measure has been advocated by a variety of environmental groups as a means of better capturing pollution costs in gasoline prices. It is estimated that about half of urban pollution is the result of motor vehicles. Other "carbon tax" initiatives, to the extent that they can be applied provincially, should also be considered.

For such measures, a phase-in period should be introduced during which the relation between tax rate changes, changes in the rate of use, and in tax revenue should be studied. Proceeds of the tax increase, along with a dedicated share of the existing tax, could be ear-marked for funding of new public/mass transit, improvements to the existing system and to subsidize the use of alternative fuel systems.

Another set of revenue-neutral changes to the tax system could be made to encourage "green" behaviour:

Introduce a "fee-bate" model, where additional levies are charged, or rebated provided, on vehicles, based on energy efficiency ratings. This would increase the cost of the gas-guzzling sport utility vehicles that now make up half of all new car sales. The proceeds of levies on fuel/energy inefficient vehicles could then be used to provide a rebate on vehicles that have high fuel efficiency.

Tax incentives could also be used to encourage the building and retrofit of residential and small business buildings to increase energy efficiency.

Existing tax incentives and subsidies to the oil and gas industry should be phased out. Because of these incentives, oil and gas companies pay among the lowest effective tax rates in Canada. At the same time, tax incentives and subsidies for alternative and renewable energy sources should be stepped up.

Green initiatives should also be seen as pa