

# behind the numbers

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**Canadian Centre for  
Policy Alternatives  
BC Office**

1400–207 W. Hastings St  
Vancouver, BC V6B 1H7

Tel: 604-801-5121

Fax: 604-801-5122

[info@bccpolicyalternatives.org](mailto:info@bccpolicyalternatives.org)

[www.policyalternatives.ca](http://www.policyalternatives.ca)

*The Canadian Centre for Policy Alternatives is a non-partisan, non-profit research institute dedicated to producing and promoting progressive economic and social policy research of importance to Canadians and British Columbians.*

**To arrange an interview  
with David Fairey, call  
Shannon Daub at  
604-801-5121.**

For more information  
about the Centre, visit  
[www.policyalternatives.ca](http://www.policyalternatives.ca)  
or contact the office.

## **BC's NDP Government: Spendthrift or overly restrained?**

By David Fairey

The media portrays the past nine years of BC NDP provincial governments as a period of government over-spending, irresponsible deficit budgeting, excessive growth of the public sector, and antagonism to business. Had the NDP government been more restrained in its spending and reduced business taxes – so the story line goes – new business investment would have grown and the provincial economy along with it, instead of faltering as it has for a number of years.

However, the numbers on provincial economic growth and government spending tell a different story—a story of government restraint when fiscal stimulus was required. The numbers indicate that NDP provincial government spending has been overly restrained throughout most of its mandate, contributing to a low real rate of provincial economic growth for the past nine years.

At no time in its mandate did the NDP government adopt strong counter-cyclical or stimulative fiscal policies to offset several negative growth-inhibiting external factors (the Asian economic crisis, depressed world

prices for natural resources, high real interest rates, etc.) that have depressed the private sector provincial economy for the past five years.

### **Numbers Show Little Real Growth**

The numbers on provincial economic growth for the past 20 years (11 years of Social Credit governments followed by 9 years of NDP governments) reveal that total provincial gross domestic product (GDP) has grown steadily in *current* dollar terms over the entire period. However, real GDP per capita (output after inflation relative to population) measured in constant 1992 dollars reached a peak in 1989 (at \$27,489), declined for three years in a row, and then grew very modestly (at between \$25,000 and \$26,000) until 1999.

Consequently, in the ten year Social Credit government period 1980 to 1990, average annual growth in real GDP per capita was only 0.8%, while between 1991 and 2000 (nine years of NDP government) average annual growth in real GDP per capita is projected to be a smidgen above zero, at 0.3% (based on 2000 estimates). In 2001 real GDP per capita

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Figure 1: BC Economy 1980 to 2001, Real GDP Per Capita

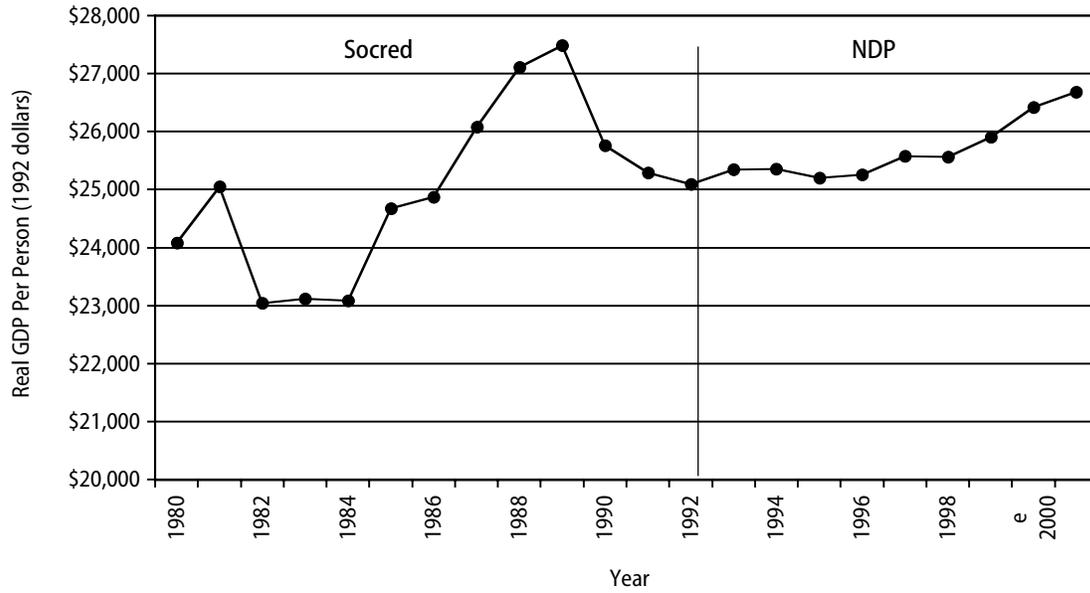
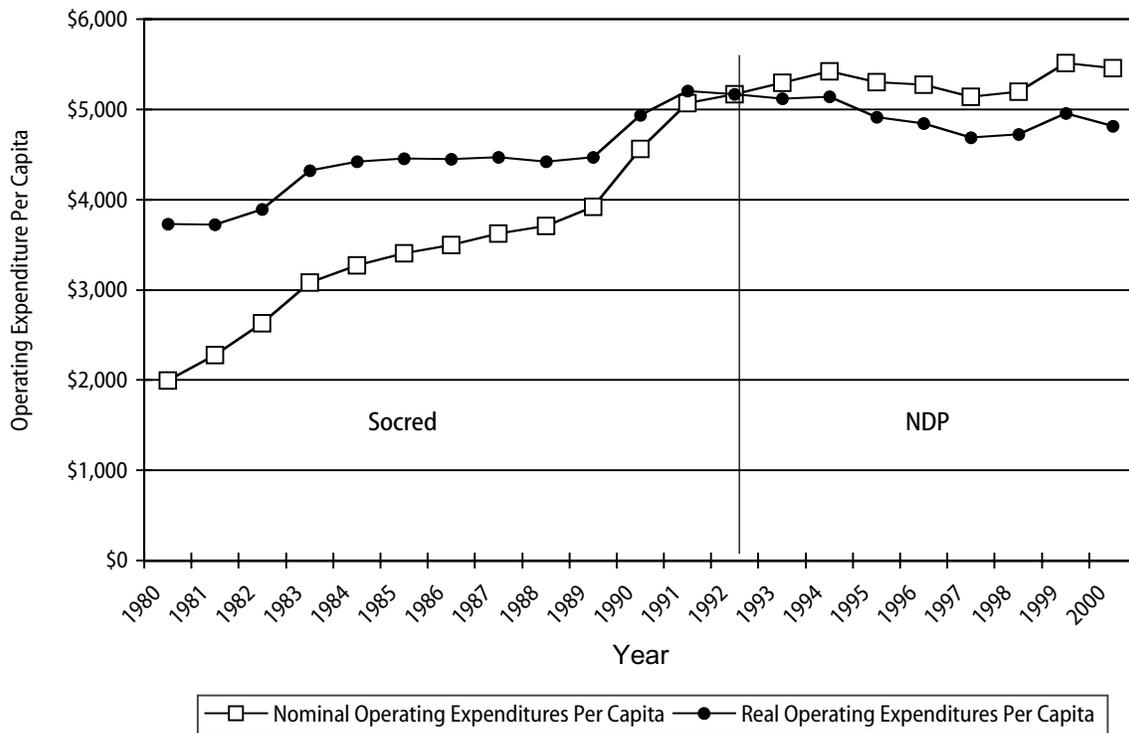


Figure 2: BC Government Operating Expenditures: 1980 to 2000



is projected to grow slightly, but will still remain below what it was 13 years ago in 1988 and 1989.

### Declining Real Per Capita Government Expenditures

Against this background of low growth it is instructive to look at the pattern of provincial government operating expenditures on goods, services and programs. Total provincial Consolidated Revenue Fund expenditures have steadily increased in *current* dollar terms since 1980. In constant 1992 dollars, however, real government operating expenditures per capita increased fairly steadily from 1980 to 1991, then shows a trend decline to the present as a result of declining spending in 6 of the last 9 years. Only in 1999 was there a significant 4.9% increase in real per capita government operating expenditures.

From 1992 to 2000 the average annual change in real per capita government was in fact -0.8%.

### The Rise and Fall of Provincial Spending Relative to GDP

Similar trends are evident when measuring government spending relative to total provincial output. Over the same

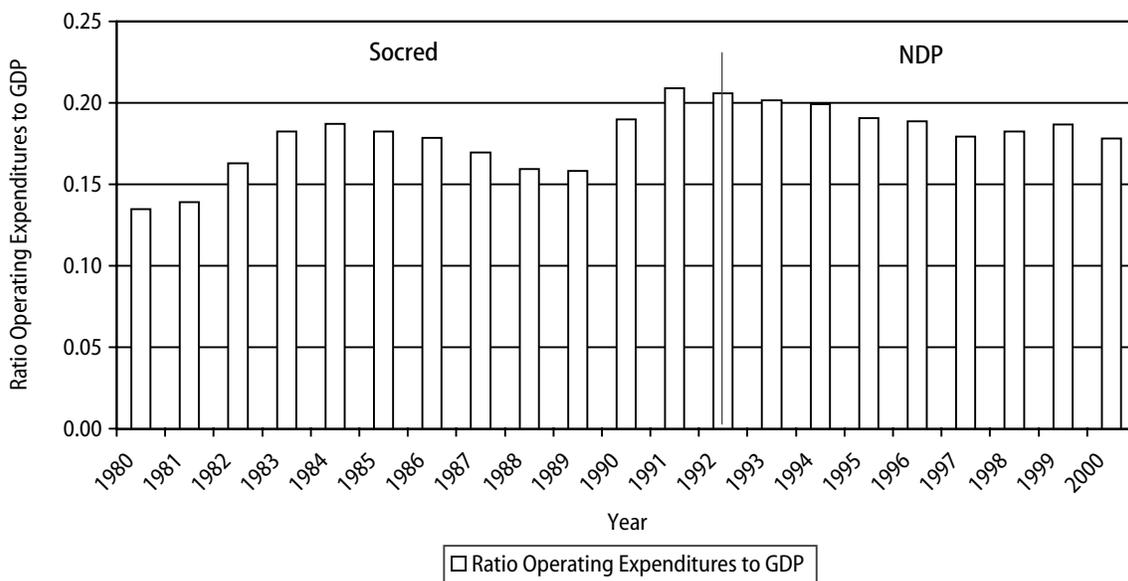
20 year period, provincial government expenditures as a percentage of total provincial GDP increased from 14% in 1980 to 21% in 1991, and then showed a trend decline to 17.8% in 2000.

Clearly the 1990's have witnessed a decline in real per capita provincial government spending and a decline in the contribution of government spending to total provincial output/expenditure. Therefore, there is no evidence that provincial government spending under the NDP has been unrestrained, excessive, or that provincial government spending in relation to the total economy has been growing and choking-off private personal and business expenditure. The fact is that NDP provincial government spending in real terms has been very restrained and has declined relative to the total provincial economy.

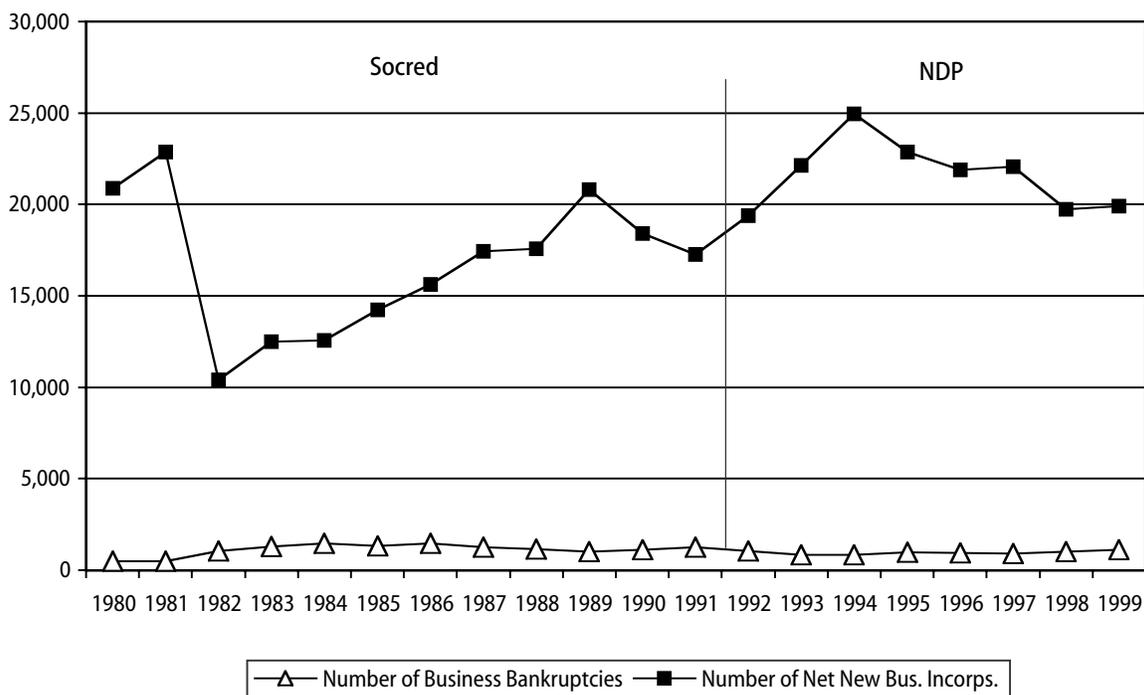
### What About the Climate for New Business?

One would expect that if the NDP government has been so discouraging to business investment, as the media and Liberal opposition portray, the rate of net new business formation in the province would have been at a low level over the past nine years of NDP administration. The numbers in fact show the opposite to be true.

Figure 3: Ratio of BC Government Operating Expenditure to GDP



**Figure 4: BC Business Incorporations and Bankruptcies**



Net new business incorporations in British Columbia have been at a much higher level in the 1990's than under the "business-friendly" Social Credit governments of the 1980's. In the 1980's the average annual number of net new business incorporations (new business incorporations less business bankruptcies) was 16,490. In the 1990's, under the NDP, this number increased by 33% to an annual average of 21,863 net new businesses, with the rate of new business incorporations at its highest in the period 1993 to 1997.

Consequently, there is no evidence that NDP governments in the 1990's created a climate that discouraged new business formation, any more than the Social Credit governments did in the 1980's. To the contrary, new business formation has flourished in the past nine years.

### Conclusion

The preceding provincial economic and fiscal data clearly demonstrate the fallacy of the popular perception that the

NDP is spendthrift, unrestrained, and that government spending and the public sector have become too big as a result.

The data in fact shows that the absence of growth in real GDP is positively correlated with a trend decline in real per capita government expenditure. This indicates that provincial government spending restraint has contributed to prolonged economic stagnation, and reflects inappropriate fiscal policy choices. A more appropriate response to low economic growth would have been for the provincial government to stimulate the economy with an increase in real government spending.

Over the same time period of this analysis there has been a record high level of new business formation. Ironically, this private sector development does not appear to have had a positive impact on real economic growth.

