

What if?

What if there'd been no tax cuts in 2001?
 What if no schools or hospitals or daycares had to close?
 What if health and education spending went up?

These are the questions the Canadian Centre for Policy Alternatives asks in the *2003 BC Solutions Budget*. In the face of record deficits and drastic spending cuts, we wanted to know what the BC budget would look like if the provincial government had made different choices. Here's what we found out:

Government fiscal plan:

- Personal and corporate income tax cuts, introduced in 2001, worth over \$2 billion;
- Regressive tax increases (MSP premiums, sales taxes) worth \$750 million in 2002/03;
- \$1.5 billion in spending cuts, introduced to cover the cost of tax cuts;
- Record budget deficits; balanced budget by 2004/05.

Impact on the BC Budget's bottom line:

2002/03	2003/04	2004/05
\$3.5 billion deficit	\$1.4 billion deficit	\$411 million surplus

The path not taken:

- No tax cuts, no tax increases, no spending cuts;
- Spending increases in health care and education in order to maintain 2001/02 services and employment levels;
- Maintains all other public service funding levels—no welfare cuts, office closures, etc;
- Much smaller deficits; balanced budget by 2004/05.

Impact on the BC Budget's bottom line:

2002/03	2003/04	2004/05
\$1.3 billion deficit	\$707 million deficit	\$47 million surplus

Rethinking BC's fiscal plan

"The path not taken" scenario modelled in the *Solutions Budget* shows that BC could have been spared all the hardship associated with spending cuts, while still meeting the government's three-year timetable for balancing the budget. It shows that the government's claim of an underlying "structural deficit"—used to justify cuts to supposedly "unsustainable" public services—was false.

The government's economic strategy boils down to tax and spending cuts, privatization and deregulation, and the Olympics. It is more a leap of faith than a compelling plan for BC's future. In spite of all the rhetoric about "making BC open for business" there is no evidence that these strategies actually work—that they deliver the type of investment we want, or that they are worth the trade-offs in social and environmental protections.

The tax cuts were supposed to create so much of an economic "stimulus" that they would pay for themselves. But they haven't. In spite of the tax cuts, BC went into recession

in 2001 (for the first time since 1982), and experienced slow growth in 2002, trailing the rest of the country. Even the government's own forecasts suggest that economic growth is not expected to boom any time soon.

Tax cuts increase inequality

In the meantime, the tax cuts are increasing the gap between haves and have-nots in BC. The personal income tax cuts favoured wealthy British Columbians: the 13% of taxpayers who make more than \$60,000 got 53% of the personal income tax cut "pie." The 49% of people who earn \$30,000 or less only got about 13% of the pie.

The tax cuts are also increasing the gap between the Lower Mainland and "rural" BC. Most of the personal income tax cut was concentrated in the southwest corner of the province, with only 29% of the tax cut dollars spread across the rest of BC. Yet this is where help is needed most.

At the same time, spending cuts are hitting low-income people and rural and resource communities hardest.



	Government fiscal plan				"The path not taken"			
	2001/02	2002/03	2003/04	2004/05	2001/02	2002/03	2003/04	2004/05
Revenues	millions of dollars				millions of dollars			
Taxation								
Personal Income Tax	5,375	4,254	5,109	5,449	6,415	6,652	6,965	7,376
Corporate Income Tax	1,522	664	989	1,070	1,770	1,835	1,922	2,035
Sales Tax	3,535	3,812	4,039	4,245	3,510	3,640	3,811	4,036
Other taxation revenue	3,220	3,227	3,178	3,265	3,220	3,339	3,496	3,702
Total taxation revenues	13,652	11,957	13,315	14,029	14,915	15,467	16,194	17,149
Natural resource revenue	3,252	2,823	3,052	3,129	3,252	2,823	3,052	3,129
Medical Services Plan premiums	955	1,327	1,342	1,353	925	938	950	964
Other revenue	5,266	5,819	5,921	6,041	5,266	5,819	5,921	6,041
Total revenues	23,125	21,926	23,630	24,552	24,358	25,047	26,117	27,283
Expenditures								
Health	9,964	10,380	10,374	10,378	9,964	10,380	10,899	11,253
Education	6,862	6,871	6,871	6,871	6,862	7,034	7,209	7,390
Social services	3,369	3,197	2,784	2,368	3,369	3,706	3,500	3,369
Debt service	798	920	1,085	1,182	798	850	900	950
Other	4,262	3,932	3,821	3,329	4,262	4,262	4,262	4,262
Total Expenditures	25,255	25,300	24,935	24,128	25,255	26,232	26,770	27,224
Net balance on Crown corporations	(567)	(126)	(53)	(13)	(567)	(126)	(53)	(13)
Accounting adjustments	1,464	-	-	-	1,464	-	-	-
Surplus (deficit)	(1,233)	(3,500)	(1,358)	411	0	(1,311)	(707)	47

Notes on how the calculations were made:

For the government fiscal plan numbers: 2001/02 are actual figures; 2002/03 to 2004/05 based on the latest Ministry of Finance forecasts, plus new information regarding equalization payments. (The government estimates a \$4 billion deficit in 2002/03, but this includes a \$500 million "forecast allowance.")

For "the path not taken" scenario: Tax revenue uses a 2001 baseline but without the tax cuts. To account for the small stimulus provided by the tax cuts, \$100 million is subtracted from tax revenues. Subsequent years assume growth in revenues based on average GDP growth forecasts.

In "the path not taken" scenario, health care expenditures rise to account for inflation and wage increases (by approximately 5% per year). Education expenditures increase by 2.5% per year. Debt service costs are lower because of lower provincial debt in this scenario. Social services expenditures increase in 2002/03 due to a weak economy, then decline back to 2001/02 levels. All other expenditures are assumed constant over the three-year period.

Sources: CCPA calculations based on BC Budget 2002, Ministry of Finance 2002/03 First and Second Quarter Reports; Finance Minister's Economic Forecast Council.

A made-in-BC economic strategy

Over the long term, BC needs a more creative investment strategy—a made-in-BC approach. It must address the growing gap between "rural" BC and the Lower Mainland, encourage economic diversification, and move BC up the value chain when it comes to our natural resources.

The provincial government has a significant role to play in the development of BC's economic future: what kind of economic growth we have, and how the benefits are shared.

www.policyalternatives.ca

Get the full **Solutions Budget** free on our website. Or call the CCPA office at 604-801-5121. For more information and analysis on the BC economy and the impacts of the tax and spending cuts, check out these CCPA publications:

- *Bleeding the Hinterland: A regional analysis of BC's tax and spending cuts*
- *Cost Shift: How British Columbians are paying for their tax cut* (www.costshift.ca)
- *The Great BC Tax Cut Giveaway* (BC Commentary, Summer 2001)
- *Recapturing the Wealth: Investment solutions for jobs and environmental sustainability in BC's resource sector*
- *Health Care Restructuring in BC*

