



**CCPA**  
CANADIAN CENTRE  
for POLICY ALTERNATIVES  
BC Office

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## **CCPA Submission to BC Budget Consultations 2015**

SUBMITTED TO THE SELECT STANDING COMMITTEE ON FINANCE AND  
GOVERNMENT SERVICES OF THE LEGISLATIVE ASSEMBLY OF BRITISH COLUMBIA

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“Keeping an eye on debt and deficits is important. But governing means more than just balancing budgets.”

— Daphne Bramham, “We Need Citizens, Not Just Taxpayers and Bookkeepers,”  
*The Vancouver Sun*, Sept. 15, 2014.

I am pleased to offer this submission to the 2015 BC Budget Consultations on behalf of the BC Office of the Canadian Centre for Policy Alternatives, outlining some of our views and recommendations on the 2015 provincial budget.

Established nearly twenty 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 fifty staff and volunteer research associates to develop and put forward real, workable solutions, and share our findings as widely as possible to advance social, economic and environmental justice in our province—and to challenge the message that there is no alternative.

### **I. Economic and Fiscal Outlook**

Five years after the end of the 2008/09 recession, a meaningful recovery throughout the province is still a long way away. While the economy (as measured by real GDP) regained the lost ground in the recession and provincial finances are back in surplus territory, the

labour market remains weak despite the much-hyped BC Jobs Plan and too many BC families continue to struggle with economic insecurity and poverty.

As of September 2014, data from Statistics Canada's Labour Force Survey indicates:

Only 71.1 per cent of working-age (15-64) British Columbians are employed, effectively unchanged since the launch of the BC Jobs Plan and barely improved since the low point of the recession. This indicates that the new jobs created in BC so far since the 2008/09 recession have been barely sufficient to keep up with population growth and have not yet replaced the jobs lost during the recession.

BC would need 94,000 more jobs just to return to the province's pre-recession employment rate (the proportion of working-age British Columbians who have jobs). This is equivalent to the number of jobs created in 2010, 2011 and 2012 combined (BC lost jobs in 2013).

Employment growth to date in 2014 has been low: only 0.6 per cent since the same period last year, which is lower than the Canadian average and particularly concerning following a decline in jobs in 2013.

Employment growth to date in 2014 has been entirely in part-time positions with zero net growth in full-time employment over the last year.

Perhaps the most serious downside risk for the BC and Canadian economies over the next year lies in the weakness of the household sector. Stagnating incomes, record high household debt levels in the face of inevitable future interest rate hikes, and a weak job market will restrain consumer spending levels in the near future.

Public sector spending restraint undertaken by the government to produce an operating budget surplus (if razor-thin) in fiscal year 2013/14, despite weaker than anticipated economic conditions, has additionally dampened economic growth.

We urge the government to reconsider the continuing fiscal restraint built into the 2014 Budget and September's First Quarterly Report, which would weaken the provincial economy over the medium term and deepen the hardship for the most vulnerable British Columbians, even if it bolsters the immediate provincial fiscal position.

We are concerned that real government spending per person is currently budgeted to decline over the near term, despite anticipated steady improvements in real GDP growth per person (a reflection of our province's ability to pay for public services). For the province, effective spending cuts would mean: reduced ability to provide proper regulation and oversight, increasing the risk of disasters like the Mount Polley spill; reduced access to public services like libraries, seniors' care and community health services; larger class sizes in schools and higher education institutions thereby reducing the quality of education and skills training; less protection for vulnerable children in care which increases the likelihood of abuse and neglect.

We urge the government to reconsider these planned spending cuts.

A strong, well-resourced government is not in contradiction with a healthy economy. In fact it is often government spending, including on adequate staffing levels for creating and

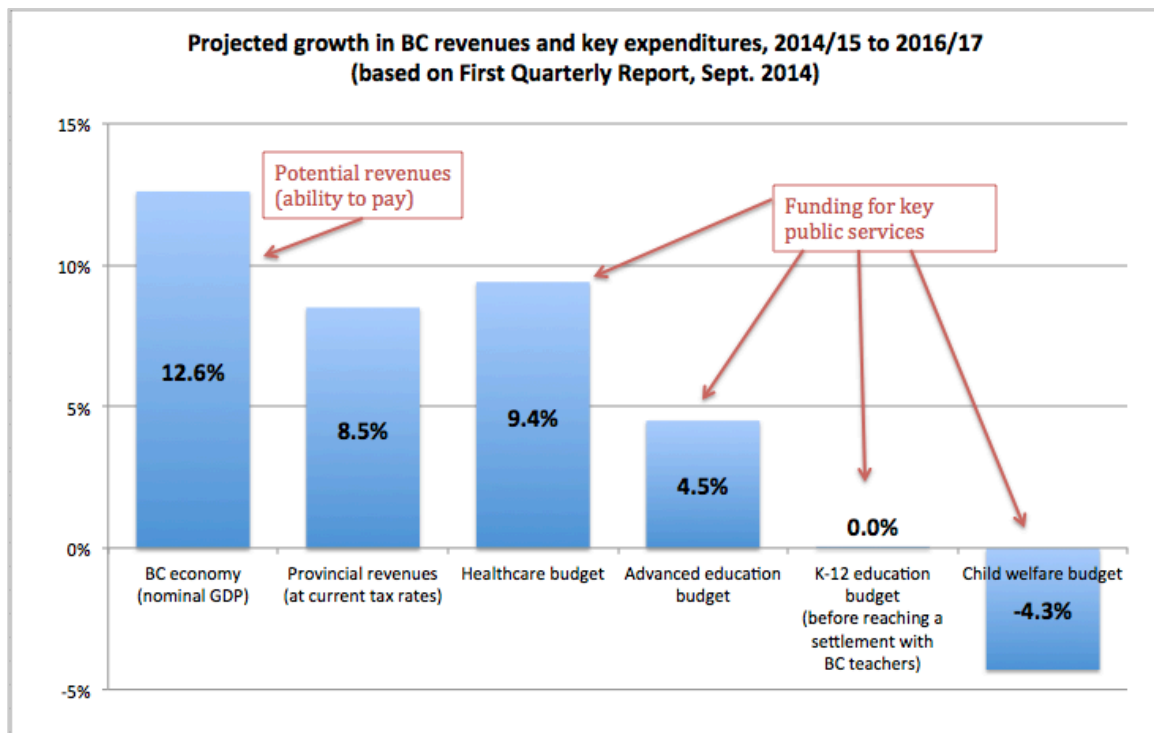
enforcing appropriate regulation, that creates the conditions for businesses and communities to thrive.

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 reach record-low levels by 2016/17. The budgeted increases for key public services (with the notable exception of healthcare) are significantly lower than the growth in projected government revenues, and in many cases represent actual cuts, once inflation and population growth are considered. And even the healthcare budget is projected to grow by less than the rate of economic growth, which represents our ability to pay.

The current fiscal crunch is the result of a revenue shortfall, caused by declining resource royalties and a decade of steep tax cuts, followed by a global recession and a weak recovery.

Notably, the government is projecting that revenues will grow by only 8.5 per cent over the next three years, considerably less than the anticipated 12.6 per cent growth in the provincial economy (nominal GDP). The significant gap between the projected rates of growth of the provincial economy and government revenues is of concern. We recommend that the government consider revenue measures to bring growth in provincial revenues closer to the growth in the economy (which represents our ability to pay).

We observe that if government revenues were to grow at the same rate as the provincial economy, the province would have an additional \$2.8 billion over the three year period to spend on public programs.



Not only have past tax cuts significantly reduced our fiscal capacity, they have also made our tax system a lot less fair, shifting tax revenues from corporations to families and from upper-income families to middle- and modest- income ones. 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 ensure everyone pays a fair share and to enable new or enhanced public services.

BC's current fiscal position is solid, with surpluses projected annually in the near term, and a manageable debt-to-GDP ratio of 18.1 per cent this fiscal year, which is projected to decline going forward. BC's debt-to-GDP is one of the lowest in the country. Only resource-rich Alberta and Saskatchewan have lower debt levels.

Given the low interest rate environment, weak business investment and the slack in the labour market, we recommend government consider borrowing to make strategic public investments necessary to begin addressing some of the pressing economic, social and environmental challenges facing the province.

## II. BC Budget 2015 Priorities

The Canadian Centre for Policy Alternatives recommends that in the fifth year of a slow and largely jobless economic recovery, the 2015 BC Budget should prioritize measures to set the foundation of a more just and sustainable economy, where prosperity is broadly shared with all residents in the province. Austerity measures (aka fiscal restraint), adopted in previous years in order to reduce the operating deficit by 2013/14 despite a slower than projected recovery, are weighing on the economy. Further restraint would only slow growth further and is unnecessary considering the solid fiscal position of the province.

We recommend the following seven priorities for BC Budget 2015. Taken together, these action items represent a bold and effective jobs plan.

### 1. A Comprehensive Poverty Reduction Plan

Combating poverty is the perfect investment during a slow recovery—it will provide an immediate boost to the provincial economy, as lower-income families are able to buy more goods and services from local businesses, and will produce considerable savings over the long run.

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. We spend between \$8.1 to \$9.2 billion annually in higher costs to the criminal justice system, in lost productivity, lower school success, and higher health costs.<sup>1</sup> This represents close to 5 per cent of the total value of our economy.

For years, the BC government has insisted its economic development measures would automatically take care of poverty. This has not happened. BC has had the highest or second-highest poverty rate in Canada for ten years straight, a period including both an economic boom and a recession. One in five BC children lives in a family with income below Statistics Canada's Market Basket Measure.

Other provinces have made poverty reduction a government priority and are seeing results. BC must follow their lead and adopt a comprehensive poverty reduction plan. Our 2008 report titled *A Poverty Reduction Plan for BC* outlines the core features of such a plan and puts forward a comprehensive set of recommendations that policy-makers can draw on.<sup>2</sup> Many of these recommendations would boost the incomes of those at the bottom of the income spectrum, who spend all their incomes in their local communities (because they don't have the luxury of saving), and thus would provide a much stronger boost to the local economy than tax cuts for individuals or corporations.

Funding priorities for BC Budget 2015 include immediately increasing income assistance rates, which have been frozen for seven years and have had their value significantly eroded by inflation, and building new social housing units to meet the needs of our growing population. Eventually, income assistance rates must be set to a level that meets actual costs of living in the province and indexed to inflation. The BC Poverty Reduction Coalition, a coalition of community and non-profit groups, faith groups, health organizations, First Nations and Aboriginal organizations, businesses, labour organizations, and social policy groups—of which we are a member—offers more information on why immediate action on poverty is needed in BC and what a comprehensive plan would include.<sup>3</sup>

## 2. Infrastructure Investments for Municipalities, Including Transit Investments

Current funding models for municipalities and for TransLink do not meet BC's need for modern transportation infrastructure that is essential for communities and businesses.<sup>4</sup>

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<sup>1</sup> Ivanova, Iglia. 2011. *The Cost of Poverty in BC*. Vancouver: Canadian Centre for Policy Alternatives.

<sup>2</sup> Klein, Seth, Marjorie Cohen, T Garner, Iglia Ivanova, Marc Lee, Bruce Wallace and Margot Young. 2008. *A Poverty Reduction Plan for BC*. Vancouver: Canadian Centre for Policy Alternatives.

<sup>3</sup> See <http://bcpovertyreduction.ca/> for more information.

<sup>4</sup> As identified in the 2013 report of the UBCM Select Committee on Local Government Finance *Strong Fiscal Futures: A Blueprint for Strengthening BC Local Governments' Finance System*.

Budget 2015 must begin to address the urgent need for rapid transit investment in Surrey and Vancouver, and the infrastructure deficit facing BC municipalities.

Upgrading and expanding our transportation infrastructure is a necessity, the question is not if but when we do it. Currently, interest rates are at rock-bottom levels. This is the best possible time for governments to borrow to make strategic capital investments. Postponing investment in this interest rate regime makes little economic sense. As an additional benefit, initiating major construction projects now will boost BC's weak job market.

Since the infrastructure we build today will serve BC over the next 30–50 years, it is crucial to make it as sustainable as possible. The government's decision to put TransLink funding increases to referendum, while other transportation infrastructure investments—such as the George Massey Tunnel Replacement Project—are not required to face such hurdles, puts an unfairly high burden for justification on public transit projects.

BC needs a long-term infrastructure investment plan to ensure that all communities have access to viable transportation options. Getting more people out of their cars and on transit frees up the road for the movement of goods and for those who do need to drive because they work in remote and inaccessible areas. It is good for business, it improves air quality, boosts health and it helps the fight against climate change.

We hope the government will undertake a detailed review of the recommendations for urban, suburban and rural areas transportation strategies put forward in our 2011 study, *Transportation Transformation: Building Complete Communities and a Zero-Emission Transportation System in BC*.<sup>5</sup>

### 3. Climate Action Initiatives

A reduction in global greenhouse gas emissions is absolutely crucial for tackling climate change. Starting in 2007, BC took some important steps on climate action, including legislated goals to reduce greenhouse gas emission and introducing North America's first carbon tax. Unfortunately, funding for many of the energy-efficiency programs has ended, the government has thus far ruled out continuing annual increases in the carbon tax, and the LNG development strategy threatens BC's legislated greenhouse gas (GHG) reduction targets.

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<sup>5</sup> Condon, Patrick, Eric Doherty, Kari Dow, Marc Lee, Gordon Price. 2011. *Transportation Transformation: Building Complete Communities and a Zero-Emission Transportation System in BC*. Vancouver: Canadian Centre for Policy Alternatives.

Budget 2015 must recommit to meaningful climate action. Providing subsidies for energy retrofits for homes, building on the LiveSmart BC program, is one immediate priority. Funding should also be made available to make schools, hospitals and other public buildings more energy efficient, in addition to the small amounts available through the Carbon Neutral Capital Program for the K–12, post-secondary education and health sectors. Such initiatives will create jobs in construction province-wide, reduce energy consumption and help the province meet its climate goals.

We recommend that Budget 2015 reinstitute the carbon tax annual increases of \$5 per tonne for the next four years, which were in place for the first five years after the introduction of the tax. This would take the current carbon tax to \$50 per tonne over the next four years—equivalent to 12 cents per litre of gasoline, compared to today’s seven cents.<sup>6</sup> A \$50 carbon tax would raise about \$2.2 billion in total, doubling what the carbon tax currently raises, if it is expanded to cover the industries currently exempt (which alone would raise about \$125 million at today’s rate of \$30/tonne).

We urge the province to break with the revenue neutrality requirement of the carbon tax regime, and assign half the funds raised by the carbon tax to a more generous carbon tax credit and the other half to support the provincial climate action plan, as recommended in our submission to the BC Carbon Tax Review in 2012.

CCPA research has shown that the existing carbon tax is regressive—lower-income households are paying more as a share of their income than higher-income households—because the Low-Income Climate Action Credit gets clawed back too quickly after a very low income threshold.<sup>7</sup>

Assigning half of the income raised by the carbon tax to an expanded tax credit would greatly improve the fairness of the tax. It would allow the credit to be extended more broadly to the bottom 80 per cent of households, fully compensating the bottom half for the carbon tax they pay and making them net beneficiaries of the tax. Some of the credit could also be used to redress regressive rural impacts, or for business tax credits for businesses making climate action investments.

Instead of providing subsidies to the oil and gas industry that directly contradict BC’s climate action plan, Budget 2015 should increase support for research and development into new green technologies.

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<sup>6</sup> Lee, Marc. 2012. *Building a Fair and Effective Carbon Tax to Meet BC’s Greenhouse Gas Targets: Submission to the BC Carbon Tax Review*. Vancouver: Canadian Centre for Policy Alternatives.

<sup>7</sup> Lee, Marc. 2011. *Fair and Effective Carbon Pricing: Lessons from BC*. Vancouver: Canadian Centre for Policy Alternatives.

A large-scale reforestation program to replace trees lost to the pine-beetle devastation will help reduce greenhouse gas emissions while spurring economic activity in rural communities struggling after decades of forest industry decline.<sup>8</sup>

#### 4. Strategic Investments in Social Infrastructure

BC families are facing an affordability crisis in housing and child care. It is no surprise that household debt is record-high and continues to increase. Child care bills can run upwards of \$20,000 per year for a young child—higher than university tuition—and quality licensed spaces are too few.

We recommend that BC Budget 2015 provide the investment needed to put in place the widely-endorsed \$10/day Child Care Plan.<sup>9</sup> Investing in more accessible and affordable quality child care will have ripple effects across the provincial economy: it will take some pressure off young working families, freeing up resources to pay off their student and mortgage debt; it will provide a good start for all BC children; it will allow more mothers to participate in the workforce, increasing tax revenues almost immediately (as BC has low female labour force participation compared to the rest of the country); and it will create new jobs.

An expansion of community-based prevention initiatives, mental health initiatives, and seniors care services is another key area the 2015 Budget must address. The lack of these services puts pressure on the most expensive part of the healthcare system—emergency rooms and hospitals, costing us more over the long term.

#### 5. Adequate Funding for Education, Skills Training and Youth Employment Programs

Skills training has nominally been a priority for government since the Jobs Plan was announced in September 2011, but very little new funding has been allocated to improving training so far.

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<sup>8</sup> CCPA Resource Policy Analyst, Ben Parfitt, has developed a number of important recommendations on forest management in this report: Parfitt, Ben. 2010. *Managing BC's Forests for a Cooler Planet: Carbon Storage, Sustainable Jobs and Conservation*. Vancouver: Canadian Centre for Policy Alternatives.

<sup>9</sup> The \$10/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/Day Plan, see <http://www.cccabc.bc.ca/plan>.



BC Budget 2014 capped total education funding increases to about 0.6 per cent annually over the next three years. This does not even cover inflation and fails to account for the expected growth of student enrolment, thus representing a cut to education funding in real terms. The Ministry of Advanced Education is budgeted to receive \$24 million less this fiscal year than it received in 2013/14. What is even more worrisome, the 2014 Budget counts on funding 5,000 *fewer* spaces for students in public institutions of advanced education in three years, in other words reducing access instead of expanding it.

Surprisingly, even the newly announced 10-year strategy to re-engineer BC's education and training systems, titled "BC's Skills for Jobs Blueprint," comes without an additional funding commitment. All it proposes to do is shift money around within the existing education funding envelope, which—as we already pointed out—is inadequate.

A recent report from the Conference Board of Canada, a business think tank, confirms our analysis. Their Summer 2014 *British Columbia Fiscal Snapshot* finds that BC would need to spend \$1.6 billion more on education (and \$1.8 billion more on healthcare) than it has budgeted over the next three fiscal years to maintain a constant level of funding after taking into account inflation, student enrolment projections and population growth.<sup>10</sup>

We recommend BC Budget 2015 invest the needed funds in education to not just maintain a constant level of funding but to expand access to programs in high demand and make training programs more affordable for students.

Besides access to training, BC youth need targeted employment programs. Youth unemployment in BC may not be as high as in some European countries, but there are over 40,000 fewer young people (15–24) working as of September 2014 than before the recession. There is some evidence that youth underemployment is an even bigger problem, with a large number of youth with post-secondary education working in low-skilled jobs in retail or food services.

Now that a settlement has been reached with BC teachers, Budget 2015 will need to adequately fund the K–12 system to honour that agreement. But more is needed. The dispute exposed deep problems in the system—overall funding that is \$1,000 per student less than the national average, and class size and composition issues that have reached unacceptable levels. Meaningfully addressing class size and composition should not wait for the outcome of a protracted legal process; students with learning disabilities, ESL, or other special needs should receive the support they need to reach their full potential now, and Budget 2015 must make the necessary investments in our public schools to ensure they do.

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<sup>10</sup> Macdonald, Alicia, Daniel Fields and Kill Beckman. 2014. *British Columbia Fiscal Snapshot: Back on Solid Ground*. Ottawa: The Conference Board of Canada.

## 6. Measures to Improve the Fairness of the Tax System

BC's overall tax system is now remarkably regressive, as we have documented in a recent CCPA report titled *Progressive Tax Options for BC: Reform Ideas for Raising New Revenues and Enhancing Fairness*.<sup>11</sup> When all personal taxes are considered in the province—income, sales, property, carbon, and MSP premiums—we find that higher income households pay a lower overall tax rate as a share of their income (what economists refer to as *effective tax rate*) than lower income households.

The Canadian Centre for Policy Alternatives recommends that BC strike a Fair Tax Commission to objectively review the BC taxation system and make recommendations for meeting provincial revenue needs in an equitable way consistent with our economic development and climate action goals. The Commission should include a public engagement component, engaging with British Columbians from all walks of life and parts of the province about the services they want and how we can pay for them fairly. All taxes and natural resource royalty programs should be on the table.

As a priority item, Budget 2015 must freeze MSP premiums, which have increased annually for the last six years and have doubled since 2000, an increase much larger than both inflation and the increases in healthcare spending. As of January 2014, MSP costs \$831 per year for a single individual, representing a much bigger bite out of the income of someone making \$40,000 per year than for someone making \$250,000. The provincial government now collects about the same revenue from MSP premiums as it does from corporate income taxes.

We recommend that Budget 2015 make permanent the top tax bracket of 16.8 per cent for individuals earning over \$150,000, which is currently set to expire in December 2015. When introduced in Budget 2013, this tax bracket was estimated to raise around \$205 million a year. However, with an end-date in sight, the temporary tax bracket provides an incentive to high earners to defer their income until this new tax bracket expires, thus undermining the revenue-raising capacity of this policy. Making the tax bracket permanent would serve the dual purpose of raising additional revenues for the province and tackling the growing income disparities in BC.

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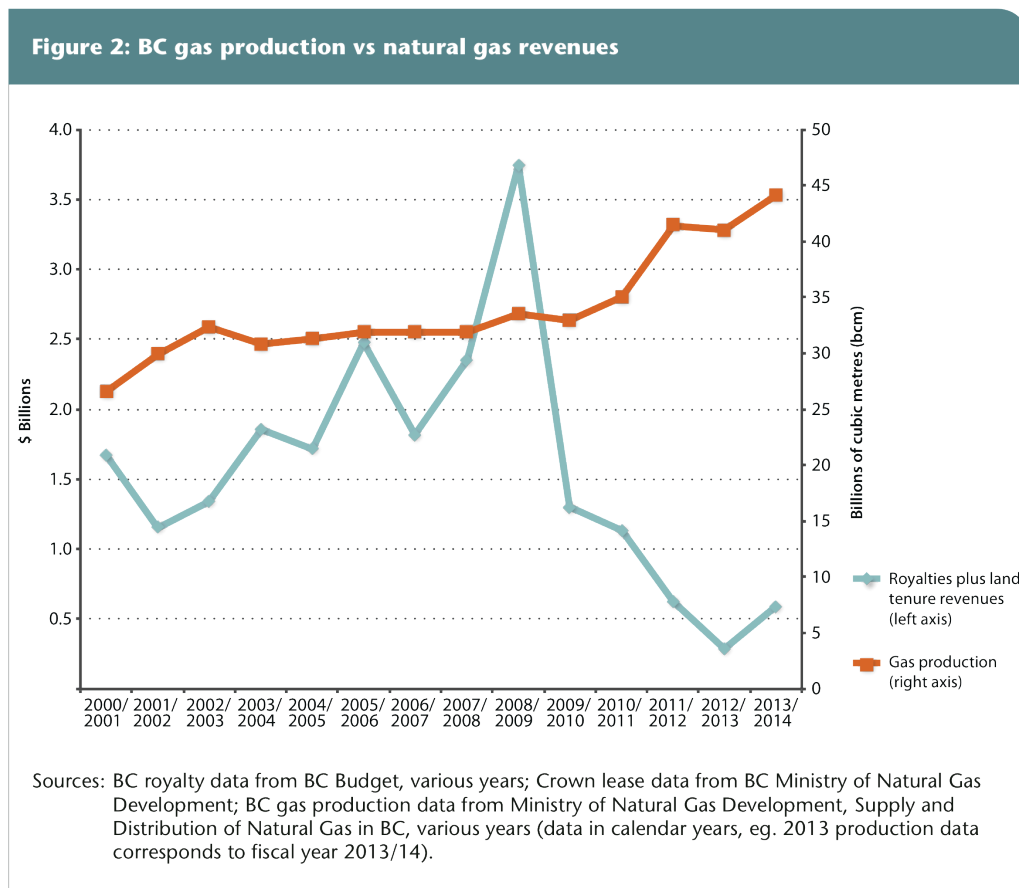
<sup>11</sup> Ivanova, Igluka and Seth Klein. 2013. *Progressive Tax Options for BC: Reform Ideas for Raising New Revenues and Enhancing Fairness*. Vancouver: Canadian Centre for Policy Alternatives.

## 7. Natural Resource Royalties Reform

Budget 2015 is expected to finalize the framework for taxing LNG exports, but it must also ensure that BC gets a fair return on our other key natural resources too. Natural resources are publicly-owned so ultimately resource royalties and taxes are supposed to ensure that BC receives a fair share of the profits. However, natural resource revenues for BC have fallen to 70 per cent of their peak in 2005/06.

BC is producing record high volumes of natural gas, up by one-third over the past five years, but royalty revenues have dropped significantly over this period due to lower market prices and large tax credits offered for fracking and other gas infrastructure. The province used to collect well over \$1 billion a year from natural gas royalties, peaking at close to \$2 billion in 2005/06, but over the last five fiscal years they have averaged a mere \$330 million per year.

This chart from a recent Canadian Centre for Policy Alternatives report shows the dramatic reduction in royalties charged per volume of gas produced.



Source: Lee, Marc. 2014. *Path to Prosperity? A Closer Look at British Columbia's Natural Gas Royalties and Proposed LNG Income Tax*. Vancouver: Canadian Centre for Policy Alternatives.

The current natural gas royalty rates seem remarkably low for a non-renewable fossil fuel.

The proposed 7 per cent LNG income tax rate is an extension of the royalty framework designed to ensure that the province captures a share of the windfall profits associated with selling the public resource (natural gas) at higher prices in Asia. Research by Marc Lee suggests the proposed LNG income tax rate may generate little public benefit in terms of revenues if the Asian gas prices drop or the LNG industry experiences cost overruns, which have been the norm in other jurisdictions.<sup>12</sup>

The Canadian Centre for Policy Alternatives recommends that the tax/royalty regime for LNG put forward in Budget 2015 put more emphasis on achieving public benefits before signing away the rights to this non-renewable publicly-owned resource. This regime must arrive at a net public benefit after factoring in the costs that LNG development poses to the public sector, including the costs of regulatory oversight, public infrastructure and the provision of additional public services (healthcare, education, policing in areas where gas is being extracted and liquefied), as well as environmental costs, such as the impact of fracking on water supplies, the treatment of wastewater, the impacts of pipeline infrastructure and increased greenhouse gas emissions.

The Canadian Centre for Policy Alternatives believes there is room for collecting more rents and royalties from key public resources—our forests, natural gas and water. Furthermore, rents from non-renewable resources should be invested in a Norway-style Heritage Fund for future generations instead of being rolled into general revenues and used to cover current operating spending.

### III. Summary

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 it sets the province up on a path of lower productivity, increased social ills and higher total costs over the long run.

There is no better time to tackle the big social, economic and environmental challenges currently facing our province than now, when we are running a surplus, when interest rates are record low, when our debt level is manageable and our taxes are some of the lowest of

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<sup>12</sup> Lee, Marc. 2014. *Path to Prosperity? A Closer Look at British Columbia's Natural Gas Royalties and Proposed LNG Income Tax*. Vancouver: Canadian Centre for Policy Alternatives.

all provinces. With sufficient revenue reform—as outlined in the above recommendations 6 and 7—this could be achieved without incurring a large operating deficit.

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.

We recommend the following seven priorities for BC Budget 2015. Taken together, these action items represent a bold and effective jobs plan.

1. A comprehensive poverty reduction plan.
2. Infrastructure investments for municipalities, including transit investments.
3. Carbon action initiatives, including reinstating annual \$5 per tonne increases of the carbon tax and reforming the Low-Income Climate Action Credit.
4. Strategic investments in social infrastructure, including the widely-endorsed \$10/day Child Care Plan.
5. Adequate funding for education, skills training and youth employment programs.
6. Measures to improve the fairness of the tax system, including striking a Fair Tax Commission, freezing MSP premiums and making permanent the new top personal income tax rate.
7. Natural resource royalties reform to ensure the province receives a fair return on its publicly owned natural resources.

The Canadian Centre for Policy Alternatives appreciates the opportunity to share our research and recommendations on BC Budget 2015 with the Legislative Standing Committee on Finance and Government Services.