2009

September BC Budget
Reality Check

Facing the Full Force of the Recession

SUMMARY The revised 2009 BC budget will be tabled on September 1st in the midst of a serious recession, BC's first recession since the early 1990s and a much deeper one. While the pace of deterioration may be slowing, unemployment will continue to rise months or even years after the economy stops contracting and it seems likely that a meaningful recovery will not begin for some time.

The vast majority of policy makers in Canada now recognize the vital role of governments in stimulating the economy to protect jobs and incomes during a recession. Yet, despite having abandoned its balanced budget legislation earlier this year, BC's government seems determined to run as small a deficit as possible — even if it has to cut key public programs and services to do so.

This CCPA Budget Update reviews the latest economic indicators and considers the implications of a prolonged recession for provincial government finances. It looks at the economic and social costs of arbitrarily limiting the size of the deficit, assesses the government's stimulus plan to date, and makes recommendations that would more effectively help British Columbia along the road to recovery.

Slow recovery means larger cyclical deficits

The government's February budget deficit target of $495 million is clearly unattainable without major spending cuts or tax increases. Even using the latest private sector forecasts, the underlying deficit is likely to reach $3.2 billion this fiscal year alone. These forecasts project a fairly quick recovery in 2010 and are likely too optimistic. A deeper recession will see BC's deficit reach about $3.9 billion in 2009/10, $2.5 billion in 2010/11 and $1.6 billion in 2011/12.

These deficits are cyclical — a direct result of the recession — and do not threaten the long-term health of provincial finances. BC is well positioned to run temporary deficits, with the lowest debt-to-GDP ratio of all provinces except Alberta. When economic conditions improve, the government will be able to balance the budget without cutting public services.

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CCPA
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BC Office

Spending cuts will deepen the recession

A number of cuts to public programs and services were announced over the summer in the name of keeping the deficit low. However, even if the provincial government makes $1 to $2 billion in spending cuts in 2009/10, it would still be faced with a sizeable deficit (given an underlying deficit between $3.2 and $3.9 billion). Attempts to reduce the size of the budget deficit are unwise public policy during a serious recession because they will put a drag on the economy at exactly the wrong time.

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Spending cuts have spin-off effects throughout the economy. Using a model provided by the economic forecasting firm Informetrica, we calculate that spending cuts in the $1 to $2 billion range would further depress the BC economy (GDP) by 0.9 to 1.8 per cent, costing the province 18,000 to 35,000 jobs (in addition to recession-driven job losses). In contrast, if the government accepts the underlying deficit and adds an additional $1 billion in stimulus spending, for example, it will boost GDP by 0.9 per cent or $1.7 billion next year.

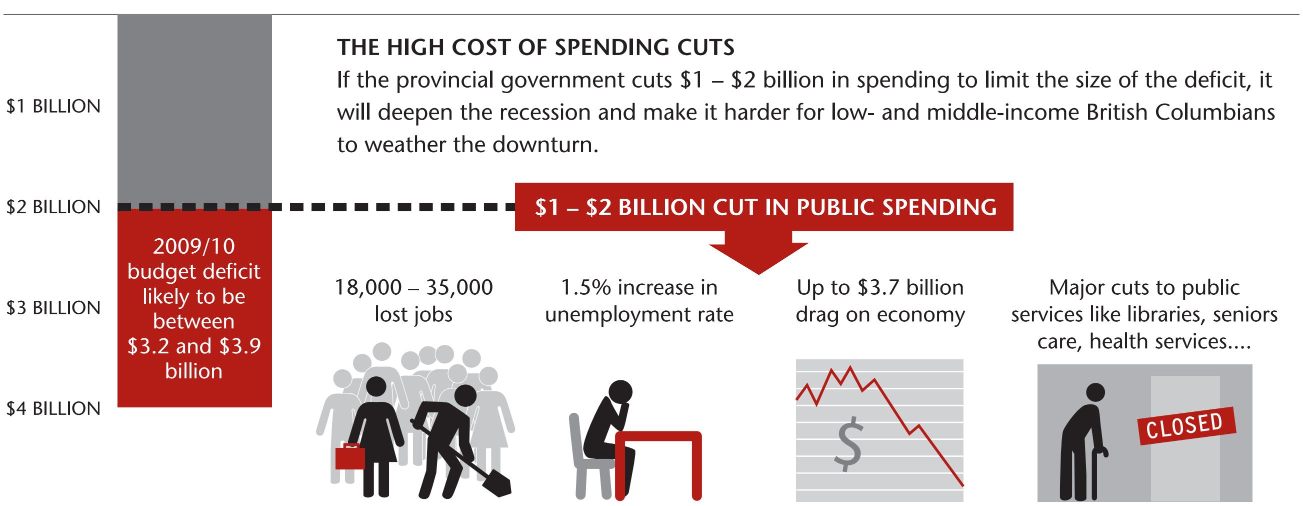
Spending cuts will hurt middle- and low-income British Columbians

Government ministries outside health and education are likely to bear the brunt of spending cuts, yet these ministries were already pared to the bone in the early 2000s. Cuts to social services would be especially painful because they serve the most vulnerable British Columbians. The province cannot afford to push more people into hardship — despite years of economic growth, in 2007 (at the height of the boom), half a million British Columbians lived in poverty and BC had the highest child poverty rate in the country. Poverty has likely worsened since.

BC's middle class is also vulnerable. Most BC families take home lower incomes than their parents' generation, and most entered the recession with record-high levels of household debt. Many British Columbians would have nowhere to turn if they lost their job — only about half the unemployed qualify for EI and the benefit rates are low. Reducing access to services like child care or public libraries will only shift costs onto individual families and make it harder for them to weather the economic storm.

THE HIGH COST OF SPENDING CUTS

If the provincial government cuts $1 – $2 billion in spending to limit the size of the deficit, it will deepen the recession and make it harder for low- and middle-income British Columbians to weather the downturn.



BC's stimulus plan to date is inadequate

The February budget did not provide much in the way of an economic stimulus package beyond allowing a small deficit to form. There was an additional $2.6 billion for infrastructure projects over the next three years, but most of it came as matching funding for the federal stimulus package. Since its re-election in May, the government has announced two major initiatives purportedly aimed at boosting the economy — the Harmonized Sales Tax (HST), and temporary royalty reductions for the oil and gas industry. Both initiatives are essentially tax cuts for particular industries that at best may provide a minor boost to GDP and create a modest number of jobs. In the case of HST, the benefits to some industries may be offset by higher costs to other industries and to consumers, eroding any stimulative effect the tax may have in the short term. Missing from the government's announcements so far is short-term assistance to those hardest hit by the recession and a meaningful stimulus plan that would speed the province's recovery.

Recommendations

- DON'T PANIC — ACCEPT RECESSION-DRIVEN DEFICITS. Protecting the budgets of vital public services should be the top priority. This includes fully funding the budget shortfalls of health authorities and school boards. All "administrative and other savings" announced in the February budget that were yet to be identified should be rescinded.
- IMPROVE WELFARE RATES AND ACCESS. Cuts to BC's welfare program in the mid-1990s and early 2000s undermined its ability to stabilize the economy during a recession. The government should increase benefit rates by 50 per cent and index them to inflation, and remove arbitrary barriers that discourage and deny people in need. The province should also work with the federal government to strengthen employment insurance, another key automatic stabilizer.
- MAKE POVERTY REDUCTION THE FOCUS OF ECONOMIC STIMULUS PLANS. A comprehensive poverty reduction plan will provide an immediate boost to the economy while tackling BC's pressing social problems of poverty and homelessness. Policies that boost the incomes of the poorest, who spend all they have in their local communities, deliver a strong bang for the stimulus buck.
- INVEST IN SOCIAL AND GREEN INFRASTRUCTURE. Now is the time for the government to make targeted investments that bridge BC's economic goals with our social and environmental goals. Spending on early child care and education and in a more accessible post-secondary education system are just two examples of high-return public investments that will create jobs and ease the financial burden on families in the short term, while positioning BC as a leader in the knowledge-based "green" economy of the future.

Now is the time for the government to make targeted investments that bridge BC's economic goals with our social and environmental goals.

PART 1

BC's Economic Outlook

Recent less-than-ideal economic news has led more and more economists and policy-makers to acknowledge that the economy remains weak and the road to recovery will be long and bumpy.

BC HAS BEEN AMONG THE PROVINCES hardest-hit by the global economic downturn. A substantial drop in US demand for our exports combined with a rapid decline in commodity prices sharply reduced both the volume and the value of our exports, essentially halting the commodity boom in the second half of 2008 and translating into layoffs and mill closures. The ensuing recession has been so deep that real GDP fell by 0.3 per cent in 2008—marking the first annual decline in the provincial GDP since 1982—despite a strong performance in the first half of the year and record-high prices for most commodities in the summer of 2008.[1] Economic conditions worsened in the first half of 2009, as the weak labour market and the declines in home values and equity markets squeezed BC households' finances, putting the brakes on consumer spending and further slowing down the economy.

There is widespread agreement among economists and policy-makers that deficits are needed to weather the current economic storm, and to reduce the length and severity of the recession. Rather than being preoccupied with the size of the deficit, the provincial government should now focus on the questions of how deep and how long the downturn is likely to be and whether further stimulus is needed.

The first signs of improvement in economic indicators in late spring spurred a wave of optimism, as many economists and business leaders interpreted them as evidence that recovery is on the horizon. Since then, however, less-than-ideal economic news has led more and more economists and policy-makers to acknowledge that the economy remains weak and that the road to recovery will be long and bumpy. Others have warned of the possibility of a double-dip or W-shaped recovery, arguing that the current turnaround can easily be reversed as government stimulus spending winds down and interest rates rise.

A closer look at the evidence of recent economic activity reveals some signs of stabilization in the provincial economy, but overall the outlook remains grim for the next year or so. In fact, much of the early optimism for a quick recovery was based on surveys of business and consumer confidence, while data on actual economic performance continues to disappoint. While a number of indicators have shown some improvement over the last few months, these improvements have tended to be small and often volatile, and they come after months of steep declines. At this pace, it would take many months for indicators to return to their pre-recession values.

Commodity prices (energy and metals) have increased since they bottomed out in February 2009, providing a much-needed boost to BC's export sector. However, they have regained only a fraction of their lost ground (about 10 per cent by July 2009) and remain volatile—four months of increases were followed by an unexpected drop in July.[2] With a modest US recovery expected next year, demand for BC commodity exports is unlikely to return to its pre-recession levels and spur an export-driven recovery.

Much has been made of the turnaround in BC's housing market this summer, but a closer look at the numbers reveals that it is too early to celebrate. Existing home sales in BC have been on the rise since February, but sale prices are projected to drop by 8 per cent on average over 2009—the first decline in the new millennium—with a further 1 per cent drop expected next year.[3] As housing values fall, homeowners' net worth decreases and they tend to be less inclined to spend money, which delays economic recovery.

While June saw an unexpected jump in housing starts, greeted by some analysts as a sign of rebound in residential construction, housing starts fell again in July and now sit at 64 per cent below last year's levels.[4] Housing starts fell by 13 per cent in 2008 and are projected to plunge another 60 per cent in 2009, reaching levels last seen at the depths of the downturns in the early 1980s and late 1990s (but declining at much faster rates),[5] the worst residential construction recession in Canada according to Bank of Montreal economist Robert Kavcic.[6] BC's construction industry has been hard-hit by the recession, shedding 42,000 jobs since the peak in September 2008.[7] The total value of building permits, an indicator of construction plans and builders' confidence, rose by 25 per cent in May and a further 30 per cent in June, but it remains 40 per cent lower than it was last June, with BC posting the largest year-to-year drop in Canada.[8]

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BC's labour market continues to be weak. We have lost a net total of 75,600 jobs since the peak in September 2008, all of them full-time.[9] While some employment gains were made in April and May, they were all but reversed by losses recorded in June and July. BC's unemployment rate has almost doubled since January 2008, rising from 4.1 per cent to 7.8 per cent (as of July 2009). In addition, the numbers show a substantial shift from paid positions toward self-employment, which suggests that workers may be turning to this option by necessity rather than choice, thus masking the true extent of unemployment in the province.

It is typical for unemployment to continue to rise for months or even years after the economy stops contracting (which is when economists declare the end of the recession). High unemployment will cause considerable pain for BC households in lost earnings. As these consumers scale back their spending this will, in turn, have painful ripple effects throughout the economy, slowing down retail trade and reducing consumer confidence.

Overall, the pace of deterioration may be slowing down and some sectors of the economy may be starting to show signs of life, but it is too early to celebrate the end of the recession. Most signs of recovery are almost certainly the result of fiscal stimulus efforts at the federal and provincial levels, as well as the efforts of the Bank of Canada, which is keeping interest rates low and injecting considerable liquidity into the financial system. For example, recent increases in the value of building permits in May and June were driven largely by a jump in the permits for new institutional and government construction, rather than commercial or residential construction.[10]

There are few signs that the private sector has begun to recover or would be able to take off on its own should the stimulus be withdrawn. Business credit is at record lows, inventories remain very high, employment is falling, and business confidence is low (although slightly increasing according to a recent Bank of Canada survey[11]). The consumer sector continues to be in decline, as the weak labour market puts pressure on households whose financial situations are already strained by high levels of debt, declining home values, and low or negative investment returns. Households are coping by saving more and reducing consumer spending, which drags the economy down.[12] While the 2010 Olympics will provide a modest temporary boost to the BC economy in the last quarter of 2009/10 fiscal year, this will not be sufficient to pull the province out of the recession.

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Given the challenges facing the BC economy, the September revised budget should be premised on the assumption that the province is still in a recession and the economy will continue to be weak over the next two years. There is clearly room for additional government spending to speed up the recovery and avoid a protracted period of stagnation or worse, a W-shaped recovery.

PART 2

Implications for BC's Fiscal Position

THERE IS NO LONGER ANY DOUBT that the 2009 provincial budget tabled last February was based on overly optimistic economic assumptions. By any measure, the recession has turned out to be much deeper than most forecasters anticipated. For example, the average private sector forecast for GDP growth slid from zero growth in January to an average 2.2 per cent contraction by July 2009.[13] Similarly, the budget assumed 25,200 new housing starts in 2009, over 40 per cent more than the current average forecast of 14,000 units. The average unemployment forecast used in the budget was 6.2 per cent, considerably lower than the current forecast of 7.7 per cent.[14] To make matters worse, key commodity prices fell much further than anticipated, while the Canadian dollar rose considerably over the summer, putting an additional drag on the already hard-hit BC export sector.

There is no longer any doubt that the 2009 provincial budget tabled last February was based on overly optimistic economic assumptions. It is now clear that the BC's deficit will be much higher than budgeted in February.

Even small changes in the key variables on which the government's revenue forecasts are based can have large impacts on the deficit. For example, the 2009 BC Budget notes that a 1 per cent decline in nominal GDP[15] would reduce revenues and thus increase the provincial deficit by $150 to $250 million.[16] The February budget estimates were based on a 0.9% decline in nominal GDP, while the current private sector forecasts are for a 4 to 6 per cent decline.[17] The worse-than-anticipated economic performance alone could add between $450 million and $1.25 billion to the February deficit projections of $495 million. Combine this with the impact of lower natural gas prices, a higher Canadian dollar, and increased welfare (or social assistance) caseloads, and it becomes clear that BC's deficit will be much higher than budgeted in February.

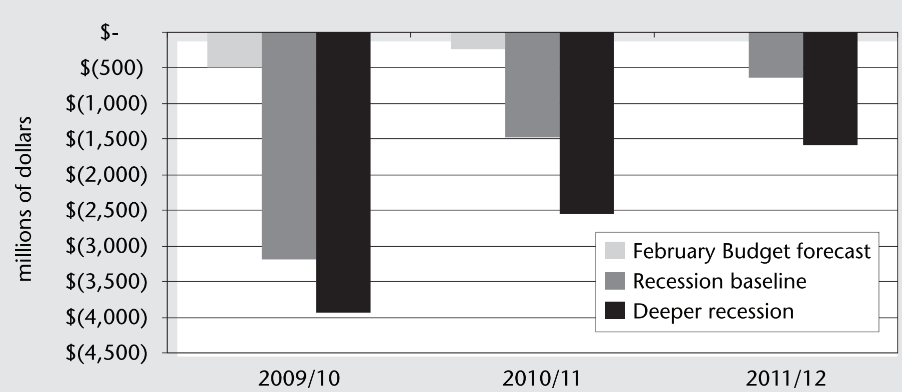
To get a better understanding of the fiscal situation, this budget update models two scenarios: the first, a recession baseline scenario, is based on the latest GDP estimates of private sector forecasters and includes projections for a fairly quick recovery in 2010; the second is more pessimistic and models both a more serious recession in 2009 and a slower recovery over the next two years. For expenditures and some revenue categories we take as a given the 2009 Budget estimates from the Ministry of Finance, updated to include the most recent announcements by the minister ($0.5 billion increase in expenditures due to unbudgeted fire-fighting and welfare costs and $1 billion drop in natural resource revenues in 2009/10 were revealed to media in late August). However, we revise the estimates for taxation revenues based on the historical shares of tax revenues relative to GDP.[18] We also make adjustments to projected natural resource royalties, as these can swing widely and have substantial effects on provincial revenues. These two scenarios are compared to the February budget projection in Figure 1.

In our recession baseline case, we take the average economic decline estimate from private sector forecasters[19] and use it to adjust our estimates of the BC budget status quo deficit; that is, assuming no other changes to revenues or expenditures in the current or future years. We assume GDP inflation consistent with estimates made for Canada as a whole from the June 2009 survey of private sector forecasters, conducted by the Office of the Parliamentary Budget Officer.[20] We downgrade natural resource revenues to account for the $1 billion drop already revealed in 2009/10 and project a modest recovery in 2010/11 and 2011/12. If BC's economy declines by 2.2 per cent in 2009, the provincial budget deficit will grow to $3.2 billion in 2009/10. Under this recession baseline scenario, assuming 2.6 per cent growth for both 2010 and 2011, we estimate that the deficit will fall to about $1.5 billion in 2010/11 and $0.6 billion in 2011/12. Note that these are conservative estimates because they do not account for all the upward pressures on government expenditures arising from the recession, which are likely to push the underlying budget deficit even higher.

To get a better understanding of the fiscal situation, this budget update models two scenarios: a recession baseline scenario based on the latest private sector forecasts, and a more pessimistic one that models a more serious recession and slower recovery.

Forecasting is a tricky business, especially during periods of great economic uncertainty, and there is a risk that the BC economy could be weaker than current private sector forecasts anticipate. To model a deeper recession, we estimate a 3 per cent contraction in real GDP in 2009/10, followed by a slow recovery of 1.5 per cent in 2010/11 and 2.5 per cent growth in 2011/12. This may seem pessimistic, but it is not that different from the low end of the current private sector forecasts. For 2009/10 and 2010/11 we also lower the anticipated share of tax revenues-to-GDP, and revise downwards our estimate of natural resource revenues to levels more consistent with the early 2000s. Estimates of GDP inflation for 2009 and 2010 are also downgraded (to -3 per cent and 0.5 per cent, respectively). Under this deeper recession scenario, the deficit grows to $3.9 billion in 2009/10, and remains relatively high over the next two years at $2.5 billion in 2010/11 and $1.6 billion in 2011/12.

Figure 1: Scenarios for BC's Budget Deficit



These deficit estimates do not take into account additional revenues from the transitional funds earmarked by the federal government to assist provinces that adopt a Harmonized Sales Tax (HST). This one-time payment totaling $1.6 billion will significantly reduce the budget deficit in the fiscal year that it is received (it is not yet clear which fiscal year the transitional funding would be applied to, but if the Ontario experience is any indication, the BC government should expect to receive the money over the 2010/11 and 2011/12 fiscal years).[21] Even with this windfall, however, the provincial government will post a cumulative deficit of at least $3.7 billion over the next three years, if the current economic forecasts are correct, increasing up to $6.4 billion if the recession turns out to be deeper than expected.

The exact size of the budget deficits will depend on how poorly the provincial economy performs, but the prudent approach is for the BC government to plan for high deficits in 2009/10 and 2010/11. Our province is in a good position to accommodate even fairly large deficits during the current recession: BC's debt-to-GDP ratio is low both by historical standards and in comparison with other provinces in Canada (second lowest after Alberta), and the price of government borrowing is the lowest it has been in years. Moreover, attempts to contain the size of the deficit in a serious recession would penalize those most affected by the economic decline and worsen the underlying economic situation.

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PART 3

The High Costs of Containing the Deficit

Arbitrarily restricting the size of the deficit or setting a deadline for re-balancing the budget is not good public policy, especially if these goals are achieved by cutting spending on core government services during hard economic times.

THE PREMIER HAS ACKNOWLEDGED that February's budget deficit target of $495 million is not attainable, but also clearly signaled that his government remains deficit-averse. This makes it quite likely that the government will cap the deficit in the name of fiscal responsibility. However, arbitrarily restricting the size of the deficit or setting a deadline for re-balancing the budget is not good public policy, especially if these goals are achieved by cutting spending on core government services during hard economic times. The best response to a major recession is to run a deficit that covers revenue shortfalls and funds new spending measures to stimulate the economy and protect incomes and employment.

One of the main reasons BC's February budget projected a relatively small deficit is that it included $589 million in "savings in administrative and other discretionary spending" and "streamlining" of government programs, half of which had yet to be identified at budget time. These savings were to be achieved by reducing travel expenses, contracted professional services, and informational advertising. The minister of finance assured British Columbians that the cuts would not compromise public services and therefore would go essentially unnoticed by the public. However, BC's public service is already lean, having gone through several reviews since 2001 that looked for ways to cut costs. It is therefore unlikely that the government could extract further savings without negatively affecting important programs and services.

Indeed, cuts to public programs and services have surfaced over the summer, a number of which were attributed to the need to realize the so-called "savings" announced in the February budget. These include: cuts to a grant that funded the Mobile Access Project (MAP) van, a resource providing support to Vancouver's sex-trade workers and enhancing public safety (later rescinded); cuts to summer camp subsidies for disabled children and children on social assistance (later rescinded); cuts to student debt forgiveness programs and scholarships for high school students pursuing post-secondary education; and cuts to grants for public libraries and literacy programs.[23]

In addition, capping the budgets of public agencies — such as school boards and health authorities — at a time when they face upward spending pressures essentially represents a funding cut with serious consequences on the quality and quantity of services provided. Health authorities, for example, are planning major cuts to surgeries, seniors' care, community-based programs, and staffing as a result of the minister of finance's refusal to fund their budget shortfalls this year. [24]

If the negative public response to these initial cuts is any indication, British Columbians do not support reducing spending for social programs and services in the interest of containing the budget deficit. Even business sector leaders have spoken against spending cuts: Jock Finlayson, executive vice-president of the Business Council of BC, has acknowledged that cutting spending in the midst of a recession would hurt the economy.[25]

ECONOMIC COSTS OF CUTS TO GOVERNMENT SPENDING

If the government tries to limit the budget deficit to a smaller number it will effectively withdraw millions of dollars from the provincial economy, given that it faces an underlying deficit in the range of $3.2 to $3.9 billion in 2009/10.[26]

If the government tries to limit the budget deficit to a smaller number it will effectively withdraw millions of dollars from the provincial economy. Spending cuts will deepen the recession by increasing the number of job losses and putting a drag on the economy at exactly the wrong time.

Reductions in government spending create ripple (or spin off) effects throughout the economy, causing a change in the output (or GDP) for the economy that is greater than the initial spending cut. When the government spends a million dollars less, the population's collective income goes down by the same amount (because government workers are laid off directly or contractors' profits are reduced as the government purchases fewer goods and services). With less disposable income, consumers reduce their spending; with reduced profits, businesses have to cut costs, which may be done by laying off workers or reducing their hours. The changes consumers and businesses make in turn translate into lower incomes for employees and businesses in the economy over and above the initial million-dollar reduction. This further reduces consumer and business spending, creating a ripple effect that continues through the economy in stages and creates a much bigger impact than the original million dollars in government spending. The greater the spending cuts, the more severe the downturn. Economists use multipliers as a means of describing the total effect on the economy of a change in government spending.[27]

However, it is not only the size of spending cuts that matters. Some cuts are more damaging than others because they have a stronger impact on the economy (larger multipliers). For example, laying off government workers has a larger effect than a reduction in government purchasing because some of the goods and services purchased by government are imported and thus less linked to the provincial economy.

This process works in reverse as well: a certain amount of additional government spending creates a much larger increase in total economic output. This is the idea behind "stimulating" the economy through increased spending.

Table 1 shows how cuts to government spending will impact provincial employment and GDP levels. The analysis is based on a model provided to the CCPA by economic forecasting firm Informetrica, which incorporates the relevant multipliers. Scenario 1 models the impact of $1 billion in spending cuts (which is what would be required to keep the budget deficit to about $2 billion in the baseline recession case, as per the current private sector growth forecasts). Scenario 2 models the impact of cutting $2 billion out of the government budget (which is roughly what would be needed to cap the deficit at $2 billion in the case of a deeper recession). Scenario 3 models an alternative course of action: it accommodates the budget deficit arising from declining revenues and injects $1 billion into the economy in the form of additional government spending and income transfers to those hardest hit by the recession (for more detail on how the money should be spent, see the *Conclusions and Recommendations* section below).

The results demonstrate that spending cuts will deepen the recession by increasing the number of job losses and putting a drag on the economy at exactly the wrong time. Over 35,000 additional jobs would be lost if the government cut $2 billion out of its spending, which would increase the unemployment rate by 1.5 percentage points and depress GDP by approximately $3.7 billion (all else being equal). These numbers do not fully account for the further depressing economic impact of anticipated layoffs in education and health care that would result from the government's unwillingness to fund upward cost pressures.

Increasing spending on social infrastructure by $1 billion (or just over 0.5 per cent of GDP) would provide an economic stimulus reflected in strong job creation and an increase in provincial GDP of 0.9 percentage point.

In contrast, increasing spending on social infrastructure by $1 billion (or just over 0.5 per cent of GDP) would provide an economic stimulus reflected in strong job creation and an increase in provincial GDP of 0.9 percentage point. Given the weak provincial economic outlook for the next two years, there is room for the BC government to further increase spending to speed up economic recovery.

Table 1: 2009/10 BC Expenditure Scenarios

Scenario	Spending cuts $ million	Employment impact – total jobs	GDP impact $ million	% of 2008 GDP
SCENARIO 1: $1 billion in spending reductions	1,000	(17,721)	(1,837)	-0.9%
SCENARIO 2: $2 billion in spending reductions	2,000	(35,441)	(3,674)	-1.8%
SCENARIO 3: Increased social infrastructure spending	(1,000)	16,853	1,747	0.9%

Source: Author's calculations based on Informetrica's fiscal change model.

Notes: Scenarios are based on spending changes only; they do not take into account the impact of other factors that would also affect BC's economic performance. We assume that half of the amount of the spending cut would come from reducing the number of public sector workers, with the remainder resulting from reducing spending on goods and services. Increased spending is assumed to be distributed as follows: $500 million in hiring public sector workers (to provide social services), $300 million in purchasing goods and services, and $200 million in transfers to low income people.

SOCIAL COSTS OF CUTS TO GOVERNMENT SPENDING

The social costs of spending cuts would also be very high. The areas likely to see the most severe cuts are social services outside of health care and education, which were already a weak area of provincial spending before the recession hit. In the early 2000s, the provincial government made massive cuts to public spending and services, the bulk of which were in areas outside health care and education. These cuts had major impacts on seniors' care, hospitals and schools, welfare, services to children and families, legal aid, women's shelters and a host of other program areas.[28] Despite five consecutive surpluses since 2004/05, (which reached $4.1 billion in 2006/07), funding outside the health and education ministries only recently recovered to its 2001/02 levels and many of the programs cut between 2001 and 2004 were never restored.

Further spending cuts in social services would be particularly painful not only because their budgets were already cut to the bone, but also because these programs serve the most vulnerable British Columbians, who will be pushed into further hardship should services be scaled back or withdrawn. BC already has pressing social problems that persisted and even grew during the recent boom and they will likely become more severe during the current recession. Despite years of strong economic growth and record low unemployment, almost half a million British Columbians — 11 per cent of the population — lived in poverty in 2007.[29] For six years running, BC has recorded the highest child poverty rate in the country. Homelessness rose during the boom as access to welfare was significantly restricted and support for people struggling with mental health and addiction issues remained woefully inadequate.

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But it is not only low income people who are ill prepared to weather the recession; the middle class is vulnerable too. A recent CCPA study revealed that even during the boom most BC families were falling behind, with 60 per cent of families with children taking home lower after-tax incomes than their parents' generation.[30] This is hardly surprising given that almost the entire growth in average wages in BC between 1997 and 2007 was due to increased earnings for managers (managers saw a 15 per cent pay raise, compared to virtually zero earnings growth for all other employees).[31] To make matters worse, BC families entered the recession with record-high levels of household debt, which was increasingly used to fund consumption rather than asset-accumulation.[32] Given the steep decreases in employment and the decline in household wealth levels, servicing debt is likely a growing concern for many households.[33] Many British Columbians would have nowhere to turn if they lost their job, as only about half of the unemployed qualify for employment insurance and the benefit rates for those who do (55 per cent of previous earnings) are too low, particularly for low-wage earners with dependents.

Spending cuts also threaten programs that contribute to greater equality of opportunity among British Columbians, such as early childhood care and education services and literacy programs in public libraries. Those hit hardest by the recession — rural populations and people who have lost their jobs — would have less support from government to obtain further post-secondary education, to meet their health needs, or even to afford proper housing and nutrition for their families. If past experience is any guide, women would bear the brunt of the hardship, both as providers of social services working in the public sector and as users who rely more heavily on these services than men. Moreover, as primary care-givers in the family, it is women who tend to pick up the slack when services are withdrawn (such as caring for elders, etc).[34]

If past experience is any guide, women would bear the brunt of the hardship, both as providers of social services working in the public sector and as users who rely more heavily on these services. Moreover, women tend to pick up more of the slack when services are withdrawn (such as caring for elders).

Another option when a government needs revenues is to increase taxes. BC would be facing a much smaller deficit if it could rely on the forgone revenue from the more than 100 different tax cuts introduced since 2001. In particular, substantial income tax cuts in 2001 and 2007 that disproportionately benefited the richest British Columbians took a combined $2 billion out of the government's annual revenues. BC now boasts the lowest personal income tax for people earning up to $111,000 and one of the lowest corporate income tax rates in the country,[35] but the flip side of low taxes is reduced fiscal capacity as foregone revenue is no longer available to meet the needs of the population. That said, the middle of a recession is not the right time in the economic cycle to raise taxes; however, the discussion about the type of public services British Columbians need and the best way to pay for them is one that we should have.

The only other option for containing the deficit is to sell government assets, a shortsighted and unnecessary action given that the current deficit does not threaten the long-term health of provincial finances (see the following section).

PART 4

The Deficit in Context

WHILE $3.9 BILLION may sound like a lot of money to borrow, the source of budget deficits is far more important than their actual magnitude for assessing the health of provincial finances over the long term.

Economists distinguish between two types of deficits: cyclical and structural. Cyclical deficits arise because of swings in the business cycle (hence the name). As the economy enters a recession, government revenues decline because businesses and workers pay less in taxes as a result of lower profits/incomes, while spending on social assistance and other transfers to lower income earners increase as more people become eligible to draw on them. The opposite occurs during a boom: taxation revenues increase while spending on social assistance decreases, leading to budget surpluses. Cyclical deficits/surpluses are thus temporary in nature and largely self-correcting.

Structural deficits, on the other hand, arise because of a permanent policy change that increases spending or decreases government revenue (through tax cuts, for example) so that the government budget cannot be balanced even with the economy running at its full potential.

The deficits facing BC over the next two to four years are cyclical in nature, arising as a direct result of the recession. When economic conditions improve, budgetary pressures will lessen, leaving the provincial government in a good position to balance the budget and even achieve surpluses as the economy grows.

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Table 2 summarizes BC's fiscal performance over the last decade. The numbers reveal that even in the case of a deep recession, the provincial deficit would not be out of line by historical standards. A deficit of $3.2 billion represents only 1.7 per cent of BC's GDP—in the same ballpark relative to GDP as the 2001/02 and 2002/03 deficits, which amounted to 1.6 and 1.8 per cent of GDP respectively. A deeper recession would bring the underlying deficit up to $3.9 billion, or 2.1 per cent of GDP. Although this deficit would be slightly higher relative to GDP than the deficits incurred in the early 2000s, such a deficit is warranted in times of a serious recession (recall that BC was not in a recession when the provincial budget went into deficit in the early 2000s). Moreover, a $3.9 billion deficit would be similar both in absolute and in relative terms to a number of the "surprise" budget surpluses that the BC government recorded between 2004/05 and 2007/08, running in the range of $2.7 to $4 billion.

Despite large year-to-year fluctuations, the provincial budget has been essentially balanced over the long term—on average the BC government ran a small annual surplus of $25 million over the 12 years. A requirement to balance the budget each year is based on an arbitrary decision that doesn't make sense in times of recession. A much better policy for maintaining the long-term health of the province's finances would be to ensure that the budget is balanced on a time scale that is closer to the economic cycle, about 8 to 10 years.

Clearly, the BC government has substantial room to accommodate even a large deficit during the current recession.

The BC government is in a good position to run a large deficit during the current recession. The provincial debt-to-GDP ratio is currently at 19.1 per cent—low both by historical standards and in comparison with other provinces in Canada (second lowest after Alberta). While several years of budget deficits will undoubtedly increase the provincial debt, even in our deeper recession scenario by 2011/12 the debt-to-GDP ratio will only reach levels similar to the early 2000s. Clearly, the BC government has substantial room to accommodate even a large deficit during the current recession. Moreover, in light of recent developments in the financial markets, the cost of government borrowing is the lowest it has been in years.

Table 2: BC's Budget Balance and Provincial Debt

	Budget surplus (deficit)	Provincial debt	BC GDP	Budget balance as % of GDP	Debt as % of GDP
	($ million)				
2000/01	1,262	34,097	131,333	1.0%	26.0%
2001/02	(2,155)	36,283	133,514	1.6%	27.2%
2002/03	(2,454)	36,877	138,193	1.8%	26.7%
2003/04	(1,192)	37,737	145,642	0.8%	25.9%
2004/05	2,721	35,869	157,675	1.7%	22.7%
2005/06	3,113	34,457	169,308	1.8%	20.4%
2006/07	4,079	33,439	182,743	2.2%	18.3%
2007/08	2,886	34,637	192,528	1.5%	18.0%
2008/09	78	38,014	199,214	0.0%	19.1%
2009/10e	(3,919)	43,895	187,261	2.1%	23.4%
2010/11e	(2,540)	49,923	191,006	1.3%	26.1%
2011/12e	(1,579)	54,514	199,602	0.8%	27.3%

Note: Debt estimates are based on the government's debt projections from the February budget and include projected increases in capital spending. The bulk of the increases in provincial debt over the next three years stem from increases in capital spending, not from the budget deficits.

Source: Figures up to 2008/09 come from BC Ministry of Finance documents. Figures for 2009/10 and after are author's estimates based on the deeper recession scenario described earlier in the report.

PART 5

BC's Economic Stimulus So Far

BC's February budget maintained spending levels in key social programs such as health care and education. However, it did not provide much in the way of an economic stimulus package beyond allowing a small cyclical deficit to form.

TO ITS CREDIT, by the time the 2009 February budget was tabled, the provincial government had recognized that BC would not be insulated from the global economic downturn and amended its balanced budget legislation to allow deficits over the next two fiscal years (2009/10 and 2010/11). The February budget maintained spending levels in key social programs such as health care and education (although relative to need, these sectors remain stressed, with health authorities and school boards forced to make cuts to services) and projected a small deficit.

However, the February budget did not provide much in the way of an economic stimulus package beyond allowing a small cyclical deficit to form. There was an additional $2.6 billion for infrastructure projects over the next three years (in addition to previously announced figures), but most of it came as matching funding for the federally announced stimulus package.[36] These investments are welcome after decades of underinvestment that left much of the provincial infrastructure in dire need of repair and upgrading. However, the BC economy would have fared better had the provincial government put forward a more ambitious stimulus package focused on protecting British Columbians' incomes and jobs, and on poverty reduction.

Since the government's re-election in May, two major initiatives have been announced, advertised as new "stimulus" programs intended to boost the provincial economy. These are the introduction of a Harmonized Sales Tax (HST) effective July 2010 (announced on July 23), and regulatory changes and temporary royalty reductions for the oil and gas sector (announced on August 6). Both these initiatives are essentially tax cuts for certain industries and both fall far short of the meaningful stimulus package that British Columbians need.

The government's plan to stimulate the oil and gas industry is contentious because it goes directly against BC's goal of fighting climate change through reduced greenhouse gas emissions. Moreover, indirect corporate tax cuts (which is what the royalty reductions are) are a poor source of stimulus compared to government spending. The major beneficiaries of this plan will be oil and gas companies that are largely foreign-owned, thus much of the generated income will leak straight out of the provincial economy. While increased investment in oil and gas may boost provincial GDP and create some new jobs next year, the employment effects are likely to be small as the industry employed only 11,000 people in oil and gas extraction and supporting activities in 2008.[37] Scarce government dollars would be better invested in projects that further a long-term strategic vision for "greening" the province, not threaten it.

The recent announcement of sales tax harmonization has been touted by the premier as "the single biggest thing we can do to improve BC's economy,"[38] but any supposed long-term benefits for productivity and competitiveness would not be felt until well after the current recession is over.

Missing from the government's stimulus announcements is short-term assistance to those hardest hit by the recession and a meaningful investment towards a long-term strategic vision for the province.

While harmonization greatly simplifies the administration of the tax and moves from a sales tax to a more efficient value-added tax (by allowing businesses to get credit for the tax they pay on their inputs), the new harmonized sales tax (HST) will cover a number of items that were previously exempt from the provincial sales tax (PST). In addition, the benefit to goods-producing industries such as construction, forestry, manufacturing and transportation may be offset by higher costs to other, service-producing industries such as the restaurant sector. Low- and modest-income households in BC will see their sales tax bill increase with the new HST just as their incomes begin to recover from the effects of the recession. The BC government has recognized the need to compensate low-income families for their increased tax bill, but the proposed BC HST credit is phased out entirely at very low levels of income — $26,000 for individuals and $31,000 for families — leaving out many British Columbians with modest incomes who will be hit hard by harmonization. If British Columbians respond to the HST by reducing their consumer spending, the timing of the HST introduction may actually slow down the economic recovery, which should be getting under way next summer. On balance, the effects of sales tax harmonization will be neutral or slightly negative as far as BC's short-term economic growth is considered.

Missing from the government's stimulus announcements is short-term assistance to those hardest hit by the recession and meaningful investments toward a long-term strategic vision for the province.

PART 6

Conclusions and Recommendations

Despite the initial signs that the recession is easing, it seems likely that a meaningful recovery will not begin for some time — and when it comes, the recovery will be slow and prolonged. The middle of a serious recession is exactly the wrong time for the government to tighten its belt, which will only deepen recession-driven hardships.

While it is true that BC's economic performance is dependent on external factors (such as commodity prices and the speed of the US recovery), there is a great deal the province can do to reduce the pain of the recession. British Columbians need their government to step up and increase spending to keep the economy moving forward when household consumption and business investment are stagnating, and exports falling. Here is how:

The middle of a serious recession is exactly the wrong time for the government to tighten its belt. Instead, the government should increase spending to keep the economy moving forward and reduce the pain of the recession.

1. DON'T PANIC: ACCEPT THE RECESSION-DRIVEN DEFICITS

The BC government should not cut spending on public services, as it is irresponsible public policy to incur such high economic and social costs to arbitrarily reduce the size of the deficit. Instead, it should allow the cyclical deficits to run as high as necessary. Protecting the budgets of key services should be the top priority, and this includes fully funding budget shortfalls of health authorities and school boards. All "administrative and other savings" announced in the February budget that were yet to be identified should be rescinded, which includes $292 million in 2009/10 and $250 million over the next two years.

2. IMPROVE SOCIAL ASSISTANCE

Social assistance acts as an automatic stabilizer in the economy, injecting more money in the economy during downturns when the number of people who need welfare increases. Cuts to BC's welfare program in the mid-1990s and early 2000s seriously restricted accessibility, undermining its ability to stabilize the economy during a recession. The government should increase benefit rates by 50 per cent and index them to inflation. Arbitrary barriers that compromise the accessibility of financial help to people in need should be removed. The provincial government should also work with the federal government to strengthen employment insurance, another key automatic stabilizer.

3. MAKE POVERTY REDUCTION THE FOCUS OF ECONOMIC STIMULUS PLANS

Combating poverty is just the kind of investment our province needs — one that will provide an immediate boost to the provincial economy and address some of BC's pressing social problems in the long run.

Despite having the highest poverty rate in Canada, BC is now one of only three provinces that are not planning or implementing a poverty-reduction plan.[39] Combating poverty is just the kind of investment our province needs — one that will provide an immediate boost to the provincial economy and address some of BC's pressing social problems in the long run. The majority of British Columbians agree: an Environics poll conducted when the downturn started showed that 77 per cent of British Columbians think helping the poor should be made a priority even during a recession. The 2008 CCPA report *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. Many of these recommendations would boost the incomes of those at the bottom of the income spectrum, who spend all they have in their local communities (because they don't have the luxury of saving), thus providing a much stronger stimulus than tax cuts for individuals or corporations.

4. INVEST IN SOCIAL AND GREEN INFRASTRUCTURE

Now is the time for the government to bridge BC's economic goals with our social and environmental goals through targeted public spending. Investments in early child care and education and in a more accessible post-secondary education system are just two examples of high-return public investments that will create jobs and boost the economy in the short term, while positioning BC as a leader in the knowledge-based "green" economy of the future.

Despite the recession, BC remains one of the wealthiest provinces in Canada. Our provincial government has the capacity to make strategic investments that will increase quality of life for all British Columbians and cushion the blow of the recession to the more vulnerable individuals and families among us. This should be top priority for the September revised budget.

NOTES

1 Prices for most commodities exported by BC peaked in 2008, with the notable exception of lumber prices, which have been falling since 2006.

2 Author's calculations based on data from the Bank of Canada's monthly Commodity Price Index.

3 British Columbia Real Estate Association, 2009. *Housing Forecast, Spring 2009*. May 26, 2009. www.bcrea.bc.ca/economics/HousingForecast.pdf

4 Statistics Canada, 2009. "Economic indicators, by province and territory (monthly and quarterly)" (table). *Summary Tables.* Last updated Aug. 11, 2009. www40.statcan.gc.ca/l01/cst01/indi02k-eng.htm

5 This forecast is the average of the latest available private sector forecasts issued by BMO Capital Markets, BC Business Council, Central 1 Credit Union, CIBC World Markets, RBC Economics Research, Scotiabank Group, and TD Economics. Sources: BMO Capital Markets Economics. 2009. Provincial Economic Outlook. July 23. www.bmonesbittburns.com/economics/forecast/prov/ProvincialOutlook.pdf; Business Council of British Columbia. 2009. "Half-Way There: BC Economic Update." July. www.bcbc.com/Documents/EC_20090713_BCEconomicUpdate.pdf; Central 1 Credit Union. 2009. BC Weekly Briefing Vol. 15, No. 17. May 1. http://economics.cucbc.com/weeklyBriefings/1517%20BC.pdf; CIBC World Markets. 2009. "Provincial Growth: Bottom Hit, Where to Next?" June 22. http://research.cibcwm.com/economic_public/download/pfjun09.pdf; Conference Board of Canada. 2009. "Manitoba, Maritime Provinces to Avoid Recession in 2009". News Release 10-13. July 30. www.conferenceboard.ca/press/newsrelease/10-13.aspx; RBC Economics Research. 2009. Provincial Outlook. June 15. www.rbc.com/economics/quicklink/pdf/provtbl.pdf; Scotiabank Group. 2009. Global Forecast Update. July 10. www.scotiacapital.com/English/bns_econ/forecast.pdf; TD Economics. 2009. Provincial Economic Forecast. July 16. www.td.com/economics/qef/prov0709.pdf

6 As quoted by David Ebner in "BC housing slump 'nastiest' in nation", *The Globe and Mail*, July 14, 2009.

7 BC Stats, 2009. Labour Force Statistics. Data tables, July 2009. www.bcstats.gov.bc.ca/pubs/lfs/lfsdata.pdf

8 Statistics Canada, 2009. "Value of building permits, by province and territory (monthly)" (table). *Summary Tables.* Last updated Aug. 6, 2009. www40.statcan.gc.ca/l01/cst01/econ67a-eng.htm

9 Jobs are lost and created every month, which is why economists track net employment changes—the difference between the number of jobs lost and those created. During the current recession, most of the jobs lost have been full-time, while the bulk of the new jobs have been part-time, leading to a net loss of full-time jobs.

10 Statistics Canada, 2009. *Building permits* Vol. 53, no.5. Catalogue no. 64-001-XWE. Tables 1 and 2. www.statcan.gc.ca/pub/64-001-x/2009005/tablesectlist-listetableauxsect-eng.htm

11 Bank of Canada, 2009, *Business Outlook Survey: Results of the Summer 2009 Survey*, Vol. 6.2, July 13, 2009. www.bank-banque-canada.ca/en/bos/2009/summer/bos0709e.pdf

12 While retail sales appear to be increasing now, they remain well below levels of a year ago.

13 -2.2% is an average of private sector forecasts for real GDP growth in 2009 by BMO Capital Markets, BC Business Council, Central 1 Credit Union, CIBC World Markets, the Conference Board, RBC Economics Research, Scotiabank Group, and TD Economics. Their forecasts are -2.1%, -2.5%, -3%, -1.8%, -2.5%, -1.9%, -2% and -2%, respectively. Sources as listed in note 5.

14 These are the averages of private sector forecasts for housing starts and the unemployment rate in 2009 by BMO Capital Markets, BC Business Council, Central 1 Credit Union, CIBC World Markets, RBC Economics Research, Scotiabank Group, TD Economics and the Conference Board of Canada. Sources as listed in note 5 except for the Central 1 Credit Union forecasts, which can be found in: Central 1 Credit Union. 2009. "Latest Economic Indicators Reveal a Weak Economy." BC Weekly Briefing Vol. 15, No. 27. July 10. http://economics.cucbc.com/weeklyBriefings/1527%20BC.pdf

15 Nominal GDP is a measure of the economic output in a given year in current dollars. In contrast, *real* output is adjusted to remove the effects of inflation and represents the quantity rather than the dollar value of the goods and services produced.

16 BC Ministry of Finance, 2009.*Budget and Fiscal Plan 2009/10—2011/12*, Table 1.22, p. 44.

17 Based on nominal GDP growth forecasts in 2009 by TD Economics, Central 1 Credit Union and the Conference Board of Canada. Their forecasts are -3.7%, -6% and -4.9%, respectively. Sources as listed in note 5.

18 Previous CCPA reports on BC budgets have found that the government's recent budgets have failed to link their revenue projections to their own GDP forecasts, which resulted in substantial underestimates of actual taxation revenues, resulting in a series of "surprise" budget surpluses. See, for example, Seth Klein and Marc Lee's Submission to the Select Standing Committee on Finance and Government Services, Legislative Assembly of British Columbia, *Towards a More Democratic and Credible BC Budget*, Sept. 21, 2007.

19 See note 5 for a complete list of forecasters. The average BC GDP forecasts are -2.2% for 2009 and 2.6% for 2010. Most provincial economic forecasts are provided only up to 2010, so we use the February Budget forecast for GDP growth in 2011 (2.6%).

20 GDP inflation estimates for Canada are -2.5%, 1.4% and 2.1 for 2009, 2010 and 2011 respectively (as reported in the Parliamentary Budget Officer's *Economic and Fiscal Assessment*, published on July 6, 2009, Table 6-1, p. 20; www.parl.gc.ca/pbo-dpb). In comparison, the average GDP deflation estimate for BC based on the three forecasters that provide both real and nominal GDP estimates is -2.4% for 2009 and 1.1% for 2010. In our baseline recession case, we use -2%, 1% and 2% for 2009, 2010 and 2011 respectively.

21 In its March 2009 budget, the Ontario government announced its decision to introduce a Harmonized Sales Tax in July 2010, with $3 billion in federal transitional assistance to be paid out at the introduction of the tax in July 2010 and the remaining $1.3 billion at the first year anniversary of the tax in July 2011.

22 These calculations assume that the introduction of the new harmonized sales tax in BC will not significantly affect taxation revenues collected by the provincial government, as the finance minister has argued (the tax policy change is advertised as revenue neutral for the province).

23 Reported in articles published in the *Vancouver Sun*: "Victoria cuts off funds to service that protects sex-trade workers" by Rebecca Tebrake (June 4, 2009); "Disabled, welfare kids to miss out on summer camp after funds frozen" by Jonathan Fowlie (June 19, 2009); "Province slashes wide range of post-secondary funding" by Darah Hansen (July 23, 2009); "Public libraries brace for cuts as grant program reviewed" by Kelly Sinoski (July 24, 2009).

24 Widely reported in the BC media. See for example, "Metro Vancouver health cuts to include layoffs and increased fees" by Jonathan Fowlie, *Vancouver Sun*, July 15, 2009.

25 Quoted in "Budget deficit will be higher: Gov't. BC Liberals finally admit that the $495m figure isn't doable after all" by Ian Austin and Andy Ivens, *The Province*, July 10, 2009.

26 Note that our deficit estimates are consistent with the projections of private sector economists, who forecast a deficit in the range of $1.5 to $2 billion, if not higher. For example, Helmut Pastrik, Chief Economist of Central 1 Credit Union, was quoted saying that the deficit "could be $2 billion or even potentially a bit more" in an article by Ian Austin and Andy Ivens in *The Province* ("Budget deficit will be higher: Gov't. BC Liberals finally admit that the $495m figure isn't doable after all," July 10, 2009). The same article quotes Jock Finlayson, executive vice-president of the BC Business Council, projecting that the deficit could reach "close to $2 billion."

27 The multiplier is essentially the sum of the reduced/increased income in the economy as a result of the government spending reduction/increase.

28 A number of CCPA reports have documented the high costs of spending cuts in the early 2000s: Cohen Marcy, Jeremy Tate and Jennifer Baumbusch. 2009. *An Uncertain Future for Seniors: BC's Restructuring of Home and Community Care, 2001-2008*; Klein, Seth and Jane Pulkingham. 2008. *Living on Welfare in BC: Experiences of Longer-Term "Expected to Work" Recipients*; Wallace, Bruce, Seth Klein and Marge Reitsma-Street. 2006. *Denied Assistance: Closing the Front Door on Welfare in BC*; Lee, Marc, Stuart Murray and Ben Parfitt. 2005. *BC's Regional Divide: How Tax and Spending Policies Affect BC Communities*.

29 Statistics Canada, 2009. *Income in Canada 2007*. Catalogue no. 75-202-XWE. Table 11-11: "Persons in low income after tax (92 LICOs base), BC". www.statcan.gc.ca/pub/75-202-x/2007000/t201-eng.htm

30 Ivanova, Iglika. 2009. *BC's Growing Gap: Family Income Inequality, 1976-2006*. Canadian Centre for Policy Alternatives: Vancouver.

31 See Renee Morissette. 2008. "Earnings in the Last Decade." *Perspectives on Labour and Income*, Statistics Canada, Vol. 9, no. 2: 12-24.

32 See for example, Chartered General Accountants of Canada, 2009, *Where Has the Money Gone: The State of Canadian Household Debt in a Stumbling Economy*. www.cga-canada.org/en-ca/ResearchReports/ca_rep_2009-05_debt-consumption.pdf

33 Consumer bankruptcies had already increased by 45 per cent in June 2009 compared to a year earlier, the third highest rise in Canada after Alberta and PEI according to the Office of the Superintendent of Bankruptcy Canada. *Insolvency Statistics in Canada — June 2009*. (tables). www.ic.gc.ca/eic/site/bsf-osb.nsf/eng/br02248.html

34 See, for example, the following CCPA reports: Fuller, Sylvia and Lindsay Stephens. 2004. *Women's Employment in BC: Effects of Government Downsizing and Employment Policy Changes 2001–2004*; Brewin, Alison and Lindsay Stephens. 2004. *Legal Aid Denied: Women and the Cuts to Legal Services in BC*; Stinson, Jane, Nancy Pollak and Marcy Cohen. 2005. *The Pains of Privatization: How Contracting Out Hurts Health Support Workers, Their Families, and Health Care*.

35 According to the BC Ministry of Finance, 2008, "British Columbia Tax Cuts Since 2001," *Backgrounder*, April 28, 2008. www2.news.gov.bc.ca/news_releases_2005-2009/2008FIN0009-000645-Attachment1.htm

36 This number is lower than the $14 billion advertised by the government because their estimate includes money that was already announced in previous budgets.

37 BC Stats. 2009. "British Columbia Employment by Detailed Industry, Annual Averages". Table. Available at www.bcstats.gov.bc.ca/data/dd/handout/naicsann.pdf. January 13, 2009.

38 BC Office of the Premier and BC Ministry of Finance. July 23, 2009. Press release, "Harmonized Sales Tax to Boost Investment, Job Creation."

39 The other two are Saskatchewan and Alberta.

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