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Submission to the Select Standing Committee on Finance and Government Services, Legislative Assembly of British Columbia

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Introduction

Budgets are about choices. Since the release of the first *Alternative Federal Budget* by the CCPA in 1995, the idea that there are always choices and alternatives has been at the heart of our research on federal and provincial budgets.

With the 2004/05 fiscal year ending in a surplus of $2.6 billion, and a 2005/06 budget that will come close to that record surplus, there has never been a better time to re-invest in public services in BC. The real brunt of budget cuts has been borne by the most economically and socially vulnerable people in the province. Yet, as the new surplus clearly shows, none of the spending cuts needed to happen. All of the pain and hardship associated with these cuts was unnecessary.

This budget submission reflects some fundamental themes running through our annual *BC Solutions Budgets* and our budget commentary in recent years (see www.policyalternatives.ca).

First, the current surplus must be spent on restored public programs. There is no compelling reason why the surplus should be directed towards debt reduction or further tax cuts. We must begin to reverse the cuts that have caused so much harm and dislocation. And we can afford to provide reasonable pay increases to public sector workers.

Second, we need to invest in the people and infrastructure of the province to address unmet needs and a growing social deficit. If we are to build a more just and compassionate society, additional revenues may be required. While using the surplus may meet some of our needs, a share of the surplus reflects one-time factors that we cannot bank on. To go further, we may need to reconsider some of the tax cuts that have been made, in particular the upper-income tax cuts of 2001.

Third, we need a deeper, more democratic public process to assess these needs for public services and potential options that could raise additional revenues to finance them. British Columbians need to see the full menu of options, and this goes beyond the more limited terms specified in the Committee's consultation paper. The government has already experimented successfully with more democratic options through the Citizens' Assembly on Electoral Reform. These types of initiatives could serve as a basis for making BC a more democratic province.

Fourth, BC needs a new economic strategy. In spite of a strong labour market in 2004 and 2005, the productivity gap between BC and the rest of Canada has grown. Both productivity and real wages have failed to grow over the past few years, despite tax cuts, deregulation and other policy measures promoted by corporate BC. Our province needs to develop high-value industries, and leadership is required to press the corporate sector to step up to the challenge. We also need to make strategic investments through the public sector. This is of particular concern for regional BC, where the current resource-driven boom is masking the need for strategic investments to diversify and add value to exports.

The government went to the polls in May on a platform of five "golden goals" that reflect noble objectives of enhanced education, better health, strong social supports, sustainable development and job creation. We share the spirit put forward in those goals; our policy recommendations speak to, and build on, those goals in many respects. But the government must be prepared to marshall the resources needed to make them a reality.

This brief proceeds as follows. In the next section we take a look at the BC economy in 2005, then consider the implications for BC's fiscal situation. We then highlight some broad themes of *BC Solutions Budgets* that speak to the pressing needs of the province. We conclude with some thoughts on the relationship between building a more compassionate society and democratic reform in BC.

State of BC's Economy

The mainstream media have heaped praise upon the BC economy over the past couple years, and these good news stories have reinforced a storyline that the economy has been rescued from a "dismal decade" at the hands of the previous government. According to this view, tax cuts, deregulation and (to a lesser extent) privatization have spurred business confidence, leading to the current "economic boom."

Our view is that the current revival has much more to do with factors outside BC's borders, such as low interest rates from the Bank of Canada, strong global demand conditions, and high prices for the commodities that BC specializes in. Even the mountain pine beetle crisis, ironically, has spurred short-term economic activity in the Interior. It is hard to deny that these factors have made major contributions to BC's recent growth.

All of this has resulted in a strong labour market, perhaps the strongest in a generation in terms of unemployment rates. The unemployment rate has averaged 6.1% for the first three quarters of 2005 (and hitting monthly lows of 5.7% in May and September that are among the lowest unemployment rates seen in decades). The employment-to-population rate (a better indicator) has grown from 59.0% during the 2001 downturn to 61.6% this year.

On the other hand, economic growth rates have not been as bullish. Real economic growth in 2004 was 3.9%, a decent but not outstanding growth rate. Nonetheless, 2004 was the best year for the BC economy since 2000, when growth hit 4.6%, and was best among the provinces. The average private sector estimate is for a slight drop in BC's real GDP growth to 3.6% in 2005 and 3.4% in 2006.

More troubling is BC's lack of progress in terms of productivity and real wage growth. Productivity can be thought of as the total amount of income generated per hour of work. Rising productivity is strongly correlated to increases in standards of living.

The conventional wisdom is that policy measures such as tax cuts and deregulation are desirable to improve productivity performance. Yet, as BC Stats reported in September:

> Last year, despite catapulting to the front of the pack in terms of economic growth, labour productivity in the province declined, and BC's ranking slipped to sixth place among the provinces . . . Only Manitoba and the Atlantic provinces (excluding Newfoundland) had lower overall productivity levels. (Business Indicators, September 2005)

What is alarming is that the BC Stats data show a *downward* trend in productivity. An alternative source is the productivity database of the Ottawa-based Centre for the Study of Living Standards. By their measures of productivity (also based on Statistics Canada data), the picture is more sanguine: BC's productivity has only plateaued not fallen. The conclusion remains the same, however.

Lack of improvement in productivity is reflected in essentially zero real wage growth in recent years. According to BC Stats, average weekly wages in real terms declined 1.6% in 2004, after slight gains in 2002 and 2003. The outlook for 2005 is not much better, with a 2.3% nominal increase (January to September year-to-date) offset by inflation in the neighbourhood of 2%. During this time, there has been an increase in average hours of work per week. As a result, real wage declines on an hourly basis are worse than on a weekly basis.

The bottom line for most workers is that over the past four years, wage growth has not kept pace with inflation. This is a surprising result given the strength of employment conditions. But it makes sense once we take into account flat or moderately declining productivity: wages are not growing because economic output per hour of work is not growing.

The picture becomes even clearer when we consider the sources of growth. BC's revival has been led by construction and natural resources:

- About half of the total increase in employment in 2004 and 2005 can be attributed to the residential construction sector. Low interest rates since 2001 continue to be a big part of the story, by reducing the cost of borrowing for potential homeowners. Dynamism in the real estate market has fuelled new residential construction.

- According to Statistics Canada, lumber production was up sharply in 2004, due to strong foreign demand, increasing prices, and accelerated cut volumes in response to the pine beetle infestation. These factors led to a 2004 expansion of 16% in forestry and logging, and wood products manufacturing.

- Strong international demand for minerals has breathed new life into the mining industry in 2005, led by copper and lead. Copper production is up 20% on a year-to-date basis, no doubt reflecting the fact that the price of copper is close to double that of three years ago.

It is important to recognize that resource industries can be high productivity industries (the forest industry is two to three times more productive than the BC economy as a whole, depending on the year). The challenge with resource industries, however, remains the volatility of commodity prices leading to boom and bust cycles. Environmental sustainability is also a concern, especially in a more deregulated environment, and in the face of the mountain pine beetle challenge.

For the economy as a whole, any wage gains for workers were almost entirely due to increases in hours of work. Aggregate wages and salaries in BC grew by 4.5% in 2004; total hours of work grew by 4.7%. Meanwhile, pre-tax corporate profits surged 33% in 2004 to a new record high (Statistics Canada, Provincial and territorial economic accounts review, preliminary estimates, 2004, released May 2005).

There may be some cause for optimism due to a marked improvement in new investment in machinery and equipment in 2004, although it appears that this new investment is concentrated in resource industries. As Statistics Canada notes:

> The strong resource sector also spurred investment in machinery and equipment, which jumped 20% after showing little or no growth over the last three years. International demand and high prices helped strengthen investment in mineral exploration. Business investment in non-residential structures, down 4.2% in 2004, was moderated by a 14% increase in government non-residential construction. (Provincial and territorial economic accounts review, preliminary estimates, 2004, released May 2005)

Non-residential construction in 2005, however, appears to be gaining strength, just as residential construction growth eases. With the 2010 Olympics approaching, public investment has surged, with a 31% increase in capital spending for 2005/06 over the previous fiscal year, according to Minister Taylor's September Update.

Looking forward, the economy remains vulnerable on a number of fronts. First, a major rise in interest rates would negatively affect many people because household debt levels are very high relative to income. BC's personal savings rate has been negative since 1997, and the trend worsened in 2004 to –8% of personal income. Households are already being squeezed by the impact of high oil and gas prices. And if rising prices spur the Bank of Canada to raise interest rates to combat inflation (as it did again this week) the result could be troublesome for the BC economy.

As is the historical case, BC's economy rises and falls with shifts in international demand. The major risk on the international front is a correction in currency markets with respect to the US dollar, which might arise due to growing current account deficits in the US. The already-high Canadian dollar owes its current price to a worldwide decline in the value of the US dollar. The Canadian dollar could go even higher depending on the perceptions of financial markets about the state of US economic imbalances. Moreover, a major correction (which is by no means certain) could destabilize the global economy, possibly undercutting the Chinese economy, a significant source of global demand at the moment.

Implications for BC's Fiscal Framework

In spite of some of the weakness mentioned in the previous section, times are relatively good, and this is reflected in the state of the BC budget. BC has shifted in two years from the largest deficits in provincial history to the largest surpluses. In 2004/05, BC's surplus was a record, at $2.6 billion. For the current year (2005/06), the official budget estimate from the Minister's September Update is a surplus of $1.6 billion (stated as a surplus of $1.3 billion plus a $300 million forecast allowance).

In fact, the actual surplus for the current year will likely be greater. Estimates of revenues tend to be conservative and have not changed since the February budget despite an expected surge in resource royalties due to high commodity prices, while taxation revenues will be stronger due to economic growth that is higher (perhaps a full percentage point higher) than the assumptions underpinning the February budget. Thus, it is likely that at the end of the fiscal year, this surplus will be in excess of $2 billion. And the surpluses for the next two years will also likely be greater than the $1.2 billion (2006/07) and $1.3 billion (2007/08) currently forecast in the government's three-year fiscal plan. However, we recognize that some of the surplus reflects temporary sources of revenues due to the economic cycle (such as the case of resource royalties) and potential changes in the federal equalization program.

Nonetheless, now would be an opportune time to make strategic investments in BC's economy. Indeed, BC's strong budget position in 2004/05 and 2005/06 is a signal that the spending cuts of January 2002 and thereafter were not necessary. BC has the resources to make a more concerted effort to fight poverty, to allow for decent wage increases in the public sector after a few years of restraint, and to invest strategically in education and health care. We provide a number of suggestions for public investment in the next section.

It is almost certain that corporate BC will be seeking further tax cuts in the coming budget. At the national level, economists are concerned about the growing gap between productivity levels in the US and those in Canada, while the data are showing that BC is falling further behind the Canadian average. This will likely be used to make a case for further tax cuts in the name of improving productivity and ensuring a competitive business climate.

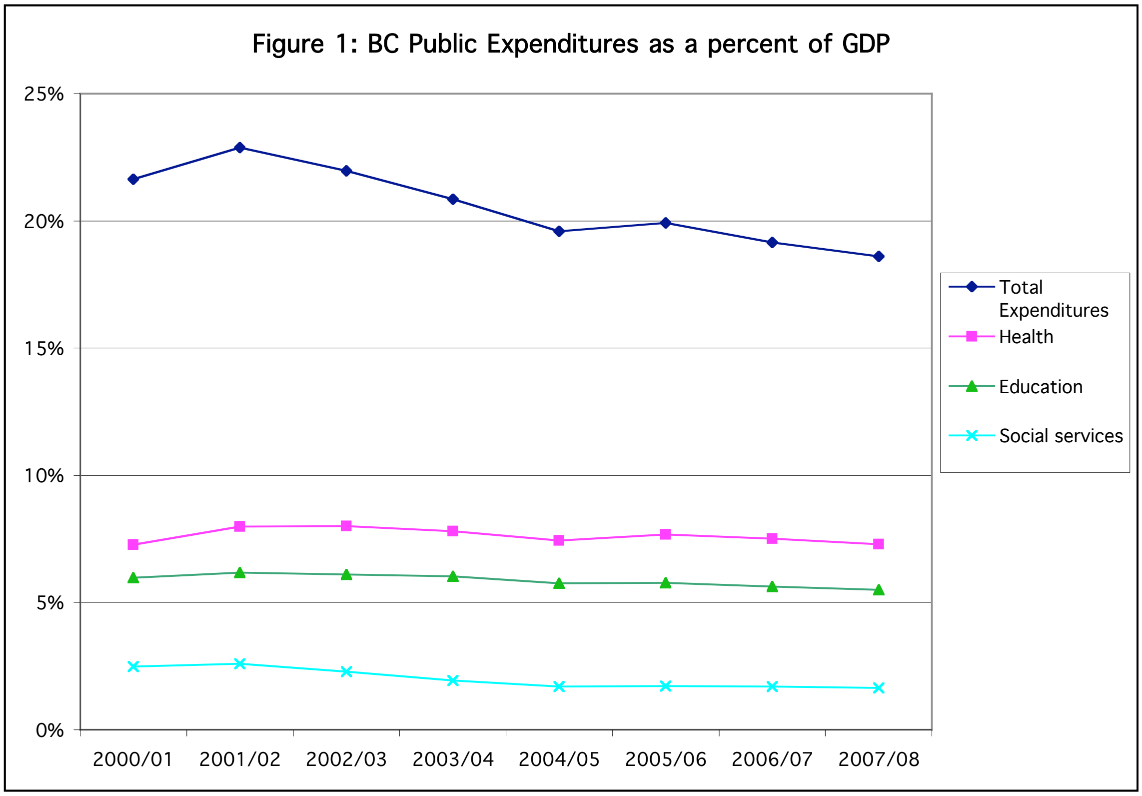
The government should be wary of such claims. Shrinking the public sector is not a panacea for the economy. It is worth reflecting on the fact that the most competitive and productive nations in the world are in Scandanavia, and they have much larger governments than does Canada or BC (Finland has ranked number one on the World Economic Forum's Global Competitiveness Index for two years running; in 2005, Sweden ranked third, Denmark fourth). They demonstrate quite clearly that a just and compassionate society is not incompatible with a competitive economy.

BC's corporate and personal income tax rates are currently in line with our major competitors. There is little to be gained for BC in terms of competitive edge on this front. There is ample evidence that tax rates are only one factor in determining investment, and are not the most important determinant. Access to markets, proximity to resources, availability of skilled labour and energy costs are at least as important as tax rates in investment choices.

Nor is debt repayment an urgent priority. At the end of 2004/05, BC's debt-to-GDP ratio was 18.3%, about the same level as in the early 1990s. This is a healthy level of debt that costs the province five cents per dollar of revenues to service (according to the Ministry of Finance's September Update). BC's debt-to-GDP ratio is the lowest among the provinces with the exception of Alberta (a province in a unique fiscal situation due to oil and gas royalties).

The key question for policy makers concerns relative rates of return. The rate of return on debt repayment is 4.5 to 5%, the savings in interest payments on that debt. But public investments elsewhere may have much higher rates of return. Investments in transportation infrastructure and education (especially early childhood education and child care) are good examples. Successful measures to reduce poverty would also have a high payback.

While debt-to-GDP is forecast to decline over the next couple of years, we recommend instead that the government aim for a stable debt-to-GDP ratio in order to provide additional fiscal room to support public spending where it is needed.



Note: 2000/01 to 2004/05 are actual; 2005/06 to 2007/08 are projections.

Source: Author's calculations based on BC Ministry of Finance, *September Update: Budget and Fiscal Plan, 2005/06 to 2007/08*, Tables 3.8.1 and A8.

Additional public spending is also required to avert a continued shrinkage of the public sector. As Figure 1 indicates, provincial program spending relative to GDP has been on a declining trend since 2001/02. Total provincial expenditures fell from 23% of GDP in 2001/02 to below 20% in each of 2004/05 and 2005/06, and will continue to fall under status quo projections. Social services has taken the biggest hit, falling by almost a full percentage point of GDP. Even health care and education are on a downward trend relative to GDP. The spending increases in the 2005 Budget (much lamented by the corporate sector) only temporarily stabilized the decline in expenditures-to-GDP.

Fortunately, BC is in an excellent position to reinvest in the public sector. We recommend that the expected 2005/06 surplus of more than $2 billion should be rolled into an endowment to support spending priorities in future years, and that projected future surpluses be used to support public investments.

While the government has room to move in terms of the operating budget, it should proceed with caution with major capital projects. In the September budget update, Finance

Minister Taylor correctly called attention to the rising cost of completing capital projects. The province has allocated an additional $1.1 billion over three years to cover the rising costs of labour and materials for existing projects.

In the construction industry, BC is essentially at full employment, the result of the recent expansion of construction mentioned earlier combined with the dismantling of the apprenticeship and training system three years ago. While there has not been a major run-up in wages for the construction sector as a whole, the danger is that combined public and private sector projects will lead to overheating.

The current situation highlights the folly of recent history. Instead of rational planning for a skills shortage that everyone knew was coming, the provincial government eliminated the Industry Training and Apprenticeship Council and closed down ITAC offices around the province that were an entry point for developing BC's skilled trades. Three years of turmoil later, there is not sufficient capacity in the new apprenticeship and training system to meet needs.

The other mistake of the provincial government was to cut back on capital spending in 2001, when the province was in an economic downturn. The appropriate response would have been to increase capital spending to mitigate the negative effects of an economic downturn. In econo-speak, capital spending should be "counter-cyclical", drawn on to inject funds into the economy when we hit a slowdown or recession, thereby stabilizing the labour market to some extent.

Given the current state of the economy, the 31% increase in public capital spending this year is poorly timed, as private capital spending is robust. The bad news is that, as critics argued before we won the bid, the Olympics have distorted our priorities when it comes to capital spending. With the Olympics coming in just over four years, we need to get those projects done. But there is a danger of an Olympics hangover, in the aftermath of a large number of public and private projects over the next few years. The government would be wise to have some projects on the docket to roll out in 2010 and beyond.

Minister Taylor will rightly be reviewing capital spending priorities for the next ten years. What is missing is any sort of public process to set those priorities — to examine what projects are on the docket, and to set priorities based on our most pressing needs. Olympics projects obviously are in the top category, as are other projects that have completed the financing stage and are essentially ready to go. Prioritizing projects still in the planning stages should be based on the relative economic and social returns of particular investments.

Priorities for Budget 2006

For the past four years, the CCPA's BC office has produced an annual *Solutions Budget*, an alternative budget that speaks to the needs for social reinvestment and economic development in the province. The themes have been fairly consistent over the years: developing an anti-poverty strategy; implementing progressive health care reforms; enhancing BC's education system; and, pursuing a made-in-BC industrial strategy.

Fulfilling this entire agenda would require some re-thinking of the 2001 tax cuts. In our 2005 *Solutions Budget* we outlined three scenarios of expenditure increases along with revenue options to pay for them. Option one was limited to using the fiscal room available from the expected surplus for restoring public services. Option two considered an anti-poverty strategy funded by rolling back income tax cuts in the top two brackets. And option three proposed an enhanced education investment plan by rolling back tax cuts for the top three brackets and introducing an education payroll tax.

These revenue directions are but one set of options that could be considered — and the size of current surpluses reduces pressures to increase taxes. The key point is the need to reinvest in the public sector. In what follows, we focus on major themes for consideration in the 2006 Budget.

Anti-Poverty Strategy

In spite of decades-low unemployment rates, dire poverty amidst plenty remains as pervasive in BC as ever. Earlier this year, a count of homeless people in the Lower Mainland by the Social Planning and Research Council of BC found a doubling in the number of homeless (to 2,112) compared to three years before.

An anti-poverty strategy must be broad-based to cover social assistance rates and eligibility, minimum wages, social housing, child care, training and education, and transportation allowances. If these supports are in place, there is little reason to believe re-instating earnings exemptions and raising benefit rates would lead to significantly increased welfare caseloads. We recommend the following measures:

- Welfare benefit rates should be increased, to ensure a decent standard of living for all those in need. It is cruel and unreasonable to expect people to live on $6 a day.

- Earnings exemptions, including flat rate earnings exemptions, are a key linkage to the labour market for those on welfare, and should be restored and increased from previous levels. A better model would see a flat rate exemption of $200 or higher, with additional earnings clawed back at a rate of 25% until a person's income is deemed sufficiently high.

- More employment support programs are needed, and they should be individualized and nurturing, offering one-on-one assistance to people that addresses their personal barriers to employment. The welfare system should no longer be punitive and humiliating, but a spring-board to help improve people's lives, and by extension, the economic and social well-being of the province.

- Meaningful, long-term training and education must be offered and supported, so that low-income people could access stable, well-paying jobs. This would require rescinding rules that prevent people on social assistance from being post-secondary students. This approach costs more in the short-term and takes longer than the "fastest route to a job" approach now in operation, but it represents the difference between being stuck in the low-wage economy and finding decent-paying work that is stable and self-sustaining. It also trains people for the higher-skill jobs increasingly needed in a modern economy.

- Affordable housing is more needed than ever, given the recent run-up in real estate prices. In some cases, land has already been set aside but missing is capital funding from senior levels of government. BC should stop diverting federal funds for social housing to assisted living projects. The government should commit to building 2,000 new units of social housing per year for the next decade.

- While not a budgetary measure, increasing the minimum wage would be a proactive move that would reinforce the above elements by improving incomes for those working minimum wage jobs. Someone working full time should not be in poverty. Stepping up the minimum wage to $10 an hour, phased in over two years, is realistic, especially given the underlying strength of the labour market.

- A final element of an anti-poverty strategy should specifically target Canada's poorest postal code, Vancouver's Downtown Eastside. The province should fund priority initiatives in a variety of non-law enforcement areas, such as drug prevention, harm reduction and rehabilitation programs; women's shelters; youth shelters; etc. While the serious problems encountered in this area cannot be addressed entirely in one budget, we need to stabilize the situation.

With the Olympics fast approaching, it is imperative to think about what it is that we want the world to see. If the spotlight is on images of a Vancouver ravaged by poverty and homelessness, any efforts to promote the city or province will be seriously blighted. Instead, the Olympics should anchor an enhanced public investment strategy that goes beyond the minimum requirements for hosting the games, and that uses the Olympics as a springboard to address the province's pressing needs — a real legacy that could come from the games.

Enhancing BC's Education System

Public education is ultimately an investment. More money spent today will have large payoffs in the future in terms of graduates' abilities to enter the labour market and their earnings potential. A CCPA research study by economist Robert Allen in 1999 found that there is a huge societal payoff from education at all levels, with the largest payoffs for completion of high school. Huge amounts of money could be "profitably" spent on education when we take into account both the private return to the individual in higher lifetime income and the public return to the Treasury in the form of higher taxes paid on that income.

Early childhood education and care

There is a growing consensus that a high quality early childhood education and child care program will have large societal payoffs. The economic benefits of such a program would range from enhanced opportunities for labour market participation for parents, which would improve our productivity, to higher achievement levels (and future incomes) on the part of children. U of T economists Cleveland and Krashinsky (1998) find that these benefits would outweigh the costs to the public purse by a factor of two to one.

The new early learning and child care agreement with the federal government is a good place to begin building on the current patchwork of child care services in BC. But it is only a start. The provincial government should, at a minimum, match those funds to accelerate the development of a publicly-funded child care system delivered through non-profit organizations. The goal should be a significant increase in spaces, lower fees, and higher wages for early childhood educators.

K-12 education

The state of the K-12 education system is top of mind for most British Columbians these past few weeks. Teachers are rightly concerned about school closures, elimination of teaching positions and larger class sizes in recent years, and the lack of resources in the classroom to properly accommodate special needs students.

The increase in budgets for school boards of $150 million in 2005/06 goes some way toward addressing the crisis created in previous years. But it still leaves real per pupil funding in 2005/06 $100 per student below 2001/02 levels, and almost $150 per student below 1990/91 levels. An enhanced investment in K-12 education is clearly needed.

Colleges and universities

The BC government announced in 2004 an expansion of post-secondary education by 25,000 seats. This is good news, something that advocates for post-secondary education had been seeking. While less than half of these new seats will be created in the next three years, the rest will be brought on-line by 2010. In addition, the government deserves credit for limiting the rise in tuition fees to the rate of inflation as of 2005/06.

The challenge for the provincial government is to ensure sufficient funding for the new seats, and the post-secondary system in general to compensate institutions for holding back increases in tuition fees. Put another way, the government needs to expand the number of students in the system *and* ensure that there is adequate funding for those students.

Apprenticeship and training programs

A Statistics Canada report at the end of 2004 noted that BC is alone among the provinces in declining apprenticeship enrolment for most trades. In contrast, eight provinces had record-high enrolments. Enrolment declines in BC apprenticeship and training programs included an 8.2% decline in enrolment for building construction (in spite of the recent boom in such investment), as well as declines in motor vehicles and heavy equipment, and metal fabricating trades. This is clearly an inadequate response to future skills shortages and could greatly increase the cost of skilled labour at a time when BC is preparing for the 2010 Olympic games.

The elimination of the Industry Training and Apprenticeship Commission (ITAC) has meant the loss of a representative coordinating body for training and certification of apprenticeships for the skilled trades. This system has been replaced with one that emphasizes “task-based” training, where workers may not have achieved a full scope of training, as has been the case in the past. We recommend re-establishing a structure like ITAC to coordinate training and apprenticeships, with tri-partite participation (labour, business and government) and an expansion of the number of training opportunities.

Progressive Health Care Reform

The new federal-provincial health care deal, hammered out in September 2004, changes the terrain of the health care debate away from funding shortfalls and towards reform. As additional funds come on stream, this new money must be used to buy change in the health care system.

The government must be more innovative in the ways it delivers health care. For example, crowded emergency rooms are a symptom of the need for health care reform. Much pressure would be taken off the existing acute care system if patients could be treated in more appropriate locations for their condition. This situation has been exacerbated by the closure of long-term care facilities (with planned replacement by less adequate assisted living units still lagging far behind) and cuts to home care services.

A progressive health care reform package should include the following:

- *Integrated community and continuing care*: Without adequate investment in new facilities, long-term care patients will increasingly take up acute care hospital beds, and our emergency rooms, in turn, will remain clogged. Home nursing and home support are also vitally important and should be expanded and brought fully within the public system.

- *Outreach and prevention programs*: Our health care system is based on treating people once they are already sick. We need to shift the culture of the health care system towards prevention, including a more holistic approach based on the socioeconomic determinants of health.

- *Primary care reform*: Revitalizing this first line of contact between patients and the health care system is crucial, and should include expansion of community health centres that provide 24-hour service through multidisciplinary teams of health professionals. It also means moving away from paying doctors primarily on a fee-for-service basis.

- *Adequate resources for mental health services*: De-institutionalization has left too many mental health patients out in the cold. These patients still need adequate housing, incomes and support, and the on-going care of mental health practitioners.

- *Funding for drug and addiction support services*: This item includes treatment facilities, outreach and employment programs, and is linked to the need for a comprehensive anti-poverty strategy.

A Made-in-BC Industrial Strategy

BC needs to be much more creative in developing an industial strategy, and must seek a made-in-BC approach. While resource industries will be of importance in the future, policy measures to decrease our reliance on commodity exports, add more value, and diversify regional economies should be at the top of the priority list. A made-in-BC strategy has to be a multifaceted strategy that moves BC up the value chain and promotes investment in key sectors.

We need to use all the tools at our disposal to promote investment, production and employment in BC. Certainly, a province has more challenges in this regard than does a national government. BC cannot control interest rates, the exchange rate, trade policy or other broad framework laws. But provincial governments are far from helpless and still have policy levers at their disposal should they wish to exercise them.

A number of key areas that should be considered:

- *Taxation changes*: The tax system with regard to business taxes should aim to reward new investments in the BC economy that enhance our productivity and create jobs. Investment tax credits would be a better means of achieving this end than across-the-board tax cuts.

- *Creation of a public investment bank*: A public investment bank would act as a provider of seed funding for new and innovative economic areas, where private sector financing is less likely to be abundant (if there at all), as well as focusing on the revitalization of the resource sector. Funding recipients would include new Crown corporations, cooperatives, worker-owned enterprises, communities, First Nations and other non-profit entities, in addition to traditional businesses — anyone with a solid business plan would be welcome.

- *Strategic public interventions*: BC has a long history of using Crown corporations and other public investments to build our province. More aggressive use of public procurement to support development, revitalizing economic infrastructure, strategic use of Crowns and other public enterprise, and delivery of high quality public services should all be part of a made-in-BC strategy.

- *Responding to the pine beetle crisis*: A recent CCPA report by Ben Parfitt found that the provincial government has narrowly focussed on increasing logging rates to capture income from the beetle-attacked trees before the trees lose their economic value. Comparatively little has been said about the need to invest in our forests, where those investments should be focussed, and where the funds to pay for those investments should come from. Substantial increases in reforestation investments must be made now and the provincial government, in particular, should properly shoulder that responsibility – one it has shunned in recent years. The government must also do much more to promote new research and management regimes that help to restore a greater diversity of tree species and tree ages to our Interior forests, because it is with diversity that we are better protected from the kinds of devastating events we are witnessing in our forests today.

Conclusion: A New Conversation

British Columbians need to engage in a new collective conversation about what public services we need and want, and how we are to go about paying for them. Painful measures have been taken by the government to get to the current surplus, and the priority for reinvestment should be in these parts of the public sector.

Public reaction to recent tragedies — the tsunami in South Asia, Hurricane Katrina in the Southern US, and the earthquake in Pakistan — tells us that people do care about others, even when they live halfway around the world. The outpouring of support also tells us that people at home are willing to open their wallets to help others they have never met and never will.

Here at home, we need to rise to the challenges facing us through the public sector. The taxes we pay are today's investments in people, infrastructure and services that we all benefit from. If we want high quality public programs, we need to pay for them through taxes. There is no free lunch; you get what you pay for.

There are some 6-8% of the population that live in dire poverty, and another 10-12% that are stretched to the limit. If we only look at economic growth, and not the distribution of that growth, improvements at the bottom will not happen, even though this is an area where the most gains could be made.

Many people with higher incomes, however, are at the point of diminishing returns with regard to private consumption. For these people, there are immense opportunities for gains in standard of living through public services. Quality of life would be improved for people by having better transportation options, less crime, less poverty and homelessness, less drug addiction, better access to health care, better education opportunities, better water treatment, and so on. This is the realm of the public sector — and its price is taxes.

Some of the changes we recommend may be criticized by people who have had frustrations with government bureaucracies. These frustrations have been fuel for those advocating neoliberal restructuring. We also must acknowledge that public services and regulation have not been perfect, even as we defend the principle of a viable public sector. The private sector is also far from perfect, as the spectacle of corporate malfeasance, from Enron to Hollinger, demonstrates so vividly.

The alternative to public sector cutbacks, deregulation and privatization is to democratize the public sector. We do need public institutions, but they must be accountable, open and transparent, and they must be rooted in democratic input and oversight. In other words, we need a new vision for the public sector that is appropriate for the 21st century. As we contemplate the restoration of public services, we also need to intertwine it with a democracy agenda.

The near passage of the STV vote in May is perhaps symptomatic of a deeper desire for people to have a greater and more meaningful say in the decisions that affect their lives. If this is the case, we should see electoral reform as merely one aspect of deepening democracy.

Evidence is accumulating that there is a major disconnect between the day-to-day lives of people and the decision-making that affects them. With a highly educated and technologically literate population, able to access global media and information sources, it is time that the political system became more responsive than the 19th century version that presides over Victoria (and Ottawa).

A democratic reform agenda also has the potential to restore confidence in a political system undermined by periodic scandals over how public funds are spent. Developing democratic mechanisms around accountability and oversight of government is one proper function of democratic reform.

Deepening democracy offers an alternative to privatization. There are core services and regulatory activities that need to be provided in the public sector because of various forms of market failure. Confidence in the public sector would be strengthened by engaging citizens in policy-making and the trade-offs this entails — including the bigger questions of what services we want to provide publicly, how they should be delivered and how we are to pay for them.