Canadian Centre for Policy Alternatives BC Office

1400–207 West Hastings St.

Vancouver • BC • V6B 1H7

Tel: 604-801-5121

Fax: 604-801-5122

info@bcpolicyalternatives.org

www.policyalternatives.ca

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

Rethinking the Tax Cut Experiment

BC Budget 2002 Brief

Submitted to the BC Legislature's Select Standing Committee on Finance and Government Services, and the Hon. Gary Collins, Minister of Finance and Corporate Relations

Prepared by Seth Klein (Director), Marc Lee (Research Economist), and Sylvia Fuller (Researcher)

October 9, 2001

CAW TCA CANADA

Introduction

We thank the *Select Standing Committee on Finance and Government Services* for this opportunity to share some of our Centre's research findings and recommendations regarding British Columbia's 2002 Budget.

Our submission offers a "big picture" analysis of the provincial budget and its influence on the BC economy. It makes some specific spending and taxation recommendations, but mostly addresses the overall impact of BC's tax cuts and the call for massive spending cuts in the context of the current economic situation. This Brief builds on the analysis our Centre presented in its submission to the Fiscal Review Panel (available at http://www.policyalternatives.ca/bc/fiscalreviewsub.pdf) and in previous budget submissions.

We believe the recent tax cuts and *Balanced Budget Act* are ill-advised and must be reconsidered in the face of an economic situation that has deteriorated substantially since the July mini-budget. Therefore, our Brief rejects many of the underlying assumptions presented in the Committee's *Budget 2002 Consultation Paper*.

The centerpiece of this Brief is a fiscal framework model (provided to the CCPA by the Ottawa-based forecasting firm Informetrica), which we have used to analyze the impact of the recent tax cuts and to test various scenarios of spending cuts. The scenarios we test demonstrate clearly that if the government cuts spending in order to reduce the deficit, it will slow the economy and increase unemployment. We also present an alternative strategy based on *scaling-back* the tax cuts and *increasing* spending (scenario 4 below). As shown, this approach has a stronger positive impact on employment and provincial GDP than moving ahead with more tax cuts.

There is a grave danger at this time of BC being boxed in by a narrow set of assumptions, thereby severely limiting options and putting the province on a course that will harm thousands of people and devastate valued public programs. As our Centre has always said, however, budgets are about choices and ultimately reflect our values and priorities as a society.

The government is claiming that dramatic spending cuts are now needed in all ministries outside health and education. In fact, there have already been cuts in these areas (such as funding for AIDS patients and post-secondary capital projects). Even maintaining nominal spending in health and education will represent a real decline in funding after inflation and population growth are taken into account. Through such acts, the government is acknowledging that its election promise that tax cuts will pay for themselves is not working. If that is so, then the tax cutting experiment must be called-off. A serious reconsideration of the government's fiscal agenda is in order.

The tax cutting experiment must be called-off. A serious reconsideration of the government's fiscal agenda is in order.

Economic Context

The 2002 BC Budget comes at a time when many external factors have weakened the domestic economy. This is the worst possible time for a government to undertake radical spending cuts to the public sector.

Spending cuts will make a bad situation worse and could spell the difference between a slowdown and a full-blown recession.

After turning an economic corner over the past two years (with economic growth of 2.1% in 1999 and an estimated 3.8% in 2000), the TD Bank is now forecasting growth of 1.7% for BC in 2001, and 2.1% in 2002 (well below the Finance Minister's summer estimate of 3.8%). While disappointing, these forecasts indicate that provincial revenues would have continued to increase under a status quo scenario. The FRP acknowledged that the budget would have been balanced this year had it not been for the tax cuts. Given the recent tax cuts, however, provincial revenues will decline this fiscal year (and likely again next year) for the first time in decades.

Contrary to Liberal promises during the election, if the TD's economic growth forecasts are even close to correct, the tax cuts will not pay for themselves in the foreseeable future. Revenue growth did accompany tax cuts in Ontario and Alberta in the late-1990s, but the difference was that taxes were cut in these provinces in times of strong economic growth. This is not the backdrop for BC's tax cuts.

The global economic picture is now worse than most analysts believed possible only months ago. Even prior to the Sept. 11 tragedy, the US economy was slowing in spite of several interest rate cuts. The US is also burdened by historically high levels of corporate and household debt, which fuelled the last years of the expansion, but now constrain the ability of the economy to recover quickly. The massive trade deficit of the US, an overvalued dollar, over-investment in information and communications technology, and the aftermath of the collapse of a high-tech bubble in May 2000 are all contributing factors to the current US economic situation. Added to this mix are the events of Sept. 11, the full consequences of which have yet to be understood.

Compounding the effect of the US downturn for BC is the imposition of countervailing duties on BC lumber exports, which is hurting the forestry industry, with the most severe impacts being felt in resource-dependent communities. Falling demand in Japan and the rest of Asia is also driving down resource commodity prices.

In short, the 2002 BC Budget comes at a time where the confluence of many external economic factors beyond our control has weakened the domestic economy. This is the worst possible time for a government to undertake radical spending cuts to the public sector. Spending cuts, as our model below demonstrates, will make a bad situation worse and could spell the difference between a slowdown and a full-blown recession.

In this context, arbitrary targets such as balancing the budget by 2004-05 must take a back seat to the realities of the economic situation. It is entirely appropriate that the government run a deficit in 2001-02 and in 2002-03 given the current North American and global economic outlook. If there is a strong recovery next year or thereafter, the rising revenues that will result will eventually bring the budget into balance. In the interim, BC is fortunate to have a low level of provincial debt-to-GDP, which gives the province room to maneuvre in the face of the slowdown.

The Limitations of Tax Cuts

The recently announced provincial tax cuts will provide a mild economic stimulus, but various "leakages" significantly limit this effect. The problem of tax cuts "leaking" from the local economy is particularly acute in British Columbia, as BC has a weak manufacturing base. Because many of the goods and services people in BC consume are produced outside the province, much of the stimulative value of personal tax cuts is passed on to other jurisdictions through inter-provincial trade flows.

Table 1 presents data from our economic model about the provincial distribution of benefits from BC's tax cuts. The table presents the national economic impact of BC's recent $2.1 billion personal and corporate tax cuts (fully phased-in). Canada-wide, the BC tax cuts will lead to employment growth of 25,500 jobs, of which only 8,823 will be in BC (about 35% of the total). The tax cuts will increase national GDP by $1.6 billion, of which $542 million will be in BC (or 34% of the total

Fully 31% of the total GDP boost of the BC tax cuts (and 30% of the employment growth) accrues to Ontario as a result of the large amount of goods and services BC imports from that province.

Table 1: Impacts of BC personal and corporate tax cuts in 2002

	Employment Impact		GDP Impact	
	jobs created	% of total	$ millions	% of total
Canada	25,500	100.0%	1,603	100.0%
Territories	57	0.2%	5	0.3%
Newfoundland	270	1.1%	15	1.0%
PEI	83	0.3%	4	0.2%
Nova Scotia	535	2.1%	28	1.8%
New Brunswick	421	1.7%	23	1.5%
Quebec	4,393	17.2%	258	16.1%
Ontario	7,549	29.6%	502	31.3%
Manitoba	700	2.7%	39	2.4%
Saskatchewan	603	2.4%	38	2.4%
Alberta	2,066	8.1%	148	9.2%
British Columbia	8,823	34.6%	542	33.8%

Notes: This table reflects the stimulative impact of $2.1 billion in personal and corporate tax cuts in BC. This model only looks at Canadian impacts and does not consider the outflows to other countries (in particular, the US).
Source: Authors' calculations based on Informetrica's fiscal framework model.

increase in GDP). Leakages are clearly a major factor that must be considered when assessing the impact of provincial tax cuts. Fully 31% of the total GDP boost of the BC tax cuts (and 30% of the employment growth) accrues to Ontario as a result of the large amount of goods and services BC imports from that province.

Approximately 53% of the total value of the tax cut will accrue to the top 13% of income-earners; 20% of the tax cut will accrue to the wealthiest 1% of taxpayers

A number of other factors suggest that the economic impact of BC's tax cuts will be even weaker than the model predicts. The first is the state of the economy and the confidence of consumers. Early evidence (retail sales and job losses) and recent polls indicate that many British Columbians are not spending the bulk of their tax cuts. Rather, they are putting the money into personal savings or paying down personal debt. People are particularly inclined to choose such options when they are worried about the direction of the economy, and the security of their own jobs, further undermining the ability of tax cuts to serve as a fiscal stimulus during an economic slowdown.

This dynamic is further compounded by the government's decision to concentrate tax cuts in the hands of upper-income British Columbians. According to our analysis of the personal income tax cuts (based on 1998 data from the Canada Customs and Revenue Agency), approximately 53% of the total value of the tax cut will accrue to the top 13% of income-earners; 20% of the tax cut will accrue to the wealthiest 1% of taxpayers (presented in Table 2). In our budget submission last year, we recommended a targeted tax cut for low-income people. We did so knowing that lower-income people are not only in greater need of the assistance, they

Table 2: The Tax Cut Pie

Income Interval	% of BC Taxpayers	Total Tax Savings in 2002 ($ millions)	Share of Tax Cut Pie (%)
$1 - $30,000	48.8%	$180.5	13.4%
$30,000 - $60,000	38.3%	$456.5	33.9%
$60,000 - $80,000	7.8%	$237.0	17.6%
$80,000 - $100,000	2.5%	$101.0	7.5%
$100,000 - $150,000	1.6%	$104.0	7.7%
$150,000 +	1.1%	$269.2	20.0%
Total	100.0%	$1,348.2	100.0%

Note: Figures have been calculated based on 1998 tax data (most recent year). Percentages may not sum to exactly 100% due to rounding. Income intervals are based on gross income before deductions.
Source: Canada Customs and Revenue Agency, Tax Statistics on Individuals, British Columbia, Table 2A

also spend almost all the income they have in the local economy. In contrast, tax cuts directed to upper-income individuals are much more likely to be "lost" to savings, overseas investments, imports, and vacations abroad.

The Cost of Spending Cuts

The Committee's *Consultation Paper* assumes that government spending in BC is unsustainable and must be cut. This assumption that spending is unsustainable is not supported by the evidence, nor are spending cuts advisable given the current economic climate.

It is ironic that, in the face of a looming recession, economists and politicians across North America are advising (indeed begging) consumers—who are already heavily in debt personally—to spend more, even while many of these same pundits are urging governments to restrain their spending. This contradiction is most acute here in BC. Yet if spending by consumers makes sense when facing a recession, the same holds true and then some for governments (particularly in BC, which has a low debt-to-GDP ratio and can thus easily afford to carry deficits during hard times).

Spending cuts would not be easy. BC's public sector is, in fact, already lean. Public sector employment in BC (measured in per capita terms) is the second lowest in Canada. Program spending in areas outside health and education has been dramatically reduced, severely undermining services such as forestry and environmental regulation and child protection. And growth in health and education spending in recent years has only been sufficient to keep pace with inflation and population growth.

Popular perception (driven by the media and by the current government) is that government spending in BC was spendthrift and uncontrolled over the term of the previous government. Again, this is not supported by the facts. The only meaningful ways of measuring government spending are in real per capita terms or as a share of provincial GDP. On both scores, provincial government spending has been in steady decline since 1992. Clearly, this has put tremendous pressure on the province's public services. More cuts would be ill-advised.

The only meaningful ways of measuring government spending are in real per capita terms or as a share of provincial GDP. On both scores, provincial government spending has been in steady decline since 1992. Public sector employment in BC (measured in per capita terms) is the second lowest in Canada.

As we noted in our submission to the FRP, an overly prudent approach to budgeting, in which revenues are low-balled and spending is cut, risks slowing down the economy. When the economy slows down, revenues naturally fall, while pressures on the spending side increase, pushing the fiscal position towards a deficit. Responding by cutting spending only makes this situation worse. The scenarios we present in the next section present quantitative estimates of these impacts.

Taxation and Spending Scenarios

If the government matches its tax cuts with spending cuts, provincial GDP will decline by 0.73% and more than 14,000 jobs will be lost.

The above discussion regarding the economic impacts of tax cuts and spending cuts frames the scenarios outlined below. We have used a fiscal framework model from Informetrica (a leading forecasting firm) to assess the employment and GDP impacts of four different combinations of tax and spending changes. The scenarios are summarized in Table 3. All start from a baseline of BC prior to the personal and business tax cuts announced earlier this year. Estimates of the value of personal and business tax cuts ($1.5 billion and $633 million respectively) are taken from the government's *Budget Consultation Paper*.

Scenario 1 shows the impact of the government's tax cuts with no corresponding spending changes. The model predicts that the tax cuts will provide a modest economic stimulus of over $500 million to the provincial economy, or just under one-half of one percent of GDP, above the pre-tax cut world. They will also lead, other things equal, to an increase of 8,823 jobs in BC.

Scenario 2 shows the same tax cuts, this time offset in part by spending cuts. In this scenario, spending cuts of just over $1 billion (about half of the tax cut) are implemented, with cuts spread among public sector layoffs ($300 million), reductions in government purchases of goods and services ($250 mil-

Table 3: 2002-03 Tax and Expenditure Scenarios

	Tax Cuts	Spending Cuts	Total Cost	Employment Impact	GDP impact	
	$ millions			total jobs	$ millions	%
Scenario 1: fully phased-in 2002 personal and corporate tax cuts	2,133	0	-2,133	8,823	542	0.46
Scenario 2: tax cuts partially offset by spending cuts	2,133	1,063	-1,070	-2,649	-163	-0.14
Scenario 3: tax cuts fully offset by spending cuts	2,133	2,133	0	-14,164	-869	-0.73
Scenario 4: scaled back tax cuts plus increase in spending	787	-1,346	-2,133	16,051	985	0.83

Notes: This table assumes a baseline scenario of BC prior to announced personal and corporate tax cuts. Estimates of the cost to the provincial government of tax cuts are based on the government's Budget Consultation document. Scenarios are based only on tax and spending changes—none of the scenarios in this table take into account the impact of a worsening economic outlook, the aftermath of Sept. 11, softwood lumber decisions or other factors that would also affect the economic context. Spending cuts in scenarios 2 and 3 are assumed to take the form of public sector layoffs, reduced government purchases of goods and services, reduced capital expenditures, and lower transfer payments to individuals. Scenario 4 assumes increases in spending across these areas of government activity.
Source: Authors' calculations based on Informetrica's fiscal change model.

lion), cancelled capital projects ($250 million), reduced purchases of machinery and equipment ($63 million), and reduced transfer payments to individuals ($200 million). While the numbers chosen here are somewhat arbitrary, we feel that they paint a fairly realistic picture of what spending cuts might look like. In scenario 2, the stimulative value of the tax cut is cancelled out and then some—GDP falls by $162 million, or 0.14%, and provincial employment drops by 2,649 jobs. This is due to the fact that there are much greater leakages from tax cuts than from public spending, which tends to "stick" more to the provincial economy.

More radical spending cuts are considered in scenario 3. The areas identified above to be cut are essentially doubled in this scenario. In other words, this scenario is of a "balanced budget" tax cut, where the value of tax cuts and spending cuts are exactly the same. The result is a much steeper drop in GDP by about $870 million, or a decline of 0.73%. This corresponds to more than 14,000 job losses.

Finally, scenario 4 changes the terms of the discussion. In this scenario, we reconsider the tax cuts, keeping only the low- and middle-income tax cuts (i.e. reductions in the rates of the bottom two brackets) for only phase one (the 2001 tax cuts). This rolls back the upper-income tax cuts granted by surprise when the tax cuts were announced in June, and does not proceed with the 2002 personal tax cuts. On the corporate side, only the elimination of the provincial sales tax on machinery and equipment is carried forward, while the other corporate tax cuts are rolled back.

This scenario includes an increase in spending of more than $1.3 billion. However, the combined tax cuts and spending increases amount to *exactly the same* loss of government revenue as the full-blown tax cuts set out in scenario 1 ($2.1 billion). The difference is that money is reallocated from tax cuts to spending in order to boost the stimulative effect on the BC economy.

The differences between scenario 1 and scenario 4 are telling. The fiscal shift outlined in scenario 4 increases the GDP impact to almost $1 billion, or 0.83% above the base case. This effect is much stronger than the "tax cuts only" scenario 1 ($542 million increase in GDP). In terms of employment impact, scenario 4 creates more than 16,000 jobs, compared to 8,800 in scenario 1.

Dramatic tax cuts were reckless before the current economic turmoil––further tax cuts and spending cuts now would be irresponsible.

Like scenario 1, scenario 4 poses fiscal challenges in terms of the impact on deficits and provincial debt. However, the case is included to demonstrate that the government does have other options that would be more beneficial for the provincial economy. If such a proposal for large scale spending increases is not taken seriously by the government due to its fiscal implications (despite a stronger stimulative impact), then surely the same must be true for the already announced tax cuts.

Our model is not unique. Similar models by other forecasting firms, or even by the Finance Ministry itself, would likely arrive at similar conclusions—matching tax cuts with spending cuts is a recipe for increasing unemployment and lowering provincial GDP. The government must not be guided by ideological faith but by evidence.

Given the shaky nature of the economy right now, we urge that the government be guided by the principle of "do no harm." Dramatic tax cuts were reckless before the current economic turmoil — further tax cuts and

Many of the spending cuts the government is considering or has already implemented do not actually *cut* costs—these measures merely *shift* costs onto individuals and employers.

spending cuts now would be irresponsible. The best way to help the economy and create jobs is with a significant increase in spending. Such a stimulus would be spared most of the leakages that plague tax cuts.

Finally, it should be noted that many of the spending cuts the government is considering or has already implemented do not actually *cut* costs — these measures merely *shift* costs onto individuals and employers. The contemplated cuts to Pharmacare are a clear example of this. Raising tuition and cutting child care are similar examples. The Canadian experience offers many examples of programs (health care, pensions, education) that are provided both more efficiently and more equitably when we choose to pay for these programs collectively.

Moreover, some things cannot be shifted to the private sector and may simply disappear. At risk are vital services such as water-testing, environmental protection, legal services, employment-standards services, coroner's services, family services and childrens' protection, to name a few. Cuts in these areas negatively affect the overall health and well-being of the people of the province. In addition, cuts that affect the substantial infrastructure of the province are short-sighted and ultimately run-down the economy. In other words, the public sector is more than just health care and education.

Building a Strong Economy and Helping Those in Need

It is our firm belief that pinning our economic hopes on the promise of having the lowest taxes in Canada is a no-win strategy.

The *Budget 2002 Consultation Paper* asks what steps are needed to ensure British Columbia has the leading economy in Canada.

It is our firm belief that pinning our economic hopes on the promise of having the lowest taxes in Canada is a no-win strategy. First, there is little evidence that such an approach will deliver a stronger economy. Second, simply put, BC cannot win a tax-cutting race with Alberta given the oil and gas revenues at their disposal.

Reasonable voices must flatly reject the notion that Canadian provinces should compete with one another for investment –– that is not what it means to be a country. We need our governments to cooperate.

Therefore, BC must be more creative in the development of a modern economy. This includes:

- Investing directly in the things that business needs, like a highly educated and skilled workforce (hence the need to protect and expand education spending);
- Protecting the advantages the province already has, like cheap and reliable electricity;
- Ensuring that the province gets the most value and maximum employment from its public resources. Rather than encouraging the expansion of basic commodity

production, the province should encourage investment in new environmental technologies and higher value-added resource use (for more ideas on how to accomplish this goal, see the CCPA publication *Recapturing the Wealth* by CCPA resource policy analyst Dale Marshall at:
http://www.policyalternatives.ca/bc/recapture-wealth.html).

The underlying premise of boosting growth by cutting taxes for the wealthy is that BC has been a fundamentally hostile place for business and wealth accumulation. Yet the evidence does not support this. According to analysis by Steve Kerstetter for our Centre based on Statistics Canada's recent *Survey of Financial Security*, BC is home to more millionaires per capita than any other province, and has higher average wealth than any other province. The much maligned tax levels in BC were already among the lowest in Canada prior to the tax cuts, and corporate tax levels were in line with other jurisdictions in Canada and the US.

A much more pressing problem facing BC is inequality, something that a combination of tax cuts and spending cuts is sure to worsen. We urge the government to recognize in its deliberations the very grave social deficits—the *real* structural deficits—that still plague our province.

As we noted in our BC Budget 2001 Brief, addressing inequality and poverty should be BC's top fiscal priority. Rather than privileging tax cuts for those who need it the least, the government should establish an "anti-poverty fund," raise income assistance rates, accelerate the construction of social housing, and expand public child care.

BC also faces continuing *real* structural deficits with respect to education and skills training. While BC did witness an important expansion in the post-secondary system during the 1990s, this was primarily a case of catch-up—many more spaces will be needed if BC is to meet the needs of a modern economy for a highly skilled and educated workforce. And as BC's Industrial Training and Apprenticeship Commission has warned, "An innovative, proactive strategy is needed in B.C. to head off serious skills shortages in trades and technical occupations in the coming years."

Finally, the government faces a longer-term challenge to be more innovative in finding better ways to deliver health care. 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. Thus, the crisis in emergency wards is less about the need for more emergency beds as it is for:

- *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.

- *Emergency response teams and outreach and prevention programs*: We need innovative ways to divert patients from emergency when they can be better treated elsewhere.

- *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

A much more pressing problem facing BC is inequality, something that a combination of tax cuts and spending cuts is sure to worsen. We urge the government to recognize in its deliberations the very grave social deficits––the *real* structural deficits––that still plague our province.

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 the Provincial Mental Health Plan*: De-institutionalization has left too many mental health patients out in the cold. These patients still need adequate housing, incomes and support, and the ongoing 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 notion of an "anti-poverty strategy."

Performance Measures

Combining performance measures with drastic cuts to government services is setting them up to fail. It is unrealistic to underfund public services and then expect them to pass muster under tough performance standards.

The Committee's *Consultation Paper* asks for recommendations on performance measures and targets. Ensuring that British Columbians get good value for their money is important, and strong accountability systems can contribute to this. Historically, however, attempts to introduce public sector performance measures both in BC and in other juridisdictions have been problematic. Indeed, performance measures can do more harm than good if not carefully designed to reflect the realities of public sector service provision.

On a basic level, combining performance measures with drastic cuts to government services is setting them up to fail. It is unrealistic to underfund public services and then expect them to pass muster under tough performance standards.

More generally, care must be taken that important but difficult to quantify objectives are not abandoned in favour of more easily measured objectives. In the realm of business, all activities can be evaluated in terms of a monetary bottom-line. Government activities, by contrast, often pursue multiple objectives, some of which cannot be so easily measured. How, for example, do we measure nurses' work comforting patients?

Performance measures modelled on the narrow management and accounting perspective of business may create perverse incentives when transferred to the public sector. When compensation is tied to meeting quantifiable outcomes, public employees will not only spend more time doing paperwork, they will shift resources away from unmeasured outcomes. They will also have an incentive to manipulate the assessment procedure. Where school performance is measured by achievement test results, for example, teaching becomes coaching for exam performance, and the goals of fostering creativity and human and social development are sidelined. When possible, schools may also make sure that only the best students write the exams, despite the fact that this may reduce future opportunities for those excluded.

Performance measures must not focus simply on costs, but also on the efficiency, accessibility, and quality of services. In the health sector, for example, the quality of the caring environment must be assessed. Moreover, comprehensive performance measures should be introduced prior to any service re-organization, not after the fact. Without such a benchmark, it will be impossible to accurately assess whether restructuring has been successful.

To ensure that performance measures further public service goals, the government should link specific indicators for government programs with a set of overall quality of life indicators with which they must be consistent. Even relatively common measures such as unemployment rates and poverty rates are major performance criteria. Appropriate indicators should be developed in consultation with the general public, and might also include such measures as real wages, economic and social inequality, equality of opportunity, and environmental quality.

Conclusion

The CCPA strongly recommends that the government scale-back its tax cuts (both personal and business) and repeal its commitment to balance the budget by 2004-05. If the government insists on matching its tax cuts with spending cuts in order to balance the budget by 2004-05, there is a high risk that it will turn the economic slowdown into an actual recession.

The government ran on a platform of hope and prosperity for all, and gave no indication during the campaign that BC's three upper-income tax brackets would be cut. Given this, the decision to cut the upper-income brackets should be reversed, and plans to cut government services must be aborted.

Changed circumstances, from the impact of the softwood lumber duty to the global economic slowdown, demand that the provincial government fundamentally rethink its economic strategy. Given the reality of global events, no one should fault the government for thoughtfully re-evaluating its policy goals. In its short time in office, the government has undertaken a radical experiment. It is time that the government come clean about the results of that experiment and change direction before more people pay the price.

The government ran on a platform of hope and prosperity for all, and gave no indication during the campaign that BC's three upper-income tax brackets would be cut. Given this, the decision to cut the upper-income brackets should be reversed, and plans to cut government services must be aborted.