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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.

"If I had a Billion Dollars"

Opportunities for British Columbia in the 2001 Budget

Submitted by the CCPA-BC
to the BC Legislative Select Standing Committee on Finance and Government Services,
and to Paul Ramsey,
Minister of Finance and Corporate Relations

November 22, 2000

Summary

In the 2001 Budget, the government of British Columbia is in a position to make clear choices about the future direction of public policy in the province. In many ways, the 1990s were a tough decade for BC. Coming out of the recession of the early 1990s, BC weathered storms mid-decade when federal transfer payments were reduced, and again in 1997-99 when the province was the most affected in Canada by the fallout of financial crises in Asia. Despite criticism from the business community, running deficits to inject money into the provincial economy was good fiscal policy given these circumstances.

These storms have now passed, and BC has recovered a great deal in 2000. Stronger economic growth this year (and into 2001) is good news for workers and businesses, as well as the government's fiscal situation. The government should plan for a third consecutive balanced budget for the 2001/02 fiscal year. This will maintain BC's enviable fiscal position relative to other provinces in terms of debt-to-GDP ratio and debt service costs.

Even given a balanced budget framework, however, the 2001 Budget provides an opportunity for the government to make a number of progressive policy choices that can capture the imagination of British Columbians, and make a qualitative difference in people's lives. This brief is based on a theme of "closing the gap". To this end, increases in spending should benefit those in BC that have been most adversely affected by policy changes in the 1990s. We recommend:

- The creation of an investment fund, out of the current year's surplus, to support new initiatives in depressed urban areas;
- Raising income assistance rates by 10%, and reforming BC Benefits;
- Accelerating the construction of new social housing;
- Extending public child care;
- Reducing class sizes in the public education system;
- Implementing a first-year free tuition policy, in addition to maintaining the tuition freeze; and,
- Addressing stress points in the public health care system, including hiring more nurses, and embarking on much-needed health care reforms.

On the revenue side, three areas of revenue neutral tax reform are recommended:

- Enhancing the progressivity of the tax system through the introduction of targeted low income tax credits, offset by the creation of a new tax bracket for those earning more than $150,000;
- Rolling MSP premiums into the income tax system, and,
- "Greening" the tax system through study and implementation of various "tax shifting" incentives to encourage environmentally-friendly behaviour.

Introduction

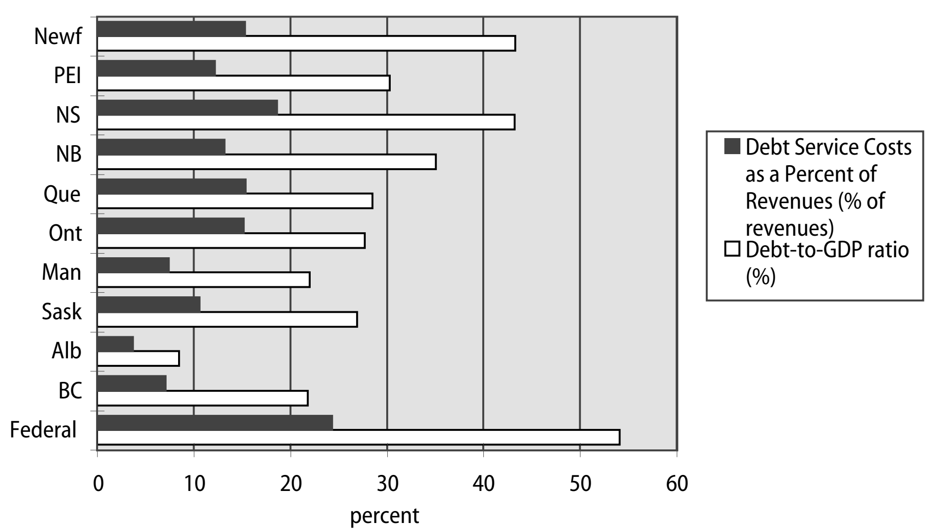
Budgets are about choices. Since the release of the first Alternative Federal Budget by the CCPA in 1995, the idea that there are choices and alternatives has been a core theme of our work. Yet, popular commentary suggests exactly the opposite: that we have very few choices other than the policy prescriptions favoured by a small elite of business groups and conservative commentators.

The business community has campaigned quite successfully in recent years for large tax cuts—particularly at the top of the income ladder. Following on the federal mini-budget that delivered the bulk of future surpluses to tax cuts, BC should resist this siren song and chart a different course. Public opinion polls continue to support reinvestment in public services as a top priority, well above tax cuts, and certainly overwhelmingly above upper income tax cuts.

Compared to other provinces and the federal government, BC continues to have an enviable fiscal position. This is not widely recognized, and even though deficits in recent years have led to an increase in total provincial debt, this remains well within our ability to pay. This fact increases the scope of government to be bold and to make progressive public policy choices.

This Budget brief sets out a plan for the province that we feel can capture the imagination of the public, while making a financial commitment in areas that reflect the priorities and values of British Columbians.

Figure 1: Fiscal Comparison



Note: Numbers are projections for the 2000/01 fiscal year, and reflect debt levels as of March 31, 2001.
Source: TD Economics, BC Budget, Federal Budget

Beyond Doom and Gloom: The BC Economy

In recent years, critics have been hyper-pessimistic about the provincial economy, and these criticisms have echoed throughout the media as indictments of government policy. But a look back over the past few years reveals that criticisms have frequently been exaggerated and overstated.

Table 1: The Price of Pessimism

	Real GDP Growth (percent)		Surplus/deficit (millions of dollars)	
	Budget Projection	Revised projection	Budget Projection	Revised projection
1999/00	0.5	2.1	($1,529)	$52
2000/01	2.1	3.0	($1,278)	$650

Source: BC Budgets; BC Financial and Economic Review

During the 1997-98 Asian crisis, when markets collapsed for BC exports, badly hitting resource communities, commentators daily cried "recession", and many used the opportunity to blame everything on the provincial government. BC ran a large deficit in 1998, as striving for a balanced budget at all costs in such a circumstance would have been inappropriate. Yet, the government was deeply criticized for undertaking what many economists would simply regard as good fiscal policy. As for gloomy sentiments about the provincial economic "downturn", the statistics now indicate that BC experienced positive (albeit very modest) real economic growth of 0.9% in 1998.

In 1999, continued pessimism was the order of the day, as the effects of the crisis lingered. Most commentators did not anticipate a rebound in the economy, or if they did, they were not letting this change their message track. A strong second half, however, pushed BC's economic growth in 1999 to 2.1%, a marked pick-up over the previous year. Exports to a strong US market played a role in this turnaround, but domestic factors actually outpaced the overall growth rate. Consumer demand grew by 2.6% in 1999, and final domestic demand grew by 3.6%. (Of note, much heralded Alberta grew at only a slightly faster pace of 2.5% real economic growth, with consumer demand up 3.7% and final domestic demand up 3.4%).

These changes were reflected in a dramatic reversal in provincial finances. The projected deficit of $1.5 billion in the 1999 Budget was based on the much lower private sector projections at the time, averaging around 0.5% growth (and the government added some additional "prudence"). If the economy in 1999 did indeed live up to these expectations, this deficit would have been good fiscal policy. But instead a stronger economy led to a “balanced budget”—a modest surplus of $52 million.

The current fiscal year is looking better than 1999. Estimates of economic growth for 2000 have been revised upwards from the beginning of the year to around 3.0%. The provincial unemployment rate has averaged 7.2% over the first ten months of this year, the lowest level in two decades. And total employment has grown by 2.9% over the last 12 months.

A stronger economy bodes well for the 2000/01 Budget. The government’s revised budget forecast is now for a surplus of $650 million, a large shift from a projected deficit of $978 million (both numbers include the contingency reserve) at Budget time. Although these are only projections based on first quarter results, this indicates that even in the current fiscal year, there are options at the government’s disposal that were not apparent at Budget time.

In the year ahead, a major area of uncertainty has to do with the state of the US economy. Several signs suggest that the US economy is slowing down and in coming years could experience anything from a mild recession to a more serious financial crisis. Specific concerns include: rather high stock prices matched with falling corporate profits and record high levels of private sector and consumer debt; an overvalued US dollar amidst a ballooning current account deficit; and, higher inflation, in part due to oil prices, which may lead the Federal Reserve to raise interest rates.

If the US economy was to enter a recession in 2001, BC would feel the impact. In the wake of the Asian crisis, BC exporters have shifted their focus from Asian to US markets. Exports to the US have been rising as a share of total exports, with export gains almost entirely explained by increased demand south of the border. But because exports to the US now constitute two-thirds of total exports, BC is much more susceptible to a US downturn than it was a few years ago (for example, in 1995, the share of BC exports to the US was 49.4%).

In the event of a North American recession, the natural pressures on the BC Budget would push towards a deficit. This would be the appropriate response for the government to an economic downturn, and if anything would make our policy proposals below more relevant. We would not advocate balancing the budget at all costs, as this would only exacerbate the downturn.

Room to Move: The Budget Balance and Provincial Debt

With a stronger economic backdrop, the government is in a position to table a balanced budget for 2001/02 (based on both consolidated revenues and summary account). This will be the third balanced budget in a row, but would be the first tabled as such. We are, however, concerned about budgeting practices that underestimate economic growth and revenues. While some degree of caution is required due to the uncertainty of the future, BC is increasingly being "prudent to a fault" in its budgeting forecasting.

We base our recommendations on budget revenues of $23.2 billion, the middle of the range set out in the Finance Minister's discussion paper. To balance the budget we set a limit of expenditures equal to the amount of projected revenues, implying a $1.3 billion increase in total spending over the current fiscal year. It is assumed that net Crown corporation income will be zero, also as set out in the discussion paper.

Table 2: Projections for 2001/02 (millions of dollars)

	1999/00	2000/01 [1]	CCPA Projected 2001/02 [2]
Consolidated Revenue Fund (CRF)			
revenues	21,846	22,266	23,200
expenditures	22,200	21,918	23,200
CRF balance	-354	348	0
Net Income from Crown Corporations	406	302	0
Summary accounts surplus	52	650	0

Notes: 1. Projected as of September 2000, 2. Mid-range of estimates in BC Budget 2001 Discussion Paper.
Source: BC Budget; First Quarterly Report; BC Budget 2001 Discussion Paper.

Notably, expenditures have grown at a slower pace than revenues over the past two years. If the growth of expenditures (due to inflation, population growth and fair and equitable wage increases for the public sector) next year were to equal $600 million (as set out in the budget discussion paper), and factoring in a contingency reserve of $200 million (for unforeseen circumstances, and possibly due to public sector wage increases in excess of planned), this implies a latent surplus of approximately $500 million that could meet progressive policy priorities.

We also suggest that $400 million of new capital expenditures be (off-)budgeted. This would increase the total capital plan by 25% from $1.6 billion (projected in the discussion paper) to $2 billion for 2001/01. While this would increase taxpayer-supported debt to about $29 billion, at this point there is no reason to be overly concerned about $2 billion in additional provincial debt. What matters is the ratio of provincial debt to the size of the economy, or debt-to-GDP ratio. In 2001, BC's economy will grow to about $125 billion, a rate slightly slower than the increase in debt. This means the province's debt-to-GDP ratio would increase only slightly to 22.9% (as of April 1, 2002), from the projected 22.2% (as of April 1, 2001). This is still very much within our ability to pay, and BC compares very well on this measure relative to other provinces and the federal government.

It is important not to be short-sighted when viewing capital expenditures merely as higher debt. These investments are necessary additions to the province's stock of assets, and are well-recognized by economists as complementary to enhancing overall productivity growth. As an overall guideline, however, provincial debt-to-GDP should be capped at 25% over the coming years. This means there should be little difficulty in accommodating the planned capital expenditures of the government, and if anything, there is additional room for productive investments.

Closing the Gap: Recommended Expenditures

A major theme of our recommendations is "closing the gap". Inequality in the distribution of market incomes grew dramatically over the 1990s in BC and across Canada. This has been mitigated by income transfers and public services, but these public mechanisms to share the wealth have been under attack. This Budget offers an important opportunity to declare "war on poverty", and reverse this increasingly visible trend. As described in the previous section, the recommendations here are figures in excess of the general rise in expenditures due to inflation and population growth.

Urban Poverty Fund

We recommend that the 2000/01 fiscal year's windfall, un-budgeted surplus be rolled over into an Urban Poverty Fund, specifically targeting high intensity urban poverty, homelessness and drug addiction in locations like Vancouver's Downtown Eastside (and other qualifying areas). The projected surplus is $650 million for the current year, of which $290 million is already committed for supplemental health care funding. This leaves a potential Fund of $360 million to support priority initiatives in a variety of non-law enforcement areas—such as harm reduction, drug rehabilitation programs, operating funding for social housing, and other innovative programs—to build on already announced projects under the Vancouver Agreement. This Fund would include both capital and operating expenditures, and would be amortized over a five-year time horizon.

Table 3: Summary of CCPA Recommendations

	(millions of dollars)
Remainder of current year surplus:	
Urban poverty fund	360
2001/02 Expenditures:	
Enhancing social assistance	170
Child care	100
Education	100
Health care	130
Total	500
Contingency Fund	200
2001/02 Capital expenditures:	
Social housing	200
Community and continuing care	200

Enhancing Social Assistance

Current social assistance levels leave little room for survival, let alone getting out of poverty. The system intended to help those that have fallen through the cracks is now punitive and mean-spirited.

We recommend that the Budget raise income assistance rates by 10%, a measure that would cost $170 million. This must also include an end to the current clawback by the province of the federal Child Tax Benefit for people on welfare. Importantly, this would make a direct improvement in people's lives, many of whom are currently paying part of their $175 per month living allowance to pay rents that are in excess of the $325 housing allowance.

In addition, there are other low cost items, in the context of BC Benefits reform, that could be pursued that would improve the quality of life for welfare recipients:

- People receiving welfare should be provided with free transit passes, which would enhance their ability to apply for work;
- Maintaining funding and support for the Four Corners Bank at Main and Hastings in Vancouver;
- Eliminating the requirement that older recipients apply for CPP early, a measure

that can lead to a 30% reduction in benefits over the long term; and,

- Creating incentives for increased education and training. This would include providing benefits to social assistance recipients who are engaged in educating themselves, at both post-secondary and secondary school equivalent levels.

Social Housing

Canada's mayors have called homelessness a national emergency. A lack of adequate housing, or the threat of becoming homeless, remains a life or death issue for the least well-off in our society, and the market is at a loss to provide solutions.

BC is one of only two provinces in Canada that continues to fund new social housing (the federal government pulled out of funding new social housing in 1993), but more needs to be done. To address the housing crisis in the province, we recommend that the Budget dedicate $200 million in capital funding to accelerate the construction of new social housing. Additional funding for operating costs is covered under the above Urban Poverty Fund.

Child Care

Last year's budget commitment was an important first step toward a universal child care system in BC. However, the new program only begins on January 1, 2001, and is quite limited in its current state.

In the 2001 Budget it is important to take the next step. We recommend the Budget allocate $100 million of full-year funding, including funds to broaden the accessibility of the program. For example, extending coverage to evenings and weekends would be a positive move, as this would provide assistance to those who work non-standard hours. In addition, the Budget should set out a timetable for implementation of a strategy to make child care a universal public service, with associated annual costs at full implementation.

The government should explore ways of expanding child care in a cost-effective manner to maximize coverage in the short-term. For example, portables on public school grounds, as long as they meet minimum standards, should be considered for new child care spaces (although these should be phased out over the longer term). This would minimize the capital costs of expanding public child care by taking advantage of existing infrastructure.

Priorities for Education

K-12 Education

BC has increased funding for K-12 in recent years, while many other provinces have been cutting back. In addition to core funding increases for education to cover population and growth and inflation, we recommend an additional $60 million be allocated to K-12 public education. The primary focus of this additional funding should be to hire additional teachers (and support staff) to reduce class sizes in grades 4-7, building on moves in recent years to reduce class sizes in K-3. The Budget should also set out a medium-term plan to reduce class sizes up to grade 12. A second priority is to provide additional resources for education of students in ESL and special needs programs.

In addition, the Budget should phase out public funding of private (or independent) schools. The 2000 Budget allocated $143 million in grants to independent schools, which are not accountable to elected officials, while absorbing funds from the public system. At a very minimum, the combination of tuition and public funding in private schools should be capped at levels consistent with the average per-pupil allocation in the public system.

Post-secondary Education

Maintaining accessibility for students is a key challenge facing colleges and universities in BC. The cost of tuition is the single largest barrier to access to post-secondary education, which is increasingly essential for a decent income and livelihood.

The 2001 Budget should maintain the current tuition freeze. And to better enhance the affordability of the province's post-secondary education system, the Budget should commit to making first-year tuition free, with a medium-term plan to provide all undergraduate education free of tuition. The cost of free first-year tuition would be approximately $40 million.

Priorities for Health Care

We know that spending more money does not necessarily lead to improved health outcomes, but spending too little is a guarantee of poor performance. In the short-run, maintaining adequate funding levels is necessary to support the delivery of quality health care in BC. The recent agreement with the federal government on health care funding moves in this direction, and is reflected in the province's $290 million commitment of additional funds this year.

In the short term, additional staffing and continuing education programs are needed to alleviate pressure on nurses and to improve quality of care. We recommend additional funding of $60 million to increase the number of nurses, pharmacy technicians, rehab assistants, unit clerks and support staff, and to create new nursing seats and continuing education funding for workers who ladder into the nursing profession. Hiring more staff for the bedside and behind-the-scenes, and enabling care aides to upgrade into nursing are immediate solutions to the nursing workload pressures and recruitment problems. Other quick-response solutions include allowing registered nurses (RNs) to perform some duties now controlled by doctors and allowing practical nurses to work to their full scope of practice.

The Budget should also take action to reign in rising drug costs. Drug costs were the fastest growing item of total health care expenditures in the 1990s, with a 60% increase in BC from $216 per person in 1990 to $343 in 1999. BC's referenced-based pricing is a good model for dealing with the rising cost of drugs. The Budget should expand the number of drug categories covered by reference-based pricing to provide additional savings to the health care system.

The longer-term challenge, however, is for governments to be more innovative in finding better ways to deliver care, rather than just adding more money to the existing structure.

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 vital, and includes 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 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 on-going care of mental health practitioners.
- *Funding for drug and addiction treatment facilities*: This item is linked to funding in the Urban Poverty Fund described above.

We recommend the Budget allocate $200 million in capital funding to create 1,000 new long-term care and supportive housing beds. In addition, we recommend $30 million in operating funding for home support services, and $40 million for new health care services in supportive housing and other new intiatives. Where appropriate, such as with supportive care, this funding should be used in conjunction with the development of new social housing. A new study by the CCPA, *Without Foundation: How Medicare is Undermined by Gaps and Privatization in Community and Continuing Care*, looks in detail at these issues.

Towards a Fair and Green Tax System

The movement to a tax on income system (TONI) presents BC with an opportunity to set out an income tax structure independent of the federal government that meets the needs of the province. A top priority should be to maintain a progressive income tax structure, while holding the line on overall tax levels (as a share of provincial GDP).

In particular, there is no need for further reductions in the top marginal rate of income tax, which would only benefit the top 4% of income earners in the province. This top marginal rate has already fallen a great deal, from 54% in 1998 to 48.7% in 2001. Given the pressing needs described above, further reductions would be a moral outrage.

The provincial tax bracket structure should be brought in line with the four brackets of the federal system (as of October's mini-budget). This will entail some adjustment of the specific rates announced in the 2000 Budget, but the overall impact of these progressive changes should be revenue-neutral. We support maintaining the rate in the lowest bracket at 8.4%, which would make BC the second lowest tax jurisdiction after Ontario for people making less than $30,000 (about half of all taxpayers). This rate is also a full two percentage points lower than the 10.5% flat rate in Alberta.

In addition, we recommend that a targeted low income tax credit be created so as to increase the threshold at which low income people pay income tax. This differs from an across-the-board increase in the basic personal exemption. The GST tax credit is a model where benefits are directed at low income people, but not to those with higher incomes. This credit should be financed by an additional tax bracket for incomes in excess of $150,000, at a rate of 21% (this would leave the combined federal-provincial top marginal rate at 50%). Of note, this new bracket would only affect the top 1% of income earners in BC.

We also recommend that the Budget abolish Medical Service Plan premiums, and that this revenue instead be raised through the income tax system. MSP premiums are regressive, and add administrative costs to the provincial health care system. BC will soon be the only province that has MSP premiums

The government should also consider changing the nature of incentives built into the tax system to be more ecologically-friendly. While "green taxes" are not a substitute for adequate regulation, they are part of a toolkit for addressing environmental concerns. The provincial government has introduced a couple of pilot projects in this area, but moves to date have been quite modest.

At the same time, we are somewhat wary of "tax shifting" proposals, which are attempts to sell green taxes by reducing taxes elsewhere. While an appealing political strategy, this may not be appropriate for a number of reasons (see *Shifting Ground: The Potential and*

Limitations of Environmental Tax Shifting, by CCPA researcher Dale Marshall, for an overview).

We recommend the Budget pursue the following changes to the tax system to encourage "green" behaviour:

- Introduce a "fee-bate" model for automobiles, where additional levies are charged, or rebates provided, based on a vehicle's energy efficiency. This would increase the cost of the gas-guzzling sport utility vehicles that now make up half of all new car sales. The proceeds of levies on fuel/energy inefficient vehicles could then be used to provide a rebate on vehicles that have high fuel efficiency.
- Existing tax incentives and subsidies to the oil and gas industry should be phased out. Because of these incentives, oil and gas companies pay among the lowest effective tax rates in Canada. At the same time, tax incentives and subsidies for alternative and renewable energy sources should be stepped up. Tax incentives could also be used to encourage the building and retrofit of residential and small business buildings to increase energy efficiency.

These moves are particularly important at a time of high energy costs. However, to more seriously deal with issues such as climate change and air pollution, the government should contemplate a timetable for raising BC's fuel taxes, which are among the lowest in the country. However, due to the high price of fuel this year, we do not recommend fuel tax increases at this point. When fuel prices fall, the government should consider a 10-year plan to gradually increase the fuel tax to a level that will discourage automobile usage.

Ultimately, green initiatives should be seen as part of a broader industrial strategy to encourage the development of an industrial cluster based on green technologies and renewable energy.