BC COMMENTARY

a review of provincial social and economic trends

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INSIDE:

BC and the HST

By Marc Lee

In its first post-election policy announcement, the BC government announced that it would be harmonizing the 7% Provincial Sales Tax (PST) with the 5% federal GST, as of July 1, 2010. What is striking about the new Harmonized Sales Tax (HST) of 12% is that it did not feature in any party's platform. And yet, according to the Premier, "this is the single biggest thing we can do to improve BC's economy."

Since being announced, the HST has led to BC's biggest tax uprising since the GST, its federal parent. While there is much to dislike about how the tax is being implemented, progressives should be careful not to get caught up in anti-tax rhetoric either. Here's a guide to the sense and nonsense of the HST.

1. The HST will not help a slumping economy

BC is in its worst downturn since the early 1980s. The province needs major government expenditures to strengthen demand and preserve jobs, actions the BC government is failing to take. To the extent that the HST is an economic strategy it is the same old plan of reducing costs of business in the name of "competitiveness."

In principle, there is nothing wrong with a harmonized tax. It streamlines administration, treats all goods and services equally, and is more efficient than the PST, as it allows businesses to get credit for the tax they pay on inputs (as a deduction off the tax they collect). For exporters in particular, this allows them to reduce their prices by the amount of the tax they pay in imports that previously would have to be covered in the price.

But will the HST create jobs, long-term growth, make us more competitive, enhance productivity and increase investment? Not likely. That is because business investment is not enhanced by efforts to reduce operating costs, whether through tax cuts or deregulation. Rather, it is a function of the outlook for sales and profits. No companies in BC who are looking at cutting costs or laying off workers will now make substantial new investments on the basis of the HST.

2. The HST has more to do with reducing BC's deficit

The federal government is providing BC with $1.6 billion in transitional funding, and yet those funds are simply being used to reduce provincial deficits over the next three years, not to ensure an equitable transition. Moreover, the BC government estimates it will save $30 million a year in administrative costs, music to a budget cutter's ears.

In contrast, Ontario is also introducing an HST, but has accompanied it with transfers to Ontario households. When the HST was introduced in the Maritimes it was accompanied by a cut in the tax rate for goods and services previously subjected to the PST.

3. The HST transfers income from consumers to businesses

What harmonization means in practice is that a number of goods and services that were previously

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Policy Note A progressive take on BC issues

Should We Be Afraid of the Government Debt?

By Iglika Ivanova

Governments around the world are running large deficits in order to prop up their economies and dampen the hit of the global recession. For almost a year now, economists abandoned their usual anti-deficit arguments and seemed to agree that increasing government spending to stimulate the economy is the best way forward. We were all Keynesians for a while.

When the economy recovers, budgetary pressures will ease and revenues will rise to close the gap.

But now that these stimulus packages are starting to show results, the old debt-reduction rhetoric is making a comeback in the media. Is there reason to believe that increasing government borrowing would precipitate a debt crisis? To what extent is increasing government debt a problem for BC or Canada as a whole? Let's take a look at the facts.

Deficit-financing is essentially borrowing, and we all know that borrowed money eventually has to be repaid. But is borrowing always bad? Absolutely not! Most of us would agree that it's entirely appropriate for businesses to borrow so they can expand production and for individuals to borrow in order to buy a house, for example. This, however, does not mean that borrowing is always good either. What matters is the size of the loan relative to the borrower's ability to pay and how the money is going to be spent.

Advanced economies can sustain high levels of debt, as long as they don't allow their debt-to-GDP ratio to get out of control. But this is not an issue for BC. Debt-to-GDP ratios for Canada and BC have been on the decline for a number of years and are now among the lowest in the OECD.

With investors looking for safe places to park their money, there hasn't been a better time for BC or Canada to increase its government debt for the past 20–30 years. This is the silver lining of the financial crisis. And while today's super-low interest rates are going to rise when the economy recovers, they are likely to stabilize at relatively low levels, especially when compared to the high interest rates that Canadian governments had to pay on their debt in the 1980s and early 1990s.

The second key point that is often missed in media commentary is that recent deficits are temporary. Governments are borrowing because their revenues have been decimated by the global recession and they need to stimulate their economies. But the current economic storm is not going to last forever. When the economy recovers, budgetary pressures will ease and revenues will rise to close the gap.

Over the long run, the budget should be balanced by ensuring that government revenues are sufficient to cover the cost of the services that our government provides (and we need to have a discussion of what these should be). But in the current serious recession, the government needs to temporarily run deficits.

This is because the alternatives are much worse. There are only three ways for a government to

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In August we launched our new blog, www.policynote.ca: timely, progressive commentary on BC issues. Please visit the blog, join the conversation by making comments, and help us spread the word by sharing posts through email and your favourite social networking tools. Here are two of our recent posts.

Take Two: BC Budget 2009 September Update

By Marc Lee and Iglika Ivanova

September's BC Budget Update is a new look at a budget most have come to see as a fake. February's budget was not passed through the Legislature due to the May election, and up to E-Day the government maintained the fiction that it had a small-ish deficit of just under half a billion dollars. Since that time, the government moved out of denial about the recession and revealed that it could not in fact meet its deficit target, and made loud noises about expenditure cuts through the summer.

We have argued that broad-based spending cuts are unnecessary since BC does not have an expenditure problem, just a short-term revenue problem arising from the recession. Running a large deficit is entirely appropriate and good economics. The last thing BC needs is a government piling on with spending cuts on top of the downturn—this will only worsen the economic picture and throw more people out of work.

To some small extent this message seems to have gotten through—the government will allow the 2009/10 deficit to reach $2.5 billion this year. However, the new budget announced $1.5 billion in "administrative savings" over three years and it's not clear yet exactly where these will come from (more on this below). The choices tell us that on balance the government's actions will exacerbate the recession, particularly in smaller communities around the province.

Updated economic projections paint a more sober picture of the BC economy in 2009, with a 2.9% drop in real GDP. Looking forward, the budget's expectation is for "jobless growth" for a few more years, with overall improvements by 2011 predicated on US and Canadian recoveries.

Based on this gloomy short-term outlook, the deficit weighs in at 1.3% of provincial GDP (if we add the forecast allowance, it rises to $2.8 billion or 1.5% of GDP). Although much ado has been made of the size of the deficit in dollars, as a percent of GDP this is not particularly large by historical standards or even compared to what other provinces are doing.

The underlying deficit is actually larger because the BC budget banks a $750 million transfer from the federal government. This is part of $1.6 billion in transitional funding for the Harmonized Sales Tax (see other article), but in spite of the controversy over the HST, none of that money is being used for transition, just to lower the deficit.

The good news is that things could have been a whole lot worse. Most public services have more or less been preserved and there are even some modest increases in some budgets compared to February's first take. In fact, total expenditures are $826 million higher than February, although a big chunk of this is increased expenditures for fire fighting (file this one under climate change adaptation).

Some other budget lines had to increase due to the recession—an additional $100 million (compared to February) for social assistance, the expenditure area most sensitive to the economy. This is an

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The last thing BC needs is a government piling on with spending cuts on top of the downturn—this will only worsen the economic picture and throw more people out of work.

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Take Two: BC Budget 2009 September Update

increase of 8.8% above 2008/09, but seems too small given that the total caseload is expected to rise by almost 17% (the temporary assistance caseload is up more than that, about 33% higher than 2008/09). Child welfare is also up substantially, $115 million higher than February. But on the cutting room floor, the budget for community living and related services was pared back by $154 million relative to February (though this is still a small net increase in dollars relative to last year's budget).

Health care sees an overall budget increase of $189 million compared to February (and $790 million or 5.2% above 2008/09 levels). In spite of this, there will continue to be challenges in certain areas of the province and certain services. Health authorities identified a $360 million shortfall over the summer and that has led to cuts in services like outreach to seniors.

For K–12 education the picture is much worse, with a cut of $31 million from February and essentially no increase compared to 2008/09. Because of cost pressures in the system, this is going to hurt. Already school districts and schools across BC are implementing cuts to staff and increases in class size. For post-secondary education there is an increase of $160 million from February and $177 million, or 3.9%, over 2008/09 — not great (especially with the prospect of rising enrollment due to the recession) but an increase nonetheless.

What is going to sting are a litany of smaller cuts spread across all of the government's operations, in particular reduced or eliminated grants to NGO service providers and charities, arts and culture groups, and students.

What is going to sting are a litany of smaller cuts spread across all of the government's operations, in particular reduced or eliminated grants to NGO service providers and charities, arts and culture groups, and students. All told these cuts are tiny compared to the overall provincial budget, but devastating to the programs themselves. They could easily have been accommodated in a slightly higher deficit. No detail in terms of specific cuts is provided in the budget itself but overall grants are cut by $354 million, a reduction of 30% from 2008/09. Cuts to grants account for more than half of the identified "savings" from Administrative and Discretionary Spending. Further "efficiencies" (ie, more cuts) on the order of half a billion dollars will need to be found in 2010/11 and 2011/12, and these are all on top of $1.9 billion in "savings" over three years announced in February's budget.

Another notable area is a 14% cut to the Ministry of Environment budget compared to last year, with further cuts ahead in the remaining two years of the fiscal plan. This is happening in spite of an increase in the responsibilities of the Ministry to house the Climate Action Secretariat. A number of climate actions introduced just a couple years ago have been axed, including LiveSmart BC and exemptions from sales tax for energy efficient appliances. Combined with lower royalties on oil and gas development and the continued press for the new Port Mann bridge, the green agenda is essentially over.

On the revenue side, a budget surprise is that Medical Service Plan (MSP) premiums are going up by 6%. This is BC's most regressive source of revenue (BC is the only province that retains these premiums), one that actually has no linkage to health care spending. This represents about $36 per individual per year, and $72 per family, and there is an enhancement of the premium assistance that will see low-income individuals (under $30,000 income) and families (under $40,000 income) pay less. While these are not huge amounts, this is not what most families with $40,000 of income and up would want after already getting dinged by the HST.

The MSP increase contrasts with an across-the-board income tax reduction in the form of a higher basic personal exemption (to $11,000; this is the threshold at which one begins to pay income tax). Yes, another tax cut we do not need and did not ask for. The cost of the higher exemption is $173 million when fully implemented, compared to a net increase of $107 million from higher MSP premiums. All individuals making more than $11,000 benefit by $72. It hardly makes sense to spread such a thin tax cut across the province when the money could have been better used to address pressing needs arising due to the recession.

So why go ahead with this tax cut and MSP increase at the same time? Why table a large deficit but introduce widespread cuts that are going to adversely affect communities across the province? Such is the bizarre world of BC Budget 2009 Take Two.

Iglika Ivanova is the CCPA–BC's Public Interest Researcher. Marc Lee is a Senior Economist with the CCPA–BC and Editor of BC Commentary.

BC's Crisis in Seniors' Care

By Marcy Cohen and Jeremy Tate

The home and community health care system that seniors and their families rely on is in serious decline, thanks to years of poorly planned restructuring and a failure to maintain (let alone enhance) access to key services as BC's population ages.

The most problematic area of all is long-term care—often referred to as residential care or nursing homes. Before its election in 2001, the government promised to build 5,000 new non-profit residential care beds within five years. Numbers obtained by a Freedom of Information request from the province's health authorities show that there are actually fewer residential care beds today than there were in 2001—804 fewer to be precise.

What the province has done is build 4,393 new assisted living units. Given that we have lost 804 residential care beds, this works out to 3,589 net new beds, all of which are assisted living. But that only makes sense if we assume residential care and assisted living are interchangeable. In reality they are very different.

Assisted living is for seniors who can live quite independently without 24-hour supervision. Residential care is appropriate for the frail elderly with "total care" needs and includes 24-hour nursing supervision. Assisted living is an important part of a continuum of home and community health care services—but it is not a substitute for much-needed residential care beds.

When pressed by journalists in April, then-Health Minister George Abbott admitted the government has not built the promised residential care beds. However, he also claimed that our CCPA research study is not to be trusted.

This is a bizarre accusation to make. Our bed numbers were obtained from the health authorities and verified with individual facilities. The Ministry of Health Services, in contrast, reports much higher numbers because it counts beds that have nothing to do with long-term care for seniors—such as adult group homes, mental health facilities, supportive housing, etc. The mis-reporting of beds is something the new Minister should be called on to explain.

This numbers game is a symptom of much deeper problems in our home and community health care system. The CCPA is not alone in drawing attention to these problems. The BC Medical Association, BC's Auditor General, and the BC Care Providers Association have all raised concerns recently about the deteriorating state of seniors' care.

Today, BC has the lowest access to residential care of any province other than New Brunswick (access means beds per 1,000 seniors 75 years and older). Access to home support has dropped since 2001—by a substantial 30% (these are personal care services provided in seniors' homes, such as help with bathing and medications). Access to home nursing also dropped, by 11%. Only access to community rehabilitation has seen an increase, up 24%.

The province's way of dealing with inadequate service levels has been to limit eligibility to those seniors with higher-level needs. As a result, the vital prevention and early intervention role of home and community health care is undermined.

The government's failure to maintain (let alone increase) access levels means many seniors have to rely on family members for care or simply go without. Too often, seniors living at home only get access to the residential and other community health services they need after being admitted to hospital. Being in hospital is hard on the frail elderly. It blocks beds that could be used by other patients who genuinely require acute care services. And it's extremely expensive.

The good news is that providing effective community-based health care to seniors is not an impossible challenge. Adequate funding is an important part of the solution, but so is better coordination of services.

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BC and the HST

exempt from the PST will now incur the 7% provincial portion of the HST. These include a variety of common goods and services, although there will be some exemptions as well. This has led to some bizarre choices about coverage. For example, why is motor fuel exempt but not bicycles? Why are children's car seats exempt but not school supplies? Why feminine hygiene products but not other medications and vitamins? As part of its climate action plan, the BC government eliminated PST on certain energy efficient products, but it looks like these are now again subject to sales tax. And the tax applied to meals has the restaurant industry up in arms.

For the public, the HST is a transfer of almost $2 billion from businesses paying PST on their inputs to consumers who will pay new taxes on goods and services previously exempt from the PST. Arguably, some of the savings on inputs will get passed along to consumers, but only if markets are highly competitive and in the form of slightly lower inflation rather than immediately lower prices. Expect many companies operating in BC to simply pocket the difference and not pass along the savings to consumers.

While there is some benefit to the poorest British Columbians, individuals and families with modest and middle incomes will be hit with hundreds of dollars a year in additional taxes.

4. The HST will hurt modest- to middle-income households

The BC government is proposing an HST credit of a maximum $230 for individuals with income up to $20,000, and $230 per family member for families with incomes up to $25,000. At the maximum of $230 this would mean that an individual with $20,000 or less in income would have to spend more than $3,285 per year on the previously exempt goods and services listed below in order to be worse off.

These thresholds are extremely low. While there is some benefit to the poorest British Columbians, individuals and families with modest and middle incomes will be hit with hundreds of dollars a year in additional taxes.

5. The HST can be fixed

The whole point of a general sales tax is that almost everything, except for basic necessities, should be covered. What really matters for inequality is what we do with the revenues. For example, in the Nordic countries, HST-like taxes are progressive because they are used to support decent public services and reduce poverty.

Fixing the HST would require the government to flow back substantially more of the revenues to low- and middle-income households by increasing the thresholds for the credit and phasing it out more slowly as incomes rise. Income transfers like the Canada Child Tax Benefit and Old Age Security are a good model for the HST credit, with some 90% of families receiving benefits (although not necessarily the maximum).

Marc Lee is a Senior Economist with the CCPA–BC and Editor of BC Commentary*. For a list of goods and services exempt from the existing PST that will be taxed under the HST, see www.progressive-economics.ca/2009/07/27/bc-and-the-hst/*

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Should We Be Afraid of the Government Debt?

avoid deficits at this time: cut spending, increase taxes or sell assets. Large spending cuts during a serious recession will have high social and economic costs, as CCPA's 2009 *September BC Budget Reality Check* report explains. Increasing taxes will put the brakes on the economy at exactly the wrong time. Selling assets is always a short-sighted way of dealing with fiscal problems, and even more so in the current market. Borrowing money to maintain the level of government spending is simply the best option we've got in a serious recession and it is the responsible way to go.

There is no need to panic about the size of the government debt in BC and in Canada. Current deficits, federally and provincially, are small relative to GDP and by historical standards. In fact, pulling out government stimulus spending too early would have much more damaging effects on our economy than an increase in the government debt.

Iglika Ivanova is the CCPA–BC's Public Interest Researcher and the author of September BC Budget Reality Check: Facing the Full Force of the Recession*, available for download at www.policyalternatives.ca.*

Hidden Employment Standards Violation: A Journey Through BC's Freedom of Information Process

By David Fairey

For three years now, the BC government has been fighting requests to disclose Employment Standards enforcement records. Whither freedom of information, public accountability and transparency?

PHOTO: CRAIG BERGGOLD

Since 1994, when the Employment Standards Review revealed a consistent pattern of violations and abuses of employment standards and workplace safety for farmworkers, it has been clear that standards need to be improved and additional resources put into enforcement.

In a report to the Minister of Labour in 2001, the Agricultural Compliance Team of the Employment Standards Branch characterized farmworkers as "one of BC's most vulnerable work forces." Yet shortly thereafter, the government substantially reduced the minimum employment standards for farmworkers and cut the Agricultural Compliance Team.

In order to assess how these cuts and changes have affected farmworkers, our research team needs access to Ministry enforcement records that will reveal what complaints and investigations have taken place in this sector, what violations have occurred and what penalties have been issued to employers. Although the Employment Standards Act permits the publication of violations, the Ministry has never published a list of violators.

In July 2006, I submitted a Freedom of Information request for Employment Standards Branch enforcement records. Here is the sordid story of what has happened to this public interest information request:

The Ministry of Labour responded to my initial request by unilaterally extending the 30-day deadline for a response allowed under the Freedom of Information and Privacy Act by 44 days. Two months later, I was told by the Ministry that I would have to pay in advance an initial fee of over $4,200 and agree to pay any additional actual costs for the Ministry to retrieve the requested records.

Unable to pay these high and indeterminate costs, I asked the Ministry for a fee waiver (as permitted under the Act) on the basis that a clear public interest would be served by providing these public records to our research project at no cost.

The Ministry rejected my fee waiver application on the grounds that "there is no pressing or urgent need to disclose these records in the public interest at this time." In November 2006 I applied to the Office of the Information and Privacy Commissioner for a review of the Ministry's fee waiver denial. Ten months later, the Commissioner decided that my complaint should be the subject of a formal inquiry.

In June 2009—15 months after the inquiry—the Information and Privacy Commissioner finally issued a decision in my favour, rejecting all of the Ministry of Labour's main arguments and ordering them to comply by August 5. The Ministry, however, is now challenging that decision and has requested that the Commissioner reconsider. The clear indication given by this latest action is that the Ministry will stonewall this process indefinitely.

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In arguments to the Commissioner during the inquiry the Ministry characterized the documents requested as records of "administrative contraventions" and therefore of limited use. The Commissioner concluded on this point that the Ministry drew "subjective conclusions that risk trivializing issues affecting the lives of farm workers."

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BC's Crisis in Seniors' Care

A number of very successful and innovative programs are already in place in local communities across BC. These programs bring different care providers together to better coordinate, monitor and deliver care to the frail elderly. While these innovations hold much promise, they remain at the margins — isolated pockets of excellence in the midst of a home and community care system that is largely in decline. If they are to make a difference they will need to be scaled up and introduced province-wide.

What we need in this election is not more hot air about bed numbers. We need leadership and a commitment to transparency, public consultation, good planning, and increased access to seniors' care.

Jeremy Tate is a former Director of Health Facilities Planning at the Capital Regional District in Victoria. Marcy Cohen is Research Director for the BC Hospital Employees' Union. They co-authored the recent CCPA study An Uncertain Future for Seniors: BC's Restructuring of Home and Community Health Care 2001–2008. *Marcy Cohen is also an author of* Innovations in Community Care: From Pilot Project to System Change. *Both are available at www.policyalternatives.ca.*

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Hidden Employment Standards Violation

Furthermore, the Commissioner dismissed the Ministry's contention that "the tight regulatory framework and monitoring [of Employment Standards] have had their desired effect, which is to minimize the exploitation of farm labour workers" as not being the last word on this matter. Indeed, there was no evidence to support this contention of the Ministry, which was made less than one year after the tragic highway crash of a van transporting farmworkers that resulted in three deaths and eight critical injuries attributed to violations of safety and employment standards.

The Commissioner further concluded that the Ministry of Labour had failed to "respond to the applicant openly, accurately and completely."

All public policy researchers and legislators should be alarmed by and raise objections to these unceasing efforts of the provincial government to undermine the purposes of the Freedom of Information and Privacy Act and to block the disclosure of public documents in the public interest.

David Fairey is a Labour Economist and a co-author of the 2008 publication Cultivating Farmworker Rights: Ending the Exploitation of Immigrant and Migrant Farmworkers in BC *(co-published by the Canadian Centre for Policy Alternatives, Justicia for Migrant Workers, Progressive Intercultural Community Services Society and the BC Federation of Labour).*

Did you know? BC has the lowest minimum wage in Canada

By Iglika Ivanova

As of September 1, 2009 BC is the province with the lowest minimum wage in the entire country ($8 per hour) after New Brunswick, which previously shared last place with us, increased its minimum wage to $8.25. Minimum wages outside BC currently range between $8.25 in New Brunswick and $9.50 in Ontario, and some provinces have committed to further increases next year.

Meanwhile, BC's government has repeatedly refused to raise the minimum wage here, claiming that the increase in costs for employers would kill jobs in the service sector. Apparently, service sector jobs were not a big concern when the government decided to introduce the HST, bringing in a 7% increase in the cost of restaurant meals.

The best place on earth? Not for those trying to eke out a living on a minimum wage.

Read more commentary at www.policynote.ca

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