

## Robin Hood in Reverse: Who Benefits from Business Summit Tax Cuts

With federal and provincial budget deliberations already underway, the campaign for tax cuts is in full gear. Yet, most calls for tax cuts tend to be vague and non-specific, pandering to angst and resentment in the middle class. Last year's BC Business Summit is a rare exception. Not just the typical media-driven tax rage, the Business Summit (BS) actually sets out a plan for what tax cuts might really look like.

On closer examination, however, the plan looks like Robin Hood in reverse. The vast bulk of benefits go to those at the top of the income ladder. Tax savings for less well-heeled British Columbians are very small indeed, and are likely to be offset by increased out-of-pocket expenses from diminished public services. Moreover, the package looks dangerously like a recipe for recession just when the BC economy seems to be recovering.

### Whose Tax Cut?

Under the tax system, BC provincial income taxes are calculated as a percentage of federal income tax payable. In BC, this general rate is 49.5%—or \$49.50 in provincial income taxes for every \$100 of federal tax. BC also adds two surtaxes that effectively create two additional tax brackets for those with higher incomes. These kick in at around \$60,000 and \$80,000 of income.

The BS proposal has three recommendations for reducing personal income taxes: eliminating the provincial surtaxes

completely; reducing the general rate to 46.5% of federal tax payable; and, giving new tax credits to low income people.

Table 1 (see page 2) sets out the typical income taxes that would be paid at various levels of income in 1999, after standard deductions. It states the level of provincial taxes that would be paid currently, and how this would change under the BS plan to lower taxes (excluding the low income tax credit for now).

The impact is intriguing, but perhaps not that surprising. At low incomes of \$10,000 and \$20,000, the provincial income tax bill falls by very small amounts, \$7 and \$47 per year respectively. In the middle income range, tax savings grow in proportion to income, but even at \$60,000 of income, savings amount to only \$276. For what it is worth, in 1996 (last available data year), the average tax filer made a lot less than \$60,000—an average of \$27,767.

Only at higher income levels do the savings really start to materialize. A taxpayer earning \$80,000—high enough to be in the top 4% of taxpayers—would save \$827, and at \$100,000, the savings would grow to \$1,552. At the lofty height of \$150,000, the savings are almost \$5,000, and in the low stratosphere, approximately \$250,000, savings are about \$11,300—well over the combined federal and provincial income tax bill of someone making \$40,000.

A substantial portion of the savings at the high end is derived from removing the provincial surtaxes. For the \$150,000

earner, over \$4,000 of the \$4,992 tax savings is due to elimination of the surtaxes, as is about \$9,700 of the \$11,294 payable for the \$250,000 earner. This means that the total tax savings as a percentage of gross income grows with each step up the income ladder. So much for tax savings for the masses.

To be fair, the BS also proposes a \$100 million tax credit for low incomes. Without any more specific detail on implementation, it is impossible to assess just how this would affect those at the bottom end. As a proxy, consider that in 1996, just over 707,000 people earned less than \$10,000. Applying the \$100 million tax credit equally to each of these low income people would be a bonus of \$141 each—not exactly enough to lift them out of poverty, and rather pale in comparison to the tax savings for the well-off.

### Recipe for a Recession

But wait, won't tax cuts stimulate economic growth, thereby offsetting the lost tax revenue? Unfortunately, the economic impacts of tax cuts are likely to be small. As

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prominent economist Pierre Fortin notes: “Mainstream economic thought believes that any effects from a tax reduction are likely to be modest... There is no proof that a net reduction in tax levels will necessarily result in added growth.”

In part, this is because the magnitude of tax cuts is likely to be relatively small compared to the size of the total economy. There are also a number of “leakages” in the economy—part of any windfall will be saved, not spent; and of the part that is spent, some will be spent on imports and so will leave the local economy.

The impact also depends on who is the beneficiary of the tax cut. Upper income

Economist Jim Stanford estimates that only 1.3% of money in a typical mutual fund actually makes it into the hands of a company raising cash for new investments; the rest is simply purchasing a paper asset from the person that last held it).

A study by the Conference Board of Canada examined the impacts of the BS recommendations (including a number of corporate tax cuts that benefit BC’s largest corporations) on the BC economy. They found that while the tax cuts increase personal disposable income, the required cuts to government spending have a dampening effect that far exceeds any economic stimulus. As a result, real GDP and em-

to balanced budgets would be devastating for the provincial economy. In effect, the BS proposals are the ingredients for a recession at a time when BC has only recently emerged from the last recession. Given the state of the BC economy, measures that reduce economic output are not what is needed.

### The Costs of a Tax Cut

There is also the matter of the costs of a tax cut, because taxes pay for programs that most people support, even if they do not particularly like the political figures of the day. The math is really quite simple: forgone tax revenues in the form of tax cuts must be paid for by a higher deficit or cuts to public programs.

The cost to the Treasury of the BS proposals is significant. Eliminating the surtaxes, a measure that only applies to the 10% of taxpayers making over \$60,000 per year, would cost \$450 million in forgone revenues. Lowering the personal rate would cost an additional \$330 million per year. In total, the BS package weighs in at \$1.5 billion in forgone revenues per year.

Assuming that higher debt is not acceptable, tax cuts would squeeze the provincial government’s ability to pay for a wide range of public services. Together, health care, education and social assistance make up 80% of the provincial budget, with a variety of other important services, from law enforcement to environmental protection, making up the difference.

Those with low or moderate incomes are the main beneficiaries of public services. The meagre savings they would receive under the BS plan would hardly compensate for losses in those public services—likely to take the form of increased privatization, user fees, higher tuition and lower quality of service (such as longer waiting lists and more crowded classrooms).

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**Table 1: Business Summit Proposed Tax Cuts**

Income Level	1999 Federal Income Tax	1999 Provincial Income Tax (existing)	1999 Provincial Income Tax (BS)	BS Tax Savings	Savings as a Share of Gross Income
\$10,000	\$222	\$110	\$103	\$7	0.07%
\$20,000	\$1,573	\$779	\$731	\$47	0.24%
\$40,000	\$5,126	\$2,537	\$2,383	\$154	0.38%
\$60,000	\$9,187	\$4,548	\$4,272	\$276	0.46%
\$80,000	\$13,542	\$7,125	\$6,297	\$827	1.03%
\$100,000	\$17,523	\$9,700	\$8,148	\$1,552	1.55%
\$150,000	\$30,143	\$19,008	\$14,017	\$4,992	3.33%
\$250,000	\$53,267	\$36,063	\$24,769	\$11,294	4.52%

Notes: Federal taxes are calculated after accounting for standard deductions, based on average deductions from the 1996 tax year (last data year). Provincial taxes are calculated based on federal tax payable at existing rates. Business Summit estimates include elimination of provincial surtaxes and reduction of the general rate from 49.5% to 46.5%, but do not include a proposed \$100 million low income tax credit.

Sources: Author’s calculations; BC Business Summit 98 report; Revenue Canada, Tax Statistics on Individuals, 1996 Tax Year.

tax cuts are unlikely to be very effective, as any gains from lower taxes do not affect the spending patterns of the rich in any meaningful way. The proceeds would probably go into speculative activity in financial markets rather than new investments in the real economy (CAW

employment would fall, accompanied by a dramatic increase in the size of the province’s deficit and debt-to-GDP ratio. This should be cause for concern among fiscal conservatives who seek tax cuts.

In other words, a huge campaign of tax cuts matched with a zealous commitment

## **Are Spending Cuts and Privatization the Answer for BC? By Donna Vogel**

In 1998, the BC Business Summit, a coalition of corporations and business lobby groups, published a report outlining the fiscal policy demands of the province's business leaders. In addition to a call for balanced budget and debt management legislation, the Summit recommended a \$1.5 billion tax cut. \$1 billion of the tax cut would be financed through reduced government spending, privatization of Crown corporations and assets, and external contracting of public goods and services.

This call for cutbacks and privatization is all too familiar. For more than two decades, all across Canada and around the world, corporations and their neoliberal political allies have been waging a multifaceted war against the role of government in democratic societies. The crucial question to be asked of these policy proposals is: "what impact will they have on the people and communities of this province?"

In answering this question, the first thing we need to do is take a brief look at British Columbia history. Right-wing commentators are fond of claiming that we have been lucky to have escaped the severe cuts in spending implemented by the governments of Alberta and Ontario in the 1990s. The sub-text of such comments is, of course, that there must be a lot of waste and inefficiency in BC's public sector that can be trimmed, without having a noticeable impact on the programs and services that most people value and depend upon. This argument is patently false.

A quick glance back to the era of Social Credit "restraint" (1983-1985) reminds us that British Columbia was, in fact, one of the first political jurisdictions in Canada to put neoliberal doctrines into practice. What did the people of BC get in return for their "participation" in the neoliberal experiment? Despite repeated claims that "restraint" would be good for "average" British Columbians (sound familiar?), the actual results were anything but positive for the vast majority of citizens. Economic growth and productivity lagged behind the rest of the country, real wages declined, and inequality increased. Middle income earners saw their share of total income decline, while the richest 20 per cent experienced the largest gains. The incidence of poverty rose dramatically in BC, at the same time as it was falling in the rest of Canada.

What about the present situation? Is current provincial spending "excessive?" Whether we look at government spending in relation to GDP or the number of public sector employees per capita, the answer to this question is, unequivocally, no.

Provincial spending in real per capita terms has been on the decline throughout the 1990s. Despite rapid population growth in the province, public sector employment has also fallen over the past decade. Statistics Canada reports that BC's public sector employment rate per capita is the second lowest in Canada after Ontario, and below the national average in all areas except education. Indeed, BC's public sector employment rate has remained below the national average every year since 1981 and, over most of that period, has been the lowest in the country.

What happens when an already lean public sector is downsized? Evidence from other provinces shows that most people have experienced reduced services and rising out-of-pocket expenses as a direct result of government cutbacks. Spending cuts simply cannot be implemented without either reducing the quantity of services we all have access to, or imposing user fees that provide access only to those who can afford to pay the extra cost.

Similar concerns follow from the call for privatization of Crown corporations and assets. While delivering hefty profits to private investors (often foreign corporations), privatization usually means cost increases and deteriorating service for consumers and taxpayers. This is because Crown corporations have historically been set up in order to provide essential services at a low cost. Some Crown corporations are profitable, providing an additional source of revenue for public programs, but making a profit is not the number one objective, as it is for private firms. Public enterprise and assets serve the public interest, not private gain.

Privatization takes the money we once paid in taxes and deposits it directly into the coffers of private corporations. And in addition to giving up guaranteed access, we also forfeit our ability to exercise democratic control over fundamental areas of our lives.

The same is true for contracting out, a less overt but equally damaging form of privatization. External contracting is not the harbinger of efficiency and cost reduction that the business lobby likes to portray it as. Rather than saving the government money, in many cases contracting out merely gives public money—our tax dollars—to private service providers. From garbage collection to hospital food services, contracting out has produced cost increases, downgraded pay and working conditions, a decline in the quality of service, and a loss of public accountability.

British Columbians need to be wary of proposals calling for

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The BS package parallels tax cuts in many other jurisdictions, including Alberta, Ontario and many US states, with big tax cuts for high income earners, but little for those of more modest means. For those tempted by the tax cut mantra, a realistic assessment of tax savings and out-of-pocket costs is a vital ingredient in making an informed choice. If most people vote for tax cuts without reading the fine print, they may be in for a surprise that leaves them worse off than before.

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yet another round of public sector downsizing. Behind the rhetoric of concern for “everyone” is a well-practiced neoliberal strategy for minimizing the power and scope of democratically-elected governments in favour of private corporations seeking to maximize profits.

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## Recent Indicators

	Unemployment rate (%)				Inflation rate (%)	
	Oct-99	Sep-99	Aug-99	Oct-98	Sep-99	Aug-99
BC	7.4	8.0	8.6	8	2.0	1.3
Canada	7.2	7.5	7.8	8.1	2.6	2.1

Note: Unemployment rates are seasonally adjusted.

Source: BC Stats; Statistics Canada

### Supplementary Unemployment Rates, 1998

	Canada (%)	BC (%)
Unemployed more than 1 year	1.1	1.0
Unemployed more than 3 months	3.3	3.4
Rate based on US definitions	7.6	8.0
<i>Official Canadian rate</i>	8.3	8.9
Official rate plus discouraged searchers	8.8	9.3
Official rate plus those waiting for recall, replies and long-term future starts	9.0	9.4
Official rate plus involuntary part-time	10.6	11.6
Official rate plus discouraged searchers, those waiting for recall, replies and long-term starts and involuntary part-time	11.5	12.1

Source: Statistics Canada, Labour Force Update, Summer 1999, cat.#71-005 XPB

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