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The Global is Local

Shrinking the Public Sector in BC

By Marc Lee

Private is better than public. Let the market rule. Get government out of the way of business. These are the slogans repeated often enough through the media that they come across as self-evident Truth. It is in this mirror that policy-makers have viewed themselves over the past two decades.

The belief in the power of the market to do no wrong has had global reach. In the name of economic growth and progress, many Southern nations have been coerced by the International Monetary Fund and the World Bank to implement structural adjustment programs that seek to shrink the public sector, deregulate, and privatize state assets. Once privatized, the new arrangements get locked into place through World Trade Organization rules that favour the private over the public.

For people in Southern countries, these policies have been dismal failures. In country after country, privatization has led to big hikes in water and electricity bills, and user fees for health care and education. Privatization has placed key utilities and industries under foreign control. This has put crucial services out of the reach of low income families, and has disproportionately affected women, on whose shoulders caring for family and community needs falls in the absence of publicly-provided services.

Overall, countries experienced better economic growth rates and improvements on a number of social indicators in the twenty years from 1960-1980 than in the most recent twenty years from 1980-2000 when structural ad-

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justment policies have reigned supreme. Under structural adjustment, exports are up, but so are imports, foreign debt and inequality.

Here in BC, we face our own structural adjustment program—a self-imposed, radical “small government” agenda of tax cuts, spending cuts and privatization. The result is “pay up or shut up”: pay out-of-pocket for privately-delivered services, or simply go without, in which case the cost is borne in pain and suffering, or lost opportunities. Some formerly public services will just disappear if they are insufficiently profitable.

The government’s alternative to investing in infrastructure, such as highways and hospitals, is to let the private

sector build it, then lease those services back. The problem with these public-private partnerships (or P3s) is that while we save money up front, we end up paying more over the long-run. Private companies cannot borrow as cheaply as the public sector for investments, and at the end of the day, private companies need to show a profit, unlike the public sector.

The government (read: taxpayers) also remains on the hook should anything go wrong. And if we change our minds or the company is not living up to its obligations, we could face an international trade challenge if it is foreign owned. In other words, privatize the gains, socialize the losses.

There is also talk of deregulation and privatization for BC’s Crown corporations. Opening up BC Hydro to competition could mean a 30-60% hike in electricity rates—rates that are

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Inside...

COST SHIFT

How British Columbians
are paying for their tax cut



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How British Columbians are paying for their tax cut

By Sylvia Fuller and Lindsay Stephens

When the Liberals took power in BC, the first order of business was a massive tax cut. Promising to revitalize the economy by putting more money in consumers' pockets, the government slashed corporate and personal income taxes by over \$2 billion. Many British Columbians were probably happy at the prospect of paying less tax, particularly since the government argued that the tax cuts would pay for themselves, rendering spending cuts unnecessary.

A year later it is evident that this is not the case. Painted into a corner by their promise to balance the budget by 2004/05, and faced with a large hole in revenues caused by the tax cuts, the Liberals have been searching for ways to cut spending and to increase revenues. These spending cuts are damaging our ability to care for one another and the environment in many ways. Courthouses, schools and hospitals are closing or cutting back on services. Public sector workers, including those who enforce environmental, health, and safety regulations, are losing their jobs. It is becoming harder to qualify for increasingly punitive income assistance. Even public parks are being privatized. The effect on BC's collective quality of life is substantial.

The tax and spending cuts have also set in motion a dynamic of "cost shifting"—the transfer of costs off the government's books and onto individuals, families and in some cases employers. Tuition fees are going up, childcare subsidies are going down, and costs for drugs and medical services are falling on the shoulders of individual British Columbians as MSP and Pharmacare coverage become less generous. Instead of paying for services collectively through our tax system, we are increasingly being asked to pay for them out-of-pocket instead.

And this is just the start. Expect more cuts to come over the next couple of years as the government strives to re-balance the provincial budget. In addition, the government has increased sales taxes and MSP premiums, regressive measures that bite harder for low- and middle-income earners, rather than pare back income tax cuts for high rollers.

Because those at the top of the income ladder received a much larger tax cut (both in absolute dollars and as a percentage of their income), to ask whether the income tax cuts were "worth it" financially depends in large measure on the size of

one's income. Those earning less will see their tax savings whittled away more quickly than those earning more.

The accompanying table (see page 4) illustrates how the combination of tax cuts and cost shifts can play out. It sets out a series of profiles that show the "bottom line" for a number of individuals and families with different characteristics. Because of measurement difficulties, the cost shifts included in the table are by no means comprehensive. Numerous other policy changes, including reductions in income assistance, increases in sales and municipal taxes, and the introduction of user fees for various services represent a further hit to the pocketbook.

The table reveals that while more affluent individuals remain ahead financially, the gains of those with more modest incomes are precarious. A course of physiotherapy, a child entering college, or a baby in daycare can mean the difference between breaking even and falling deeply into the red. A number of other points stand out across the different profiles:

√ A single individual earning \$30,000 loses more than she gains if she requires a course of physiotherapy and an eye exam.

√ A senior couple with a combined income of \$35,000 are net losers due to MSP premium increases alone. Changes to the Pharmacare program impose an even greater financial burden.

√ A family of four with a household income of \$35,000 loses more than the value of their tax cut just with the MSP premium increase. If they have daycare expenses or require de-listed medical services they are deep in the hole.

√ A single parent with an income of \$30,000 sees her MSP premiums go down. However, if she needs childcare the loss of her subsidy will leave her over \$2,000 in the red.

√ A UBC arts undergraduate with an income of \$13,000 receives a tax cut of \$7, but pays \$480 in increased tuition fees. The incentive of a \$3,500 first-year grant has also been eliminated.

√ A family of four with a combined income of \$60,000 remains ahead even after the addition of MSP, eye exams, and a course of chiropractic treatment, but not by very much.

√ Both the individual at \$80,000 and the family of four

at \$90,000 find themselves with more money in their pockets than they had before the tax and spending cuts.

As time has passed and spending and service cuts have accumulated, the number of British Columbians for whom the income tax cuts were a “good deal” has clearly diminished—even when we take a limited personal perspective. But, of course, the implications of these changes are much broader. The income tax cuts make our taxation system more regressive by giving upper-income earners a larger benefit, and the cost shifts magnify this trend by piling disproportionate burdens on the shoulders of the poor and the sick. Taken as a whole, the new tax and spending regime makes British Columbia a more unequal place.

The tax cuts also undermine our ability to provide services that are important to us all. Taxes are not simply a “burden.” They are the price we pay to provide important services and programs such as education, health care, and environmental protection. It makes sense to provide these services

and protections collectively, and when they are undermined due to lack of funds we all suffer. The loss of emergency hospital services, a primary school or a law court in a small town affects rich and poor alike.

Many British Columbians, even those who still hold onto modest tax cuts, need to ask: were the tax cuts worth the price?

Sylvia Fuller is the Public Interest Researcher in the CCPA's BC office. Lindsay Stephens worked as a Research Assistant for the CCPA in Spring 2002. This piece summarizes their July 2002 report, “Cost Shift: How British Columbians are paying for their tax cut,” available online at www.policyalternatives.ca

Because each individual or family has their own tax cut and cost shift profile, an online tool has been developed to help British Columbians decide for themselves whether the tax cuts were worth it.

The calculator, available at www.policyalternatives.ca, asks a number of questions, then calculates the size of your tax cut versus some of the major new costs in order to estimate your personal “bottom line.”

Cost shift profiles

	←	Unattached individual	→	←	Student	→	←	Single parent	→	←	Senior couple	→	←	Family of four	→
Tax cut	425	1,793	4,985	7	254	138	357	292	863	1,503					
	\$30,000 income	\$80,000 income	\$150,000 income	\$13,000 income UBC first-year undergrad	\$30,000 income with infant in group childcare	\$35,000 combined income	\$35,000 income	\$35,000 income with 3 year old in group childcare	\$60,000 income	\$90,000 income					

MSP premiums	(216)	(216)	(216)	86	77	(384)	(432)	86	(432)	(432)					
Eye exam(s)	(44)	(44)	(44)	(44)	(44)		(88)	(88)	(88)	(88)					(88)
Physiotherapy	(196)	(196)	(196)		(33)		(196)	(33)							(191)
Massage therapy				(36)											
Chiropractic									(150)						(213)
Podiatry									(150)						
Drug costs															
Tuition increase				(480)											
Loss of 1st year post-secondary grant				(3,536)											
Loss/reduction of childcare subsidy					(2,440)										(1,037)
Bottom line	(\$311)	\$1,337	\$4,529	(\$4,003)	(\$2,186)	(\$546)	(\$359)	(\$780)	\$130	\$792					

Source: Authors' calculations from a variety of sources. See Cost Shift: How British Columbians are paying for their tax cut for more details on the calculations.

Did you know?

BC Treaty referendum by the numbers

- ✎ Number of referendum packages mailed out: 2,127,829
- ✎ Number of ballots returned: 763,480 (35.8% return rate)
- ✎ Number of ballots cast, 2001 provincial election: 1,599,765 (71% of registered voters)
- ✎ Number of spoiled/rejected referendum responses: 57,450
- ✎ Percentage of spoiled/rejected referendum responses: 7.5%

The Scales of Injustice

The BC income tax cuts for 2002 were very unequally distributed. The table below compares two groups of taxpayers that each got about the same sized slice of the tax cut pie:

- the "super rich"—all those who earned more than \$250,000; and
- the "bottom half"—those who earned less than \$30,000.

	Number of taxpayers	Percentage of taxpayers	Total tax cut (millions of dollars)	Average tax cut
Super rich	8,190	0.4%	\$190.50	\$23,260
Bottom half	916,400	48.8%	\$180.50	\$197

Source: Calculations based on income tax data for 1998 from Canada Customs and Revenue Agency.

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currently among the lowest in North America for households and businesses alike. Other Crowns might be sold off entirely as the new government sells assets to dig itself out of a fiscal hole caused by its own massive tax cuts. With them will go the range of other social objectives that are at the heart of Crowns: affordable and equitable access; meeting local economic development goals; and, environmental and safety objectives.

The good news is that, outside BC at least, there is an increasing recognition that we need a vibrant public sector. Recent debacles, featuring top US corporations such as Enron, Tyco, WorldCom and Arthur Anderson, have lifted the veil on the supposedly hyper-efficient private sector that was so revered in the 1990s. This is not just a US story, either—Livent, Bre-X and YBM Magnex are among the highest

profile Canadian examples in recent years of companies who practiced "aggressive accounting."

None of this means the government should be making toasters or DVD players. But a large number of essential areas—education, health, water, energy, and environmental protection, to name but the most vital—must be kept public so that they meet the needs of local people, not demands for higher profits from distant shareholders.

A lot comes down to questions of democracy. The public sector is, at least in theory, accountable to the people. But we have all had our experiences with "bureaucracy"—long lines, arcane forms, getting passed by phone from civil servant to civil servant—all of which is fodder for right-wing attacks. We need to be clear that the public sector is not perfect, but then neither is the private sector.

The answer is not to privatize services in the blind hope of an efficiency makeover. Instead, we need to democratize public services and Crown corporations by increasing their responsiveness and accountability to the people. They must be rooted in democratic decision-making. This means being open and transparent, and taking into consideration the insights of front line workers and users of the system to improve their efficiency and effectiveness.

The real message track differs from the mantras of the market: keeping vital services public is in our long-term interest.

Marc Lee is an Economist in the BC Office of the CCPA and Editor of BC Commentary.



BC Commentary is produced by the BC Office of the Canadian Centre for Policy Alternatives. Editor: Marc Lee; Layout: Shannon Daub
1400-207 West Hastings Street • Vancouver • BC • V6B 1H7 • Tel: (604) 801-5121 • Fax: (604) 801-5122 • info@bccpolicyalternatives.org

www.policyalternatives.ca

