

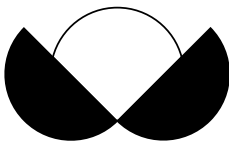
Behind the Headlines

2001

A Review of Public Policy in BC

by Marc Lee and Andrea Long

October 2001



Canadian Centre for Policy Alternatives – BC Office

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Summary

BEHIND THE HEADLINES 2001 SURVEYS DATA IN FIVE PUBLIC POLICY AREAS TO ASSESS THE BC government's performance relative to other provinces, to evaluate trends in BC, and to suggest policy recommendations. The five policy areas are: fiscal situation, taxation, public health care, public education, and equity and economic justice. This report also takes a snapshot of BC at a time of transition to a new government in the process of rapidly changing the province's political culture.

The economic backdrop for the report is the turbulent late-1990s. The Asian financial crisis (accompanied by low commodity prices) hit BC from mid-1997 into 1999, followed by a period of recovery from 1999 into 2001. After several years of modest growth amid high unemployment, the rest of the Canadian economy set sail around 1997 – particularly Ontario, with a strong manufacturing base highly integrated with the booming US economy, and Alberta, with its rich deposits of oil and gas amid surging prices south of the border – yet, BC remained in the doldrums until quite recently.

Among this report's key findings:

- Contrary to public perception, BC enjoyed a strong fiscal situation through the 1990s, characterized by low levels of debt-to-GDP and debt servicing costs relative to other provinces. Total government revenues as a share of GDP in BC are low, while program spending (not including debt servicing costs) is in the middle of the provincial pack. These figures contrast with perceptions that BC “suffers” from high levels of debt and public spending. Indeed, BC is in a position to do much more in terms of raising revenues and providing services, while staying within a stable fiscal framework.
- Recently announced personal and corporate tax cuts have substantially altered BC's fiscal situation. Sizeable projected deficits in the current 2001-02 and 2002-03 fiscal years are almost entirely attributable to the tax cuts. Combined with balanced budget legislation – which requires the provincial books to be balanced by 2004 and every year thereafter – BC is in danger of being painted into a corner with regard to program spending options.
- Even before the recent tax cuts, BC was a “competitive” jurisdiction in terms of taxes paid by both individuals and corporations. Income taxes, the focal point of “tax rage,” were the third lowest in the country for most BC taxpayers. When all provincial taxes were considered (sales, payroll, property, etc.), BC had an even greater “edge,” with only Alberta having consistently lower total taxes as a percentage of income. In addition to overall tax levels, BC residents had the third highest level of personal disposable income in Canada. A look at corporate taxes reveals that BC was not out of line with other provinces, and certainly not different enough to affect investment flows.
- The recent tax cuts lower tax rates for low and middle income brackets, but deliver a larger tax cut for those with higher incomes. This reduces the progressivity of the tax system, and undermines the role of government to offset market inequality.

- Support for public health care has been strong, but BC's relative position has shifted as many provinces have ended the budget-cutting exercises of the mid-1990s and have increased funding in recent years. Key stress points in BC's public system include: the need to push forward with health care reform that provides more resources to community-based care; the challenge of keeping public dollars in the public system amid encroaching privatization; BC's very low level of nurses per capita; and, the rising cost of pharmaceutical drugs.
- BC's funding for K-12 education is the highest in Canada, with strong support for both capital and operating costs. Student-to-educator ratios, however, are average. Funding for post-secondary education is in the middle of the provinces, as per capita funding grew in the mid-1990s but has tailed off somewhat since then. Due to the tuition freeze, post-secondary education is much more affordable in BC than in many other provinces that have seen a rapid escalation of tuition fees. Participation in post-secondary education grew more rapidly in the 1990s, but BC still fares poorly in graduating enough students to meet labour market demands.
- Current levels of health care and education support suggest no cause for complacency – if anything, more funding is required. The new government has promised that health care and education spending will not be cut. However, the fiscal situation may lead instead to a flattening of expenditures, so that they do not keep up with growth in population or inflation. A more pessimistic economic outlook in the face of the current core services review could imply cutbacks in certain areas, if not across-the-board cuts.
- In the area of equity and economic justice, BC has a labour market that delivers the second highest average weekly earnings in the country. A relatively high union density and the country's highest minimum wage play instrumental roles in supporting high market incomes. In spite of the overall strength of labour market conditions in BC, however, disparities in earnings of men and women are still evident.
- Compared to other provinces, BC has relatively low income inequality. This is a striking finding, as BC performed poorly in this area in the past. However, this shift is attributable to growing inequality elsewhere, not falling inequality in BC. Income inequality in the 1990s stayed the same for families, and rose slightly for individuals, while in several other provinces, inequality has grown, in some cases quite dramatically. Poverty rates fell in the late-1990s in BC, in spite of a flat economy, but income assistance remains an area that requires greater support. While BC has higher than average income assistance rates, in all provinces welfare has become unconscionably punitive for those who rely on it.

Overall, the data contained in this survey tell a story that is strikingly different from what British Columbians have been consistently told by the media and business groups. The province has not been fiscally unsound, tax-happy, and high-spending. And while the province has made some important progress with respect to our public health and education systems, we do not have the “most generous social programs in the country,” as the new government has claimed. Progress has been weakest in the area of reducing inequality. Yet, BC's new policy shift may bring the province the inequality problems faced by Alberta and Ontario. BC has many advantages, and clearly some weaknesses, but these advantages should not be squandered in pursuit of oversimplified answers to complex problems.

Economic and Political Backdrop

BEHIND THE HEADLINES 2001 IS THE SECOND EDITION OF A PUBLIC POLICY REVIEW THAT surveys key indicators in five areas to benchmark BC's performance relative to other provinces. The first Behind the Headlines was released in March 1999, a turbulent and uncertain time for the BC economy due to the lingering effects of the Asian financial crisis. This report considers the latter part of the 1990s and re-evaluates BC's position.

The overall economic picture for BC in the late 1990s was mixed. For Canada as a whole, the expansion of the 1990s began with several years of "jobless growth." It was not until 1997 that stronger growth, fuelled by a surge in the US economy, finally began to produce solid gains for working people. At this time, however, BC was winded by the Asian financial crisis (accompanied by low commodity prices) that began in June 1997, then spread into a global crisis through 1998 before abating in 1999.

BC felt the impact of the Asian crisis much more than other provinces, simply because it has much stronger ties to the Asian region – prior to the Asian collapse, BC produced 42% of Canada's exports to Asia. The impact of the crisis on BC's provincial GDP is telling. In 1998, real GDP growth in BC fell to 0.9%, compared to 3.3% nationally. In 1999, BC began to recover, with GDP growth of 2.1%, compared to 4.5% for Canada as a whole. In 2000, the province bounced back with estimated growth of 3.8%, compared to 4.7% nationally. Unfortunately, BC's recovery seems to have come just prior to a slowdown in the US economy, starting in late 2000 and spilling over into the current year.

Understanding this economic backdrop is important in deciphering changes in provincial numbers and rankings for each of the five policy areas considered in this review. While the rest of the Canadian economy set sail in the late 1990s – particularly Ontario with a strong manufacturing base highly integrated with the booming US economy, and Alberta with its rich deposits of oil and gas

amid surging prices south of the border – BC remained in the doldrums until quite recently.

This edition of Behind the Headlines is being released against a different political backdrop within the province. The May 2001 election ousted the incumbent NDP government in grand BC style. The incoming Liberals are in the process of dramatically shifting the province's political culture. Indeed, on their first full day in office the new government enacted the largest single tax cut in Canadian history.

This paper attempts to provide a snapshot of some key provincial indicators as the government changes hands. Based on BC's performance in these areas, we attempt to make some policy recommendations to the new Liberal government. Given our focus on the period of transition in provincial politics, and as a result of limitations in available data, we focus on comparisons of tax levels *prior* to the recently announced tax cuts. However, we do comment on the impact of the tax cuts in other aspects of our analysis.

Data and Methodology

Our assessment is based on an analysis of the most recent statistical indicators across five key areas of provincial public policy. These areas are not comprehensive; they do not cover the full range of public policy issues that fall under provincial jurisdiction. Rather, they represent key policy areas that tend to dominate public debate and that significantly affect the lives of all British Columbians.

The five areas, and their indicators, are:

Fiscal Environment

- Debt-to-GDP ratio
- Debt service charges as a percentage of provincial revenues
- Government revenues as a percentage of GDP
- Program spending per capita

Tax System

- Combined federal and provincial income taxes as a percentage of income
- Total provincial taxes as a percentage of income
- Personal disposable income per capita
- Corporate tax rates

Support for Public Health Care

- Public versus private health care expenditures per capita
- Health expenditures by use of funds – hospitals, other institutions, physicians, other professionals, drugs, capital spending, and other health spending
- Nurses per capita

Support for Public Education

- K-12 public expenditures per pupil
- K-12 student-to-educator ratio
- Post-secondary spending per capita

- Post-secondary tuition fees
- Post-secondary student-to-full-time-faculty ratio
- University and college participation rates

Equity and Economic Justice

- Average weekly earnings – overall; hourly
- Union density
- Minimum wage
- Male versus female earnings
- Gini coefficients – individuals; economic families
- Percentage of population below the low-income cut-off (LICO)
- Income assistance rates

Our assessment of these indicators is based on several criteria: relative performance compared to other provinces; performance compared to past experience in BC; and, performance in relation to reasonable and equitable social policy objectives. While our analysis in each area looks at results across all provinces, key comparisons in many cases are with the other large provincial economies – Alberta, Ontario and Quebec.

The analysis focuses on more recent developments, but in some cases we do include data spanning from 1992 to the present – a timeframe which corresponds to the tenure of the past provincial government. The most up-to-date data available are used for each indicator. However, the most recent year is not necessarily the same for each measurement due to differences in lag time for producing official statistics. Please note that due to changes in data collection and publication, some of the sources in this edition of *Behind the Headlines* differ from the previous version. As a result, the two editions may not be directly comparable for certain indicators. We have tried to use the same data sources whenever possible. Finally, where figures have been used, table data is available upon request.

1 Fiscal Environment

BC's debt-to-GDP ratio is not only low compared to the other provinces, but has remained relatively stable since 1992-93. In the mid-1990s, the ratio did creep upwards modestly, but it has since returned to lower levels. BC's debt stood at 19.3% of GDP in 2000-01, the second lowest in the country after Alberta.

FISCAL ENVIRONMENT REFERS TO THE OVERALL LEVEL OF SPENDING BY GOVERNMENT and the level of public debt. Spending and debt levels are integral to the ability of a government to deliver programs and to sustain overall economic and social well-being. If debt is too large relative to the amount of economic activity, debt servicing costs imply higher taxes to fund the same level of public services.

This does not mean that governments must always ensure that budgets are balanced. Running a deficit can be a key tool to mitigate the harsh impacts of recessions, although deficits should be offset with surpluses when the economy is expanding. The relevant time frame for balancing budgets is the business cycle, not the fiscal year. Moreover, necessary capital spending generally requires deficit-financing.

As the size of the economy grows, so does the ability of a government to hold debt for investments in areas like education, health care and infrastructure. Although much alarm is expressed

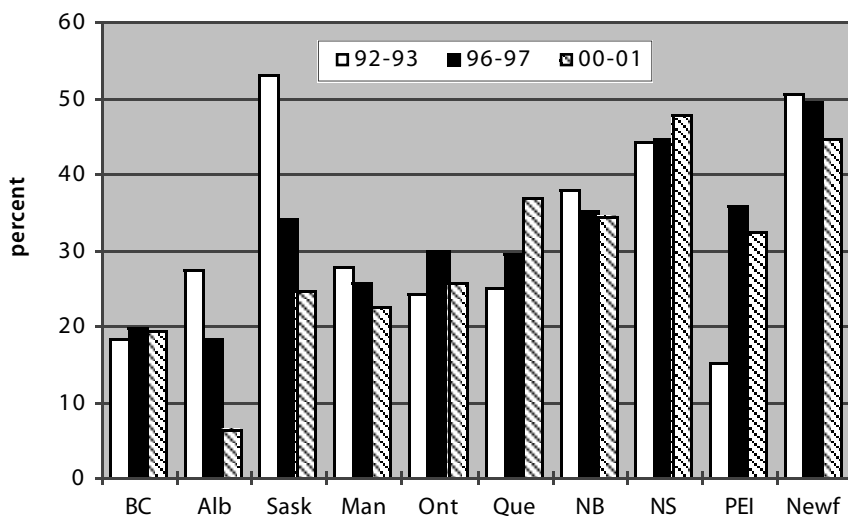
over the absolute size of the provincial debt, it is the size of the debt *relative* to the overall economy, or debt-to-GDP ratio, that is most important. The debt-to-GDP ratio is the most valid indicator of the degree to which an economy can sustain and manage public debt.

Figure 1.1 shows debt-to-GDP ratios for the provinces for the 1992-93, 1996-97 and 2000-01 fiscal years. BC's debt-to-GDP ratio is not only low compared to the other provinces, but has remained relatively stable since 1992-93. In the mid-1990s, the ratio did creep upwards modestly, but it has since returned to lower levels. BC's debt stood

at 19.3% of GDP in 2000-01, the second lowest in the country after Alberta. Alberta's extremely low ratio of 6.4% is a unique case attributable in large part to royalties derived from a booming oil and gas sector. In the 2000-01 fiscal year, Alberta received oil and gas revenues that funded more than half the province's total expenditures.¹

Figure 1.2 shows debt service costs in 2000-01 for each province as a percentage of provincial revenues, an indicator of the "bite" of servicing existing debt. The data indicate that this is not much of an issue for BC. The cost of servicing existing debt is low when set against provincial revenues (8.3%), and when compared to other provinces.

Figure 1.1: Net debt-to-GDP ratios



Notes: Net debt is government purpose debt net of the debt of self-financing Crown corporations. Net debt is approximately the sum of all past years' deficits and surpluses. 2000-01 figures are based on revised estimates.

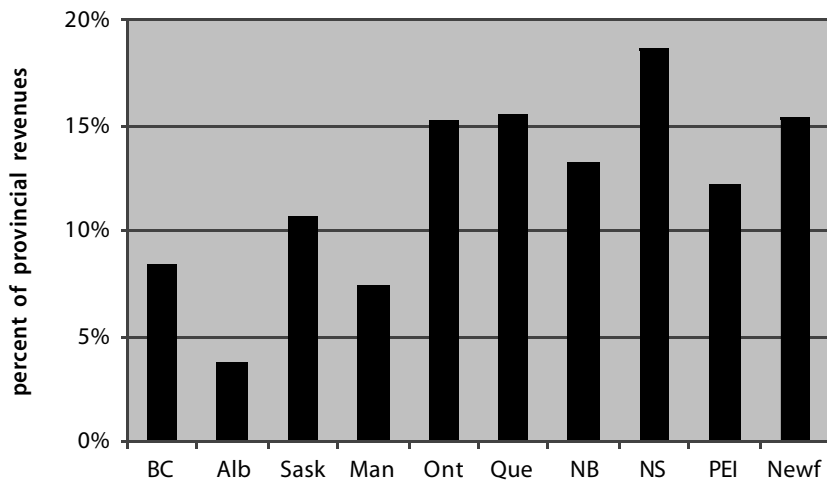
Source: TD Economics, TD Report on Government Finances, and analyses of 2001 provincial budgets

Figure 1.3 shows government revenues as a percentage of GDP in 2000-01 (before the Liberal tax cuts), an indicator of the size of government relative to the overall economy, and of the available funds to support the operations of government, infrastructure, programs and debt servicing. What is striking is that BC's revenue-to-GDP ratio is quite low relative to most other provinces. Ontario is the only province with substantially lower revenues, the legacy of aggressive tax

cutting. Alberta has also cut taxes dramatically, although the revenue effect of such moves has been mitigated by large increases in oil and natural gas royalties. More on tax rates and levels is provided in the next section.

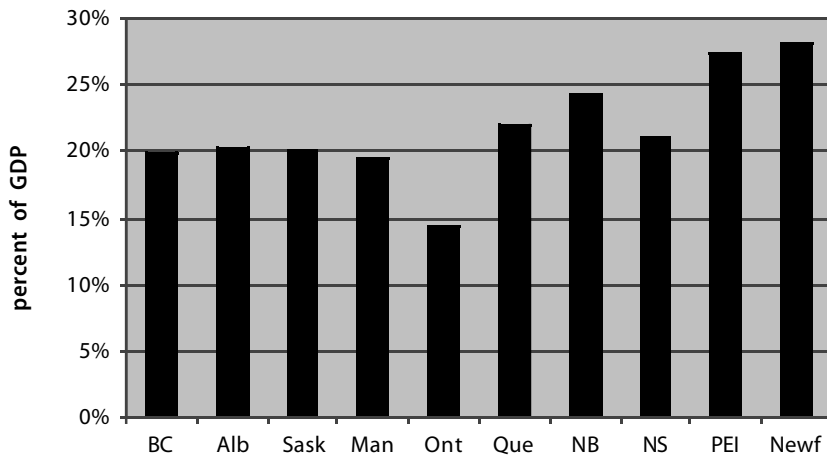
Figure 1.4 shows provincial spending less debt service costs – called “program spending” – on a per capita basis. Contrary to popular perceptions and media concerns about “excessive spending,” BC is in the middle of the pack on this measure.

Figure 1.2: Debt service costs as a percent of provincial revenues, 2000-01



Source: TD Economics

Figure 1.3: Government revenues as a percent of GDP, 2000-01



Source: TD Economics

A look at key indicators of fiscal environment contrasts with perceptions that BC “suffers” from high levels of debt and public spending. A sustained upward spiral in the debt-to-GDP ratio would be inadvisable, but the province is in a position to use deficit budgeting to respond to the pressures created by a flat economy, and to support the programs on which British Columbians rely.

Indeed, put together, Figures 1.3 and 1.4 suggest that BC could do much more in terms of raising revenues and providing services, while staying within a stable fiscal framework. More on health care, education and social assistance expenditures is provided in subsequent sections of this report.

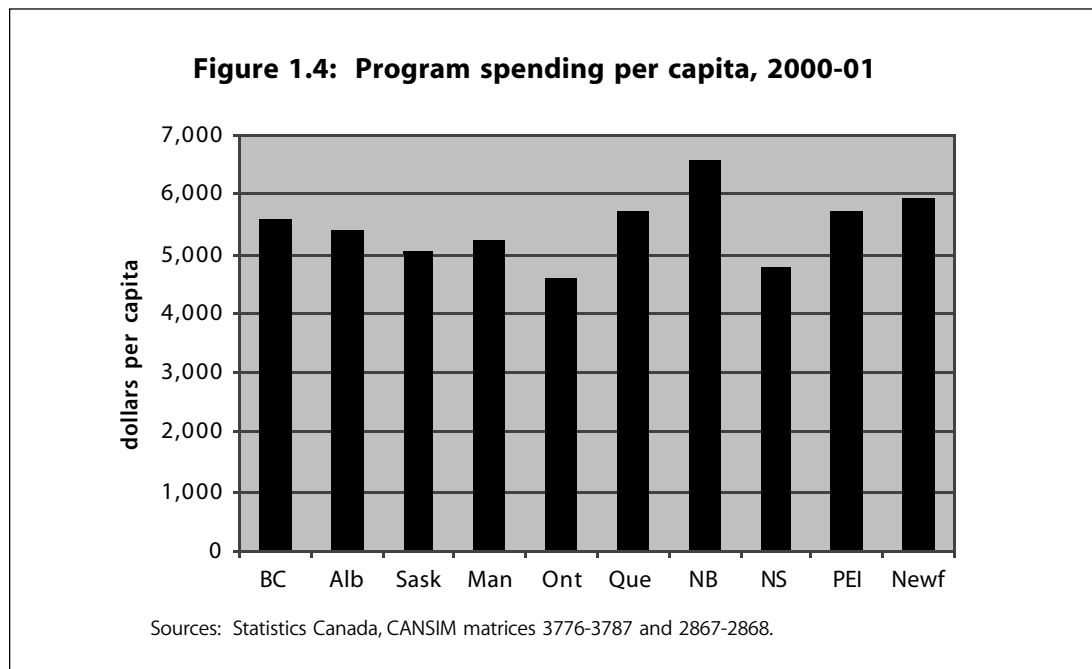
Conclusions and Policy Implications

A look at key indicators of fiscal environment contrasts with perceptions that BC “suffers” from high levels of debt and public spending. Altogether, these indicators suggest that while some provinces need to be concerned about their fiscal situations, BC is in a fairly comfortable position. A sustained upward spiral in the debt-to-GDP ratio would be inadvisable, but the province is in a position to use deficit budgeting to respond to the pressures created by a flat economy, and to support the programs on which British Columbians rely.

Recently announced personal and corporate tax cuts substantially alter BC’s fiscal situation. The projected deficit for 2001-02 is \$2 billion (including a \$500 million contingency reserve), growing to over \$3 billion in 2002-03 when the

tax cuts are fully phased in (some projections suggest an even larger deficit). These projected deficits are almost entirely attributable to the tax cuts. In addition, new balanced budget legislation requires the provincial books to be balanced by the 2004-05 fiscal year. Balanced budget legislation will handcuff BC’s fiscal policy, limiting the province’s capacity to respond to economic downturns in the future.

This combination of tax cuts and balanced budget legislation threatens to paint the province into a corner with regard to program expenditures. Much depends on the state of the US (and world) economies. If the US returns to strong growth, BC will benefit. This may lead to an “optimistic” scenario in which provincial expenditures can be held flat (but not keep up with inflation or population growth), while revenues recover enough to balance the budget by 2004. If the US economy fails to regain strength – a possibility given the underlying fundamentals of high personal and corporate debt, an overvalued dollar and a massive trade deficit – provincial revenues will be slow to recover. This increases the likelihood that the government will opt for spending cuts and privatization to compensate for reduced provincial revenues.



Provincial Tax System 2

IN THE LATE-1990S, BC WAS GROUND ZERO FOR CANADIAN “TAX RAGE.” HIGH TAXES essentially functioned as a scapegoat for any difficulties that the province was facing. The flip side of arguments about alleged high levels of taxation was that lower taxes would improve economic growth, make BC more competitive, and keep talented individuals and corporations from fleeing the province to less tax-burdensome climes. At the same time, most British Columbians support more funding for schools and universities, a better health care system and a cleaner environment. Somewhere amidst the hyper-focus on tax cuts it has been forgotten that taxes pay for services that people value.

Even before the recent provincial tax cuts, BC was a “competitive” jurisdiction in terms of taxes paid by both individuals and corporations.

We do not include the newly delivered tax cuts in the provincial comparisons in this section, due to data availability and to remain consistent with the theme of BC in transition. However, the comparisons below reveal that even before the recent provincial tax cuts, BC was a “competitive” jurisdiction in terms of taxes paid by both individuals and corporations. Some of the implications of the Liberal tax cuts are considered in the conclusion of this section.

Personal Taxes

Table 2.1 compares provinces based on combined federal and provincial income taxes for 2001 (not including the new BC tax cuts). Much of the attack on BC for supposedly high taxes has been targetted at income taxes. However, an unattached individual earning between \$20,000 and \$100,000 paid less tax in Ontario and Alberta than in BC, but more tax in every other province. At higher levels of income, BC’s top marginal income tax rate increased taxes as a percentage of income for high earners more than other provinces. A BC resident with \$200,000 income would have paid the third highest amount of income tax among the provinces, although only one out of every 200 taxpayers earns more than \$200,000.

Similar results hold for a two-income family of four. In the \$50,000 to \$200,000 earnings range, income taxes in BC are the third lowest among the provinces, again after Ontario and Alberta (and tied with Saskatchewan at the \$200,000 income level).

While BC income taxes are low relative to most provinces through the middle income range, close to the bottom of the income ladder, average income taxes are higher than in many other provinces. This was true for unattached individuals in BC at the \$10,000 income level, and for families with an income of \$35,000.

In addition to income taxes, there are a variety of other taxes that must be considered when comparing tax systems, including sales tax, property tax, payroll tax, and health care premiums. Unlike income tax, these taxes tend to be regressive

Thus for both individuals and families, BC already delivered one of the lowest total tax bills in Canada, although lower rates for those with low incomes would have been welcome. Even at high income levels, these figures were nowhere close to Fraser Institute claims that “we work half the year for the government.”

in nature – that is, lower-income people must pay a proportionately higher share of their incomes to cover these taxes. Sales tax, for example, disproportionately affects people who spend a greater share of their income on basic consumption – namely, those with lower incomes (although there are certain excluded categories such as food). Sales tax also raises the price of goods and services, making them less affordable.

Figures 2.1 and 2.2 show *total* federal and provincial taxes (before the Liberal tax cuts) at different income levels to better assess the overall tax picture (see the Appendix for detail on different taxes and levels by province). When total taxes are taken into account, a family of four in BC earning \$30,000 paid 20.3% of income in taxes, the third lowest in the country after Alberta and PEI. This rose to 24.1% at the \$60,000 income level, tied with PEI for second lowest after Alberta. At \$90,000 income, the family of four in BC paid 25.9% of income in total taxes (second lowest after Alberta). Overall, BC has lower total taxes than Ontario, due to much higher property taxes in

Ontario.

A similar story emerges for unattached individuals. At \$25,000 of income, an unattached individual in BC paid 19.2% in total federal and provincial taxes, second lowest among the provinces. At \$80,000 income, an unattached individual’s tax bill rose to 31.8% of income, but this remains the second lowest percentage behind Alberta. Thus for both individuals and families, BC already delivered one of the lowest total tax bills in Canada, although lower rates for those with low incomes would have been welcome. Even at high income levels, these figures were nowhere close to Fraser Institute claims that “we work half the year for the government.”²²

Figures 2.1 and 2.2 also demonstrate the principle of progressivity, that those with higher incomes pay a greater share of that income in the form of taxes. Progressivity is important because the market tends to deliver a very unequal distribution of income. When those with higher incomes pay a greater share of their incomes to taxes, these revenues can be used to fund social programs

Table 2.1: Federal and provincial income tax as a percent of income, 2001

	\$10,000 income	\$20,000 income	\$35,000 income		\$50,000 income		\$75,000 income		\$100,000 income		\$200,000 income	
	Single	Single	Single	Family	Single	Family	Single	Family	Single	Family	Single	Family
BC	4.6	13.7	18.8	12.4	23.2	15.5	28.5	19.9	32.7	23.2	40.7	33.0
Alberta	3.3	12.1	18.1	10.4	22.1	14.5	26.1	19.1	28.6	22.1	33.8	28.9
Saskatchewan	5.1	15.4	20.8	12.9	25.1	16.8	29.8	21.4	32.8	24.7	38.9	33.0
Manitoba	4.2	15.2	20.9	11.9	26.0	16.2	31.0	21.8	34.1	25.9	40.2	34.4
Ontario	3.3	12.7	17.2	9.3	21.3	13.7	26.8	18.3	31.0	21.4	38.7	31.3
Quebec	4.3	16.2	23.6	9.8	28.3	16.2	33.5	23.4	36.8	27.5	42.4	36.3
New Brunswick	3.3	14.7	20.0	13.2	24.9	16.5	29.9	21.3	33.1	24.9	40.0	33.5
Nova Scotia	3.3	14.6	20.3	13.5	25.2	16.7	30.2	21.5	33.6	25.2	40.5	33.9
PEI	3.3	14.7	20.2	13.4	24.6	16.6	30.0	21.2	33.6	24.7	40.5	33.9
Newfoundland	5.5	15.2	20.9	13.8	26.0	17.2	31.5	22.2	35.0	26.0	41.8	35.3

Notes: "Single" is an unattached individual with no dependants, "Family" is a two income family of four. For families, the next lowest income level for which there is data is \$25,000. At this level, income tax is not applicable. This table does not include the 2001 BC tax cuts.

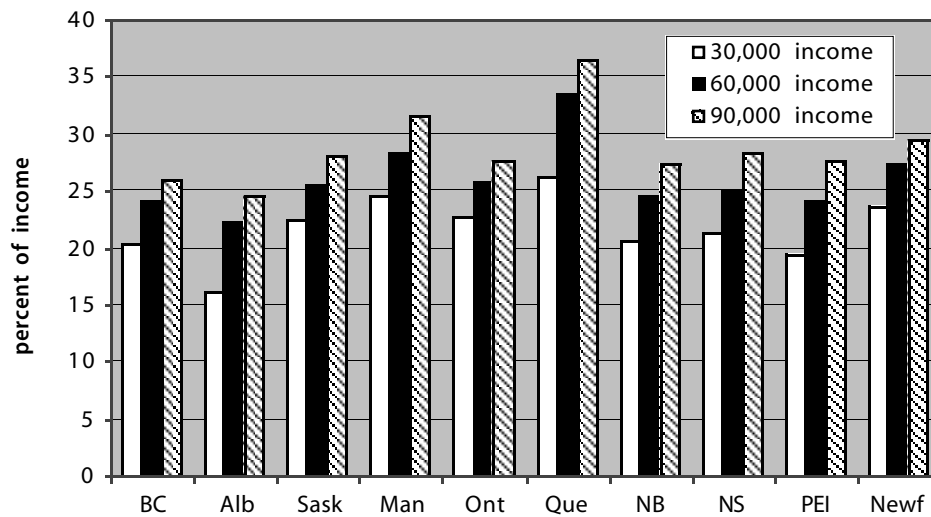
Source: Canadian Tax Foundation

that benefit all, and fund income transfers to the less fortunate. For BC taxpayers, the major forces driving progressivity are the federal and provincial income tax systems through tax brackets that increase marginal tax rates as income rises.

BC had a fairly progressive income tax system prior to the Liberal tax cuts. At the top end of the

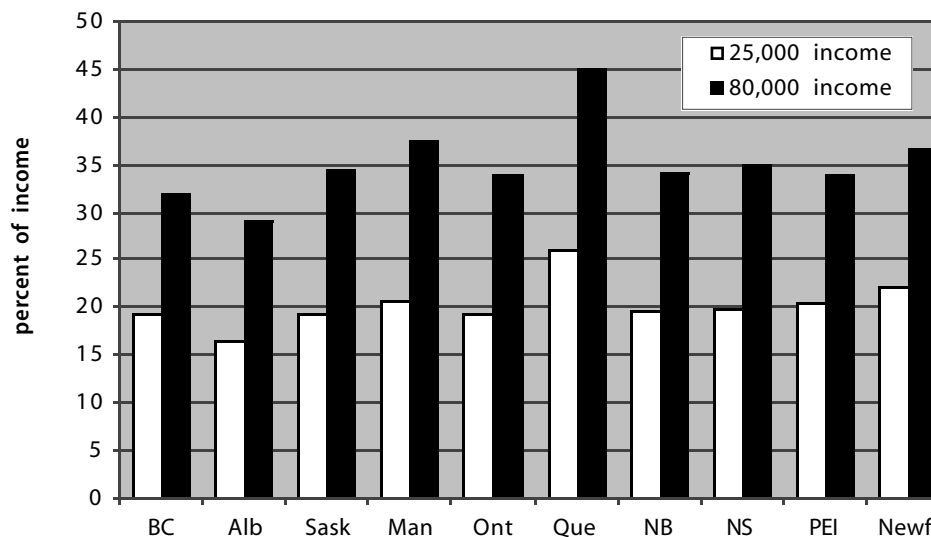
income scale, BC's top marginal income tax rate went some distance towards ensuring that high-income earners paid a greater proportion of their income in taxes. However, BC did not perform as well with respect to those with lower earnings. In other words, BC's income tax structure could become more progressive by lowering rates in the

Figure 2.1: Progressivity of total taxes, two-income family of four, 2001



Source: BC Budget, 2001

Figure 2.2: Progressivity of total taxes, unattached individual, 2001



Source: BC Budget, 2001

bottom tax bracket, and/or by increasing the basic threshold at which individuals begin to pay income tax. Of note, Ontario has generally maintained high marginal rates for high income levels while lowering taxes dramatically for low- and middle-income earners.

Alberta's income tax system provides an interesting point of comparison. Alberta's single-rate tax of 10% is technically progressive because provincial income tax is zero for the first \$12,900 of taxable income (similar thresholds in other provinces and for federal income tax are around \$8,000). Each dollar of income beyond \$12,900 is taxed at 10% whether the person earns \$20,000 or \$2 million. In pre-tax cut BC, the applicable rate up to \$30,000 was 8.4%, then 11.9% for income between \$30,000 and \$60,000. Alberta's high threshold does benefit lower income Albertans, but the overall thrust of tax cuts in Alberta through the 1990s has been to benefit those with very high incomes, while those with middle incomes now shoulder a larger share of the overall tax bill.³

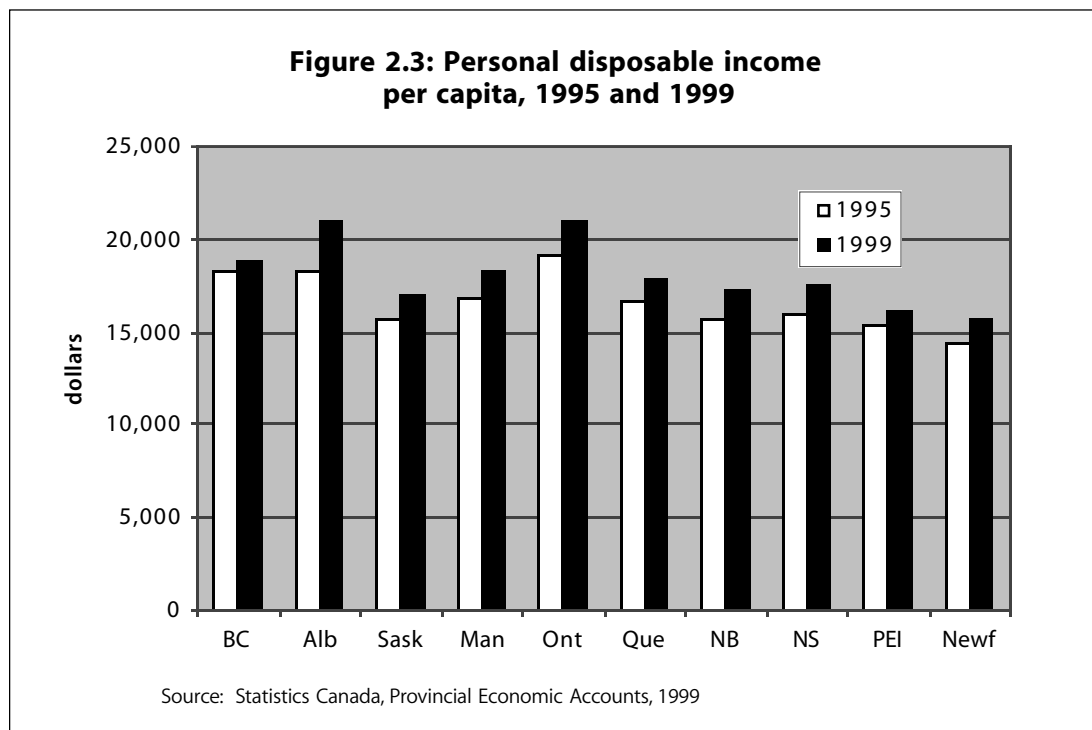
Another way of looking at the impact of taxation is via personal disposable income per capita,

which measures after-tax spending power. As Figure 2.3 shows, BC has the third highest level of personal disposable income among the provinces (\$18,771 per person), behind Alberta (\$20,987) and Ontario (\$20,968). However, it is important to keep in mind that per capita figures tell us little about the distribution of income. See Section 5 for an analysis of rising inequality in Ontario and Alberta.

Figure 2.3 also illustrates that BC has experienced the smallest increase in personal disposable income among the provinces between 1995 and 1999. Disposable income grew by only 2.5% in BC, as compared to 14.7% in Alberta and 9.6% in Ontario. This modest increase reflects a flat economy in the wake of the Asian crisis, whereas first- and second-ranked Alberta and Ontario experienced economic booms due to surging US demand for their exports.

Business Taxes

Businesses benefit from services provided by the province, including health care, education, training programs, transportation infrastructure, wa-



ter and energy services, roads and infrastructure, and so on. Given the dependence of businesses on these services, it is important and logical for the provinces to maintain reasonable rates of corporate taxation. Others things equal, mobile businesses may be less inclined to invest or locate in BC if tax rates are far out of line with other jurisdictions. But a narrow focus on tax rates may lead to false conclusions, as investment decisions are driven by a number of factors – such as access to resources and skilled labour, land and energy costs – in addition to tax levels.

Table 2.2 shows various corporate tax rates in Canada. It reveals that even prior to the recently announced business tax cuts in BC (which are not

fully phased in until 2002), corporate taxes in this province were not inconsistent with those in the rest of Canada. BC also had (and has) the lowest small business tax rate of any province. Despite claims that high taxes are driving business and investment out of the province, such small tax differences are unlikely to have a significant impact on business decisions to invest or (re)locate, given the many other reasons why businesses make their investment decisions.

Both Ontario and Alberta have announced plans to lower their general corporate tax rate to 8% by 2005, a significant decrease from their current rates. This tax competition led Alberta to lower its corporate income tax rate from 14.5% to 13.5%

Despite claims that high taxes are driving business and investment out of the province, such small tax differences are unlikely to have a significant impact on business decisions to invest or (re)locate, given the many other reasons why businesses make their investment decisions.

Table 2.2: Provincial corporate tax rates, 2001

	Corporate income tax (%) ¹		Capital tax (%)		Payroll tax (%)
	General rate	Small business rate	General rate ²	Financial institutions ³	
BC	16.5	4.5	0.3	1.0/3.0	nil
Alberta	14.5	6.0	nil	nil	nil
Saskatchewan	17.0	7.0	0.6	0.7/3.25	nil
Manitoba	17.0	7.0	0.3/0.5	3.0	2.15
Ontario	14.0	7.0	0.3	0.6/0.72/0.9	1.95
Quebec	9.04/16.25	9.0	0.64	1.55	4.26
New Brunswick	16.0	4.0	0.3	3.0	nil
Nova Scotia	16.0	5.0	0.25/.5	3.0	nil
PEI	16.0	7.5	nil	3.0	nil
Newfoundland	14.0	5.0	nil	4.0	2.0

Notes: ¹ Alberta, Saskatchewan, Ontario, PEI and Newfoundland have lower corporate income tax rates for manufacturing and processing. Also, various provinces have lower rates for the oil and gas sector and the high tech sector.

² BC's general corporate capital tax rate applies only to corporations with paid-up capital of more than \$5 million; Ontario has lower rates for corporations with less than \$2.3 million in taxable capital; Manitoba has a \$5 million exemption level and the higher rate applies to paid-up capital in excess of \$10 million; Saskatchewan has a \$10 million deduction.

³ BC Capital Tax for financial institutions is 1% for corporations with less than \$1 billion in net paid-up capital, and 3% otherwise.

Rates are as of May 2001. Tax changes announced in 2001 Budgets that take effect mid-year have been averaged over the 2001 year. Changes to BC tax rates in the July mini-budget are not included.

Source: BC Budget 2001, TD Economics

Those with incomes above \$60,000 (about 13% of taxpayers) will receive just over half of the total tax cut pie. The top 1% of earners making more than \$150,000 per year will get a full 20% of the tax cut. As a result, the tax cuts undermine progressivity.

earlier this year, a rate matched by the new BC government in the July mini-budget. Such “beggar-thy-neighbour” policies do not create new investment, but rather attempt to draw investment away from other jurisdictions. These policies have been criticized by the OECD as “harmful tax competition” at the national level.

In the face of such large corporate tax reductions, BC (and other provinces) will be very tempted to lower their general corporate tax rates in order to remain consistent, a measure BC can ill-afford. Corporations are the ultimate beneficiaries of tax competition, while all provinces lose revenue. This issue is particularly acute in the context of Alberta, which can offer lower tax rates due to large oil and gas royalties. The federal government should consider some form of disciplinary action to prevent harmful tax competition.

Conclusions and Policy Implications

The weight of evidence does not support the perception that BC had the highest taxes in Canada before the Liberal tax cuts. Taxes on corporations and individuals were not out of line with the other provinces. For most people, they were already among the lowest in the country.

BC’s tax cuts will change this picture. The tax cuts effectively reduce the tax rate in each income tax bracket by 25%. They lower tax rates for low and middle income brackets, but do not raise the

basic personal exemption. The new government has also given a disproportionately large tax cut to high-income earners. Those with incomes above \$60,000 (about 13% of taxpayers) will receive just over half of the total tax cut pie. The top 1% of earners making more than \$150,000 per year will get a full 20% of the tax cut. As a result, the tax cuts undermine progressivity. Someone earning \$20,000 will save only 1.2% of their pre-tax income, while someone earning \$200,000 will save 3.9% of their pre-tax income.

While deficit-financed tax cuts will provide a mild short-term economic stimulus, the argument that tax cuts lead to long-run increases in economic growth rates is dubious when considered in the context of economic theory and evidence. Without the strong, externally-driven growth that accompanied tax cuts in Alberta and Ontario, it is unlikely that “tax cuts will pay for themselves” or that tax cuts will increase government revenues.

It is estimated that personal and business tax cuts will result in a loss of \$1.4 billion in revenues for the 2001-02 budget. This large hole does not include the revenue impact of the second half of the personal income tax cuts, or the value of fully phased-in business tax cuts, both of which will take effect in 2002. Ultimately, the true cost of tax cuts will show up in the availability and quality of public services (including increased out-of-pocket costs in the form of user fees, higher tuition, etc.) that disproportionately affect those at the lower end of the income scale.

Support for Public Health Care

THE AVAILABILITY OF A HIGH QUALITY OF PUBLIC HEALTH CARE TOPS MOST CANADIANS' lists of priorities for federal and provincial governments. In recent years, many citizens have raised concerns about cuts to health care funding and the availability of the medical services on which they depend. The media has also focussed significant attention on the 'crisis' in health care, with ongoing reports about waiting lists, labour disputes, and the uncertain future of health care in Canada. Sweden has recently been touted as a model to emulate in terms of user fees for services, although the far better job that Sweden's tax and transfer system does in attacking poverty has not been similarly acknowledged.

From the standpoint of public policy, health care is an essential investment – one that underpins not only social well-being but also economic vitality. The health of a population is connected to income levels and distribution, poverty, education and the nature of work. This section of the report looks at provincial government support for health care, something that has become an increasingly pressing issue in a political climate characterized by spending restraint and privatization.⁴

Figure 3.1 shows BC in the middle of the provinces with regard to per capita public health care expenditures in 2000. In 1997, however, BC had the highest level of per capita spending on public health care. While all provinces have benefitted from renewed federal contributions to health care in recent years, many provinces have also increased health care spending from their own revenue bases, after restraint or cutbacks in the early to mid-1990s.

Figure 3.1 also shows per capita private health care expenditures. In recent years, pressure has mounted for Canadians to cover an increasing number of health-related expenses out-of-pocket (or through workplace extended health benefit plans), ranging from physiotherapy to prescription drugs. British Columbians spent an average of \$891 per person on private health care in 2000, the fourth highest level of private health expenditures among the provinces, and up from \$685 in 1997. Overall, BC is also in the middle in terms of the share of total health expenditures (71.5%) paid for by the public system.

Health expenditure numbers may not tell the whole story with respect to privatization in the health system. Unfortunately, some of the information needed to properly assess this situation is unavailable. For example, public dollars may be going to for-profit providers of hospital support

A key indicator of quality of care is the number of nurses relative to population. Nurses interact with patients more than physicians, influencing both quality of care and patient perceptions of care.

services, diagnostic services, continuing care, rehabilitation, etc., but there is little data on the amount of public funding channeled to these areas. Also, as responsibility for care is relocated from hospitals to communities and families, there is a worrisome trend towards private home care and long-term care facilities that is not adequately addressed in analyses of private health care spending.

Table 3.1 shows how public funds are allocated by use within the public health care system on a per capita basis (not including private expenditures). In 2000-01, BC had the fourth lowest per capita spending on hospitals, with only Alberta, Saskatchewan and Ontario spending less. While this seems consistent with anecdotal stories of shortages of hospital beds and waiting lists frequently expressed by the media, a measure of caution should be taken with respect to this interpretation. First, BC does not need to build new hospitals, as there are hospitals that have unused capacity. But restoring capacity requires addressing nursing and other personnel shortages that impede beds from being utilized (the “Hospital” col-

umn includes many services provided by nurses and other health professionals).

Second, the trend in health care has been to shift care from hospitals to home care and long-term care facilities, which are seen as better for the patient and less expensive to the system. But in many cases the funding support for “community and continuing care” has been insufficient to support the transition. The data make comparisons of home care difficult, as it is lumped in with “Other Spending.” However, the column “Other Health Institutions” in Table 3.1 captures residential care facilities for the chronically ill, disabled, or elderly and facilities for persons with physical or psychiatric disabilities or alcohol and drug problems. Increased funding in these areas would alleviate the stresses on expensive acute care hospitals. The key point is that the culprit may not specifically be the level of hospital spending as much as the level of operating and capital spending for other institutions.⁵

BC’s public expenditures on drugs are the second highest among the provinces. BC has a fairly comprehensive Pharmacare program that covers

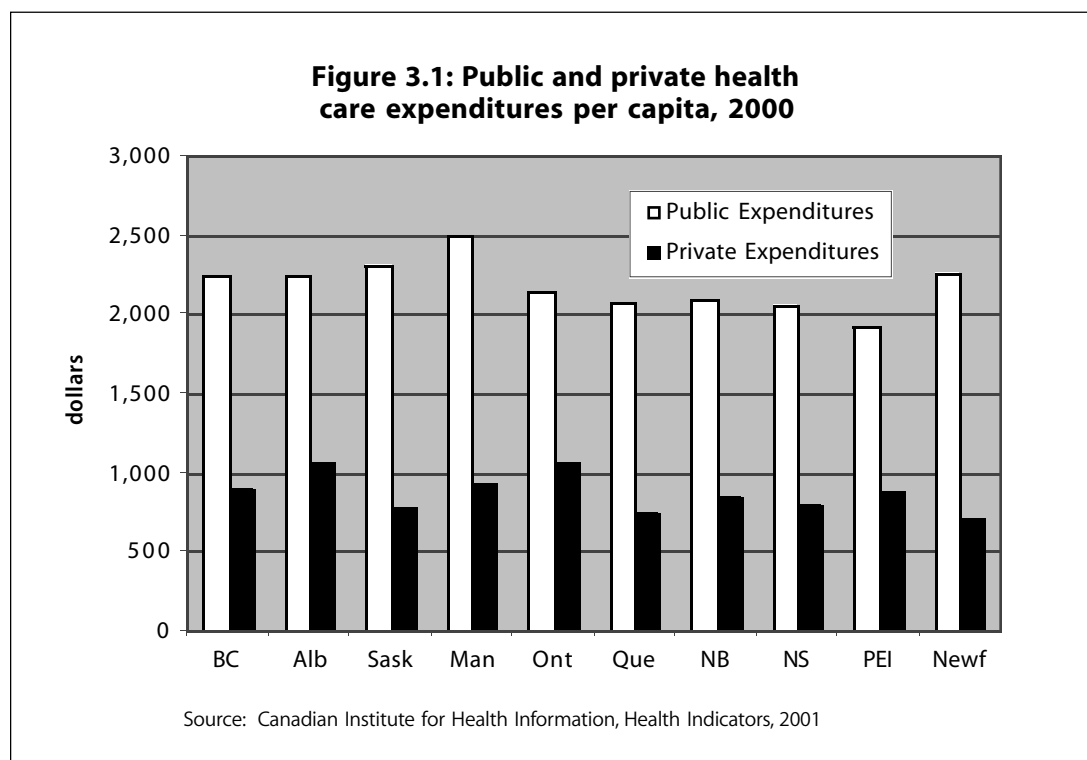


Table 3.1: Provincial government health expenditures by use of funds, 2000/01
Dollars per capita

	Hospitals	Other institutions	Physicians	Other professionals	Drugs	Capital	Other health spending
BC	867.70	241.80	467.51	40.62	155.15	66.17	308.80
Alberta	860.46	177.22	328.65	35.11	116.26	76.57	503.06
Saskatchewan	772.59	302.31	363.29	22.56	107.41	127.40	333.69
Manitoba	1039.68	359.42	397.16	14.66	118.39	96.56	367.26
Ontario	850.35	184.03	482.29	22.68	164.25	111.23	236.13
Quebec	995.45	158.72	324.86	22.19	138.77	102.32	190.48
New Brunswick	988.61	210.40	341.06	5.46	98.79	41.76	248.28
Nova Scotia	883.97	216.13	382.21	12.03	123.72	39.37	156.18
PEI	933.52	250.88	270.78	16.41	94.10	44.81	229.46
Newfoundland	1124.35	308.41	346.42	10.74	119.18	126.55	238.60

Notes on definitions for use of funds categories

Hospitals are institutions where patients are accommodated on the basis of medical need and are provided with continuing medical care and supporting diagnostic and therapeutic services. Hospitals are licensed or approved as hospitals by a provincial government, or are operated by the Government of Canada and include those providing acute care, extended and chronic care, rehabilitation and convalescent care, psychiatric care, as well as nursing stations or outpost hospitals. This category includes most nursing costs.

Other Institutions includes residential care types of facilities (for the chronically ill or disabled, who reside at the institution more or less permanently) and which are approved, funded or licensed by provincial or territorial departments of health and/or social services. Residential care facilities include homes for the aged (including nursing homes), facilities for persons with physical disabilities, developmental delays, psychiatric disabilities, alcohol and drug problems, and facilities for emotionally disturbed children. Facilities solely of a custodial or domiciliary nature and facilities for transients or delinquents are excluded.

Physicians expenditures include primarily professional fees paid by provincial medical care insurance plans to physicians in private practice. Fees for services rendered in hospitals are included when paid directly to physicians by the plans. Also included are other forms of professional incomes (salaries, sessional, capitation). The physician expenditure category does not include the remuneration of physicians on the payrolls of hospitals or public sector health agencies; these are included in the appropriate category, e.g. the hospital or the other spending category.

Other Professionals expenditures for the services of privately practicing dentists, denturists, chiropractors, massage therapists, orthoptists, osteopaths, physiotherapists, podiatrists, psychologists, private duty nurses, and naturopaths. Discrete identification of many of the professions included under other professional services is often possible only when they are reported by provincial medical care insurance plans.

Drugs expenditures on prescribed drugs. The drug category does not include drugs dispensed in hospitals and in other institutions. These are included with the category of hospitals or other institutions.

Capital includes expenditures on construction, machinery and equipment of hospitals, clinics, first-aid stations, and residential care facilities.

Other Spending expenditures on home care, medical transportation (ambulances), hearing aids, other appliances and prostheses, public health, prepayment administration, health research and miscellaneous health care.

Source: Canadian Institute for Health Information

Figure 3.2 illustrates the very low levels of both registered nurses and licensed practical nurses in BC relative to other provinces.

drug expenditures for low-income people and seniors, plus expenditures in excess of \$800 for most other British Columbians. Pharmacare uses a “reference-based pricing” system for four broad categories of drugs. This system lowers Pharmacare costs by paying only for the drug that is most cost-effective when scientific evidence shows that multiple drugs are equally effective for a particular condition. While Pharmacare raises the *public* share of drug costs, it is notable that BC has the lowest combined *public and private* spending on drugs of any province.⁶ This may reflect the impact of reference-based pricing on the entire chain of drug costs, and offers some evidence that paying for drugs collectively helps to keep overall costs down.⁷

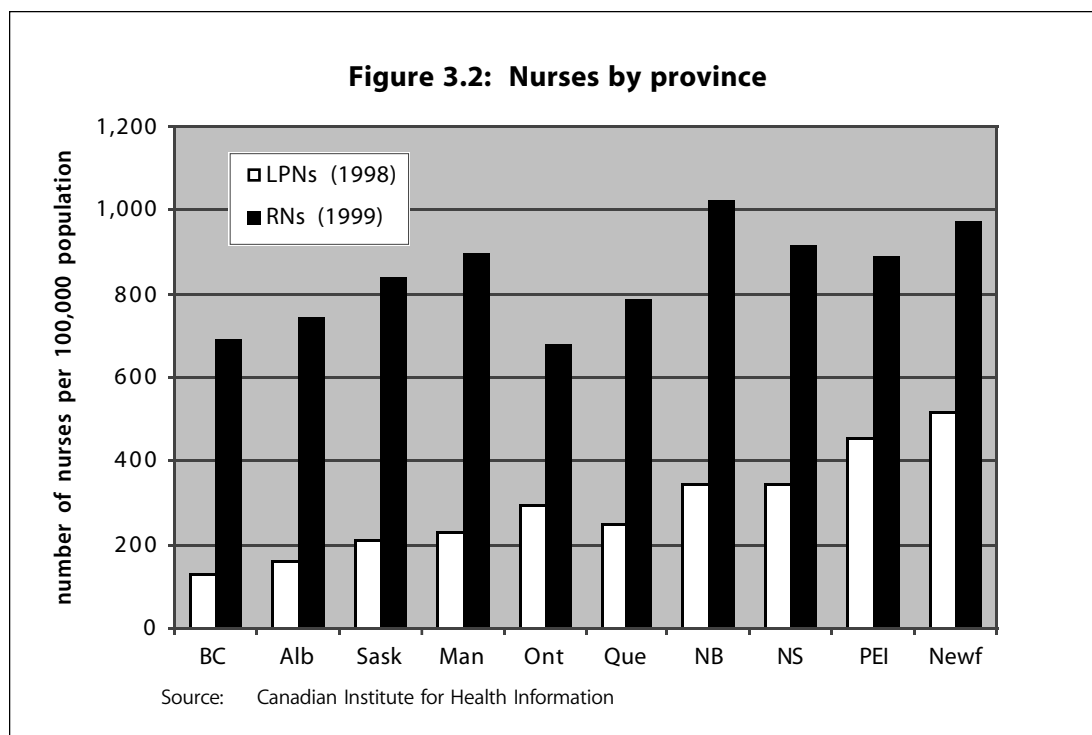
BC’s expenditures for physician services are the second highest in Canada, again after Ontario. This reflects the fact that BC has the third highest number of physicians relative to the population. It also raises some issues regarding scope of practice. Some tasks now performed exclusively by doctors could be handled by registered nurses, while the same is true for registered nurses and licensed practical nurses (although labour supply

issues must be addressed at the same time).

BC spends more than any other province in the area of other professionals, including massage therapists, chiropractors and physiotherapists. This may be due to the fact that part of each visit to these professionals is covered by the public system, whereas in many other provinces such visits are funded on a completely private basis.

A key indicator of quality of care is the number of nurses relative to population. Nurses interact with patients more than physicians, influencing both quality of care and patient perceptions of care. In addition, the time that a nurse has to spend with a patient is a determinant of how well-educated the patient is about her or his condition upon discharge, with corresponding consequences for readmission.

Figure 3.2 illustrates the very low levels of both registered nurses and licensed practical nurses in BC relative to other provinces. Recent job actions by BC nurses have highlighted both the shortage of nurses and the stresses placed on existing nurses on the job and as a result of demands for overtime work. While this is a problem across the country, the situation is particularly acute in BC.



Conclusions and Policy Implications

In our 1999 report, BC received high marks for its support for public health care, particularly with respect to ensuring stable funding in the face of reductions in federal transfers and cutbacks in other provinces. Since that time, however, BC's relative performance on health care has slipped, largely because other provinces have come back from the brink by putting new money into the health sector. Importantly, the figures considered above do not include a \$566 million injection from the 2001 BC Budget.

Although spending more money on health care does not necessarily lead to improved outcomes, spending too little is a guarantee of poor performance. Health care is the single largest expenditure area for the provincial government, accounting for 39% of the province's expenditures last year. The new Liberal government has promised to main-

tain health care spending, although fiscal pressures due to tax cuts will, at a minimum, put a lid on new funding, meaning that health care expenditures will not keep up with increases in inflation or population. In addition, encroaching privatization of services may undercut the public system even if no funding cuts are made.

Over the medium- to long-term, health care reform should be a priority for BC (and other provinces). Many commissions and task forces have reported on this in detail.⁸ Wherever possible, it is imperative that public health care dollars remain in the public system, and that we avoid privatization and contracting out. But it is not enough to simply defend the *Canada Health Act* and its principles. Ultimately, we need to move beyond the issue of dollars, and tackle the more substantive issues about the kind of care we are delivering, where we are delivering it, who is delivering it, and how we can really make a difference to the health of the population.

In our 1999 report, BC received high marks for its support for public health care, particularly with respect to ensuring stable funding in the face of reductions in federal transfers and cutbacks in other provinces. Since that time, however, BC's relative performance on health care has slipped, largely because other provinces have come back from the brink by putting new money into the health sector.

4 Support for Public Education

EDUCATION IS THE SECOND LARGEST ITEM IN THE PROVINCIAL GOVERNMENT BUDGET after health care. Given the strong correlation between level of education and income, increased funding for public education provides a long-term economic benefit to the people of a province, and thus to the provincial economy. Accordingly, a strong public education system more than pays for itself through the taxes collected on higher incomes.⁹ In addition to narrow economic factors, education is fundamental to the development of citizenship and broad-based participation in society, not to mention living a satisfying life. This section looks at public support for education at the K-12 and post-secondary levels.

K-12 Education

Figure 4.1 shows K-12 operating and capital expenditures per student. BC has the highest total level of K-12 funding among the provinces. Total public expenditures in BC grew from \$6,450 per student in 1992-93 to \$7,477 per student in 1999-00 (in current dollars). Support has been strong for both operating funding and capital spending (building new schools to accommodate a growing population). In each category, BC had the second highest spending levels in Canada.

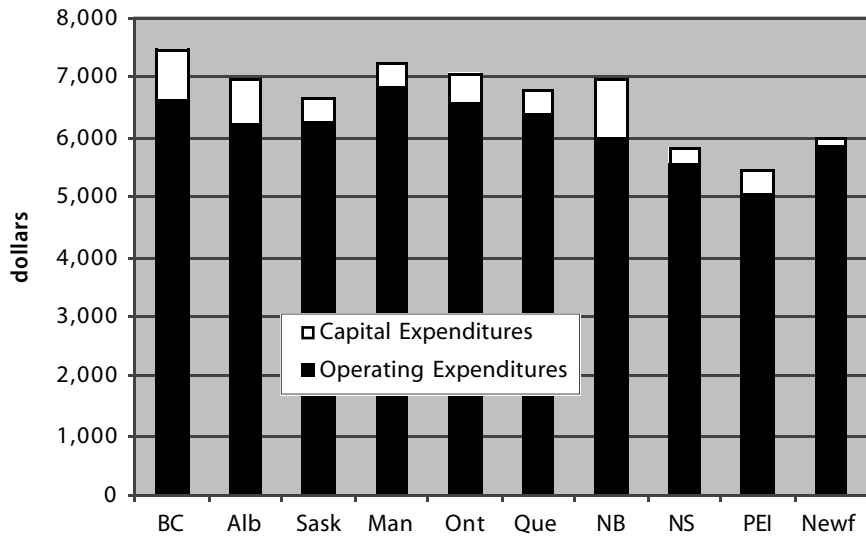
Beyond dollars spent on education, class sizes are an important determinant of education quality. Figure 4.2 shows the ratio of students to educators for 1999-00 (note that this is just the raw number of teachers to students; it is not quite the same as “class size”). BC falls in the middle of the

provinces on this indicator, although most provinces are grouped fairly tightly together. One notable outlier is Alberta, with a high student-to-educator ratio of 18.43. Over the 1990s, the student-to-educator ratio in BC has been relatively stable; more teachers have been hired, but the number of students has also increased.

Post-secondary Education

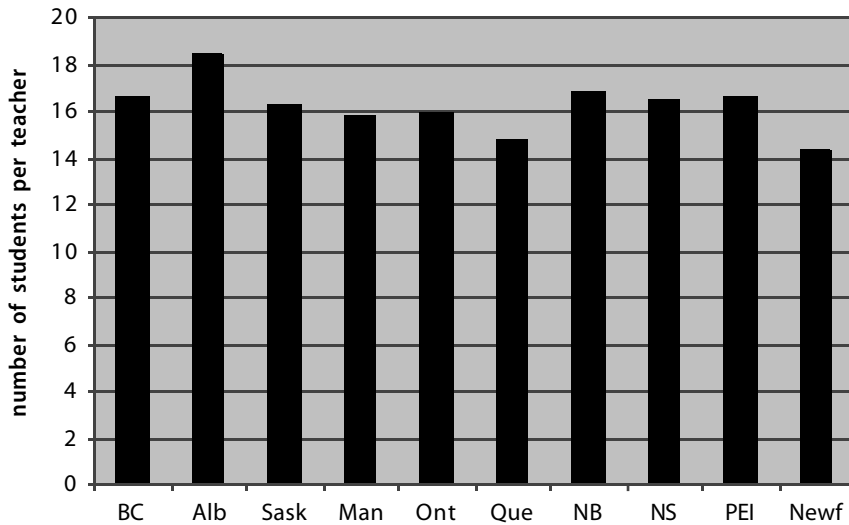
Figure 4.3 shows post-secondary public expenditures per capita. Funding support for post-secondary education is in the middle of the pack relative to other provinces. Total public funding grew into the mid-1990s, but has tailed off somewhat since then. Other provinces that restricted post-secondary expenditures in the early to mid-1990s (such as Ontario and Alberta) have reinjected funds in

Figure 4.1: K-12 education expenditures per student, 1999-00



Source: BC Ministry of Education, Inter-provincial Education Statistics Project

Figure 4.2: K-12 student-to-educator ratio, 1999-00



Source: BC Ministry of Education, Inter-provincial Education Statistics Project

recent years. Saskatchewan and Manitoba have significantly increased funding in the late-1990s.

Table 4.1 shows average tuition fees for university arts programs. The affordability of post-secondary education is an essential consideration for students. In 2000/01, BC had the second lowest average tuition at \$2,520 per year, the result of a tuition freeze that has been in place since the mid-1990s. In other parts of Canada, tuition fees skyrocketed over the last decade. Between 1990-91 and 2000-01, tuition fees rose a startling 209% in Alberta, 146% in Newfoundland and 140% in Ontario. Coupled with the lower availability of grants and more punitive student loan arrangements, this greatly increased the financial costs – and therefore the accessibility – of attending university.¹⁰

The new BC government has stated that it will retain a 5% reduction in tuition fees, tabled in the last NDP budget in March 2001. However, a danger in the future is that the BC government will allow tuition inflation, rather than increased public expenditures, to address post-secondary funding issues.

Figure 4.4 shows the number of students relative to full-time educators at the post-secondary

level. This measure is particularly important in light of the increased frequency with which post-secondary institutions use part-time staff (with accompanying lower wages and fewer benefits) for teaching. Unfortunately, there are no comparable provincial data on the number of part-time educators. In addition to functioning as an indicator of general institutional support, the number of full-time educators is linked to considerations of income and job security for faculty. This indicator also serves as a proxy for class size, which speaks to the quality of education and instruction.

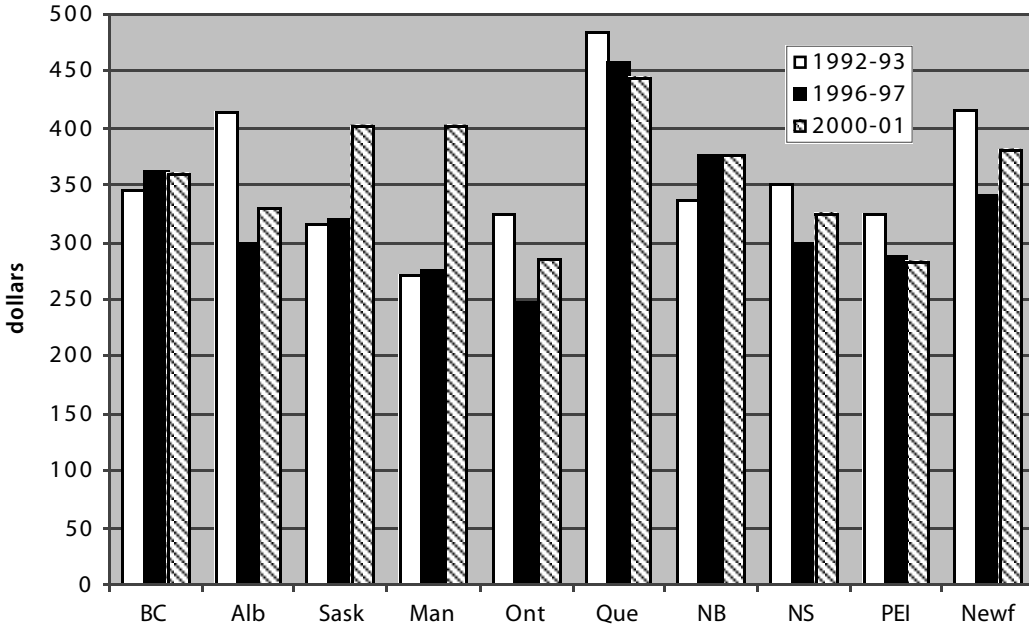
In 1998-99, BC had 13.7 Full Time Equivalent (FTE) students per full-time educator (combined university and college), in the middle of provinces. The total number of full-time educators in BC has declined somewhat since the mid-1990s, following a similar pattern in the rest of Canada. The total number of students enrolled in colleges and universities in BC, on the other hand, has grown quickly since the mid-1990s, while staying flat in most other provinces (although Alberta has also seen enrolment grow). This reflects in part the opening of two new public universities, the University of Northern BC in Prince George, and

Table 4.1: Average undergraduate arts tuition, 2000-01

	Tuition (\$)	Rank	% change 1990-91 to 2000-01
BC	\$2,520	2	45.9
Alberta	\$3,841	8	208.8
Saskatchewan	\$3,304	5	116.6
Manitoba	\$2,873	3	103
Ontario	\$3,971	9	140.2
Quebec	\$1,898	1	110.4
New Brunswick	\$3,519	7	85.4
Nova Scotia	\$4,408	10	126.9
PEI	\$3,480	6	89.1
Newfoundland	\$3,300	4	145.5

Note: Average tuition weighted by number of students. Includes public and private institutions.
Source: Statistics Canada

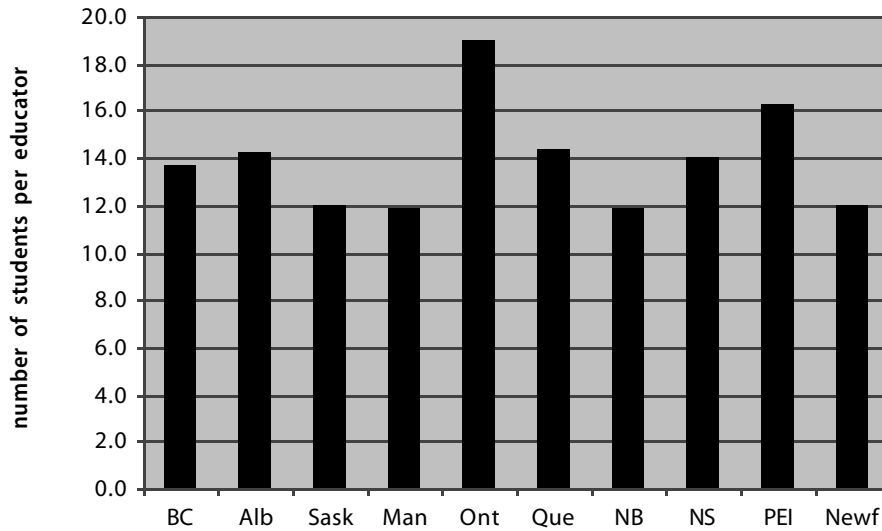
Figure 4.3: Post-secondary public expenditures per capita



Note: Due to a spike in 1992/93 in Nova Scotia as a result of an accounting change, the 1991/92 figure has been substituted.

Source: Statistics Canada, Financial Management System

Figure 4.4: Post-secondary student-to-full-time-educator ratio, 1998-99



Note: Part-time students are counted as one third of a full-time student for the purpose of calculating FTEs. For educators, data are only available for full-time educators. This includes both teaching and non-teaching academic staff.

Source: Calculations based on Statistics Canada, Education in Canada 2000

It is imperative that the new government keep its promise of at least maintaining (or ideally, increasing) funding for education at all levels. In anticipation of a skills shortage, education is clearly not an area for cutbacks. While post-secondary participation rates have gone up over the 1990s, current levels are insufficient to meet labour market demands in the future.

Royal Roads University outside of Victoria.

Figure 4.5 shows post-secondary participation rates for the population aged 20-29 for 1992 and 2000. While all provinces saw growth in post-secondary participation rates over the 1992-2000 period, BC had one of the fastest growth rates. At the beginning of the decade, BC lagged many other provinces. By 2000, BC's post-secondary participation rate was the fourth highest.¹¹ Both the tuition freeze and the expansion of post-secondary institutions helped to drive this increase in participation rates and relative performance.

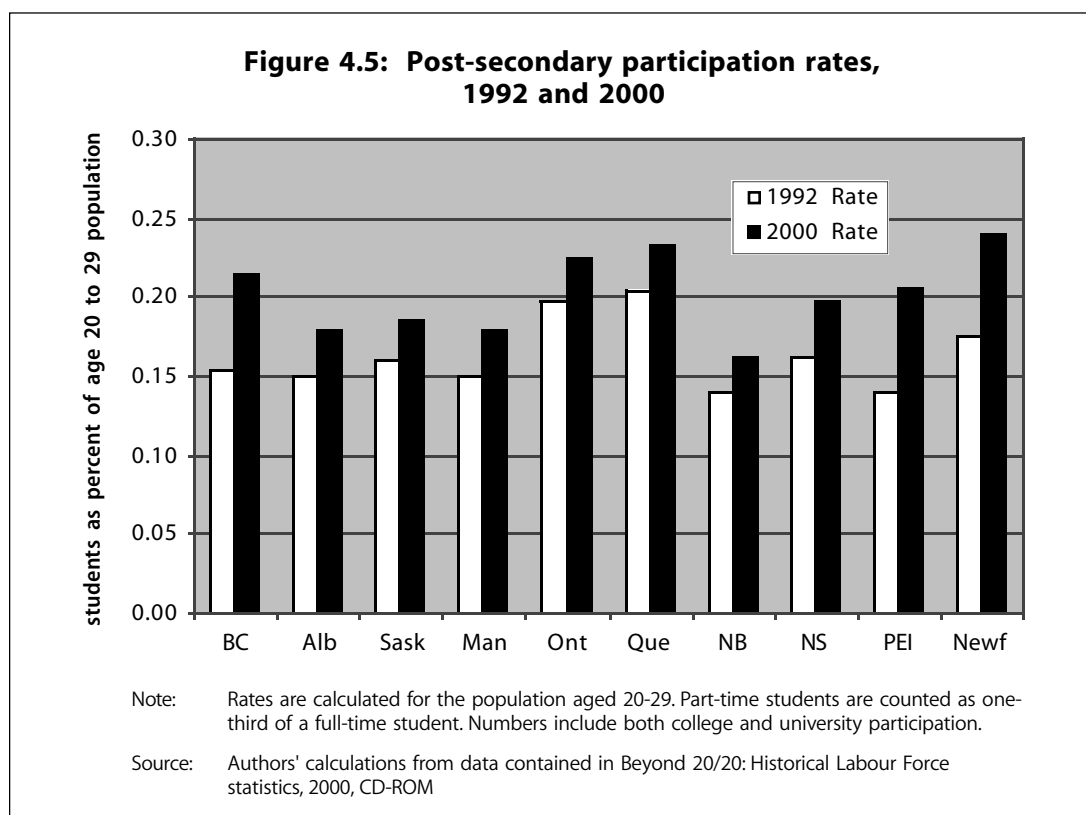
Despite these gains, however, BC still does not produce enough skilled graduates to meet labour market demands, particularly with an anticipated skills shortage in the medium-term. BC has been able to gloss over this gap because of its appeal as a destination for skilled and well-educated migrants from the rest of Canada. For example, 15.8% of BC's population in 2000 had a university degree, the second highest share in Canada. However, the fact that BC benefitted from a "brain gain" in the 1990s does not change the fact that stronger support for post-secondary education is necessary.

Conclusions and Policy Implications

In the 1990s, BC caught up with other provinces by increasing funding support for education at the K-12 and post-secondary levels. K-12 education in BC is now the best-funded in Canada, although there remains scope for reducing student-educator ratios by hiring more teachers.

Affordable and accessible post-secondary education is a priority. The province's tuition freeze has helped maintain affordability for students, but in the context of flat budgets, post-secondary institutions have experienced a financial squeeze. The data in this section show little reason for complacency about the state of post-secondary education in BC.

It is imperative that the new government keep its promise of at least maintaining (or ideally, increasing) funding for education at all levels. In anticipation of a skills shortage, education is clearly not an area for cutbacks. While post-secondary participation rates have gone up over the 1990s, current levels are insufficient to meet labour market demands in the future.



Equity and Economic Justice

EQUITY AND ECONOMIC JUSTICE IS A BROAD AREA THAT CAPTURES MANY SOCIAL considerations, including the ability of all citizens to share in prosperity and economic growth. Public policy plays an important role with regard to the labour market and the redistribution of market income. Taxes fund transfer payments that provide income to those without work or who cannot work, and they fund social programs from which all citizens benefit, regardless of income. This section looks at labour markets, inequality and poverty statistics, and income assistance levels to assess BC relative to other provinces.

The Labour Market

The labour market is a complex set of social and power relationships shaped by institutional structures and public policy. It is of primary importance from a policy perspective because most individuals and families depend on paid work for their livelihood.

Table 5.1 shows average weekly earnings for all workers and for hourly workers. BC is a good place to be working, with the second highest average weekly earnings (third highest for hourly-paid workers). However, BC's flat economy in the late-1990s, relative to booms in Alberta and Ontario, means that BC no longer tops the list of provinces in terms of average weekly earnings, as it did in 1997.

One factor underlying higher incomes in BC is the degree of unionization. Workers bargaining collectively have greater leverage with which to garner a fair share of the fruits of production, as well as improvements in working conditions. Wages set through collective bargaining processes also set the standard for wages in non-union jobs. Figure 5.1 shows that 36.5% of workers in BC are covered by collective agreements, the fourth highest rate among the provinces. The percentage of the workforce in BC that is unionized has declined slightly since 1997.

Another institutional aspect of the labour market is the minimum wage. Many adults, particularly women, depend on minimum wage jobs to sustain themselves and their families. As such, an adequate minimum wage is an important pre-

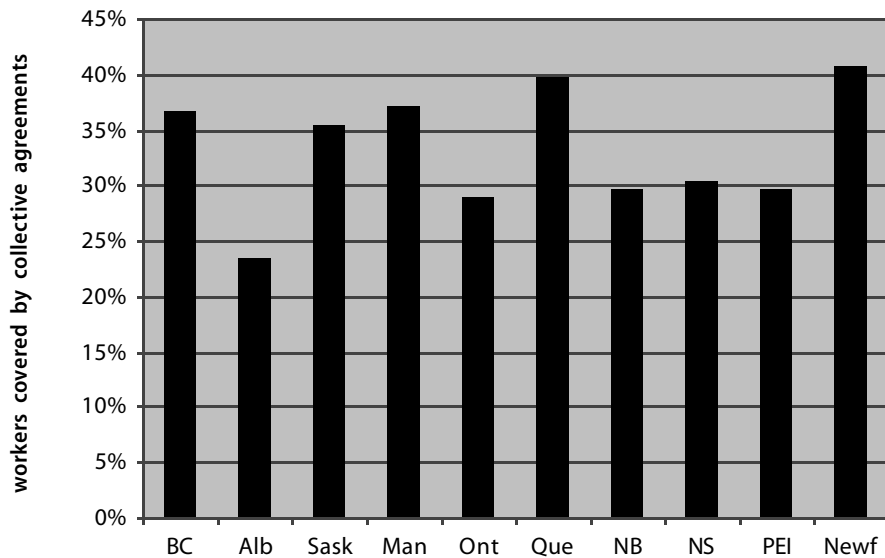
Table 5.1: Average weekly earnings, 2000

	Average weekly earnings all workers	Average weekly earnings hourly workers
BC	637.07	509.18
Alberta	615.30	524.37
Saskatchewan	544.34	450.08
Manitoba	549.80	446.41
Ontario	656.48	554.74
Quebec	579.35	480.80
New Brunswick	532.17	455.22
Nova Scotia	521.09	437.45
PEI	472.06	360.19
Newfoundland	524.13	465.66

Note: Includes overtime.

Sources: Statistics Canada, Labour Force Survey and Earnings, Employment and Hours, 2001

Figure 5.1: Union density, 2000



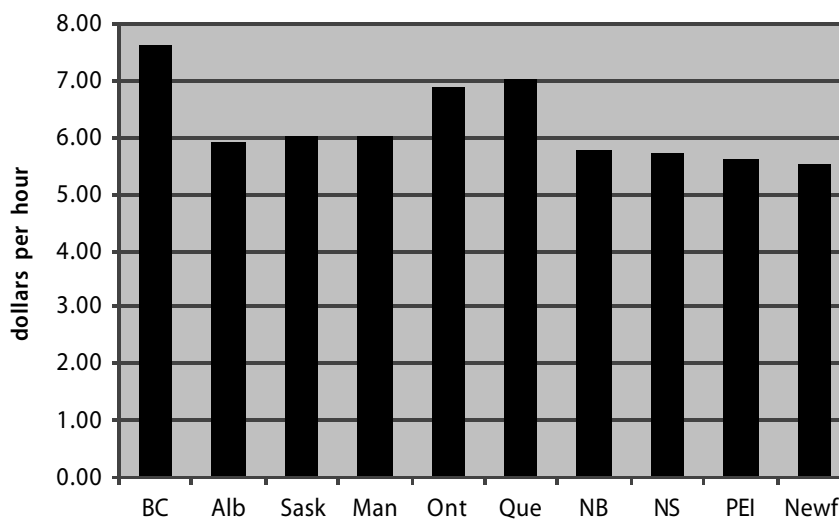
Source: Statistics Canada, Perspectives on Labour and Income, Special 2000 Labour Day release

condition for efforts to eliminate poverty. As Figure 5.2 shows, BC has the highest minimum wage in Canada at \$7.60 per hour. Recently, the government approved a scheduled rise in the minimum wage to \$8.00 per hour in November 2001.

Although increasing the minimum wage enjoys a high degree of public support, commentators from the business community argue that high minimum wages increase unemployment, thereby hurting the very people they are designed to help. This position is not supported by the available evidence, which suggests that minimum wages are not “job killers.” Any disemployment effects of minimum wages are very small, and often statistically insignificant, while higher minimum wages generate an increase in the total wages of low-wage workers.¹²

In spite of the overall strength of labour market conditions in BC, disparities in earnings between men and women are still evident. Figure 5.3 shows that in 1998, the average yearly earnings of full-time, year-round male workers were higher in every province than the earnings of full-time, full-year female workers. In BC, men made \$45,249 on average, while women made only \$33,223 on average, a difference of over \$12,000 per year. When the ratio of female to male earnings is considered, women in BC make 73.4% of what men make, the fourth highest earnings ratio among the provinces.¹³

Figure 5.2: Minimum wages, 2001



Notes: Specified minimum wages are the general rates. Some provinces have lower minimum wages for those receiving gratuities (e.g. Quebec) or for part-time workers under age 18 (e.g. Ontario). BC's minimum wage is due to rise to \$8 an hour as of November 2001.

Source: BC Ministry of Labour

Put together, the data demonstrate how the tax and transfer system reduces inequality for both families and unattached individuals, with a stronger overall reduction for individuals. While it is significant that BC has not become more unequal for economic families, and only slightly so for individuals, there is a great danger that we will be led down the same path of rising income inequality as Alberta and Ontario if BC pursues the type of free market policies seen in these provinces.

Income Inequality and Poverty

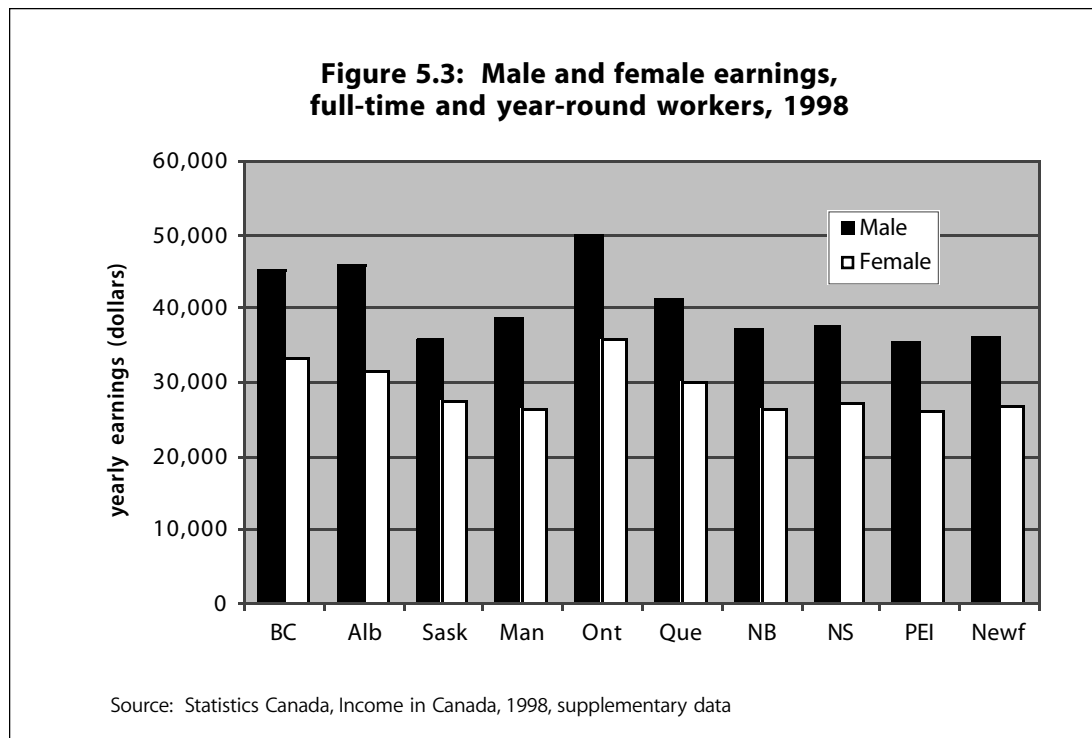
In spite of relatively strong labour market outcomes, income inequality is an area where BC has performed poorly compared to other provinces. Based on the gini coefficient – a common measure of income inequality – the data in this report indicate that BC has improved its relative performance in this area over the 1990s.¹⁴ However, this is attributable to rising inequality in other provinces, and not to specific improvements in BC.

Figure 5.4 shows gini coefficients for economic families, before taxes and transfers (or market income), and after taxes and transfers. Gini coefficients were relatively stable in BC over the 1990s. Interestingly, in 1998 BC had the lowest income inequality based on market income of all provinces, compared to fourth lowest in 1990. Similarly, based on after-tax income, in 1990 BC had the second highest level of after-tax inequality among the provinces (only slightly behind Sas-

katchewan), but by 1998 BC had the third lowest level. These changes in ranking are the result of large increases in inequality in Alberta, Manitoba and Ontario.

Figure 5.5 presents similar data for individuals. It is notable that inequality is higher for individuals than for families in all provinces, whether based on market income or after-tax income. Whereas families may have multiple income earners and benefit from economies of scale in household expenditures, this is not the case for individuals.

Over the 1990s, unattached individuals in BC lived in a labour market characterized by rising inequality. Market income inequality in BC for individuals rose, although by less than in Manitoba, Ontario and Newfoundland, each of which had large increases, in addition to starting with higher levels of inequality than BC. Compared to other provinces, BC still had the lowest level of market income inequality for individuals in both 1990 and in 1998. After taxes and trans-



fers, individuals in BC experienced a rise in inequality over the 1990s, but the rise was greater in other provinces. As a result, in 1990, BC had the sixth lowest level of after-tax inequality for unattached individuals, compared to seventh lowest in 1998.

Put together, the above data demonstrate how the tax and transfer system reduces inequality for both families and unattached individuals, with a stronger overall reduction for individuals. While

it is significant that BC has not become more unequal for economic families, and only slightly so for individuals, there is a great danger that we will be led down the same path of rising income inequality as Alberta and Ontario if BC pursues the type of free market policies seen in these provinces. The recently announced tax cuts already move us in the direction of greater inequality after taxes and transfers by allocating half of the total tax cut to the top 13% of earners.

Figure 5.4: Gini coefficients for economic families, 1990, 1994, and 1998

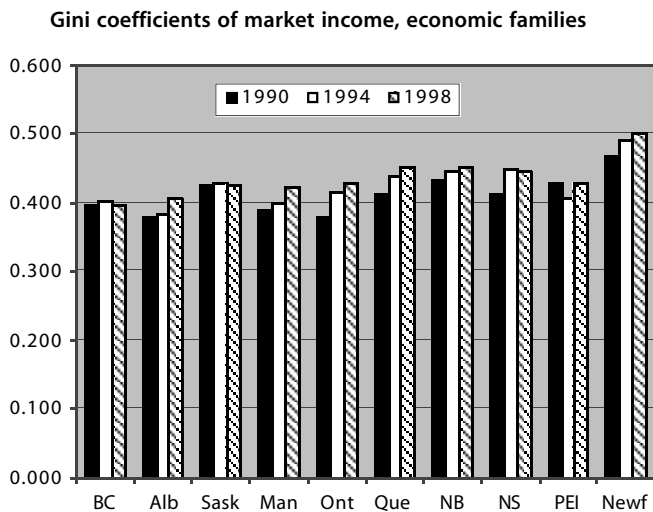
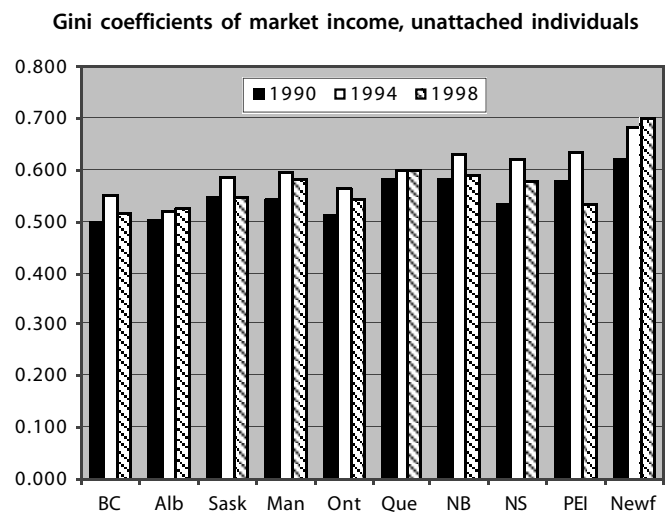
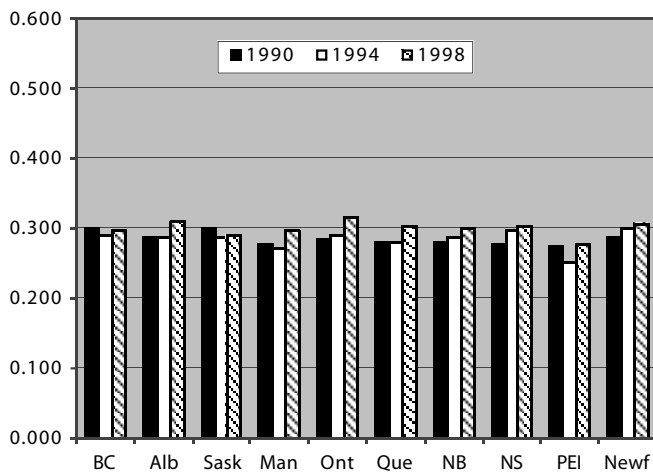


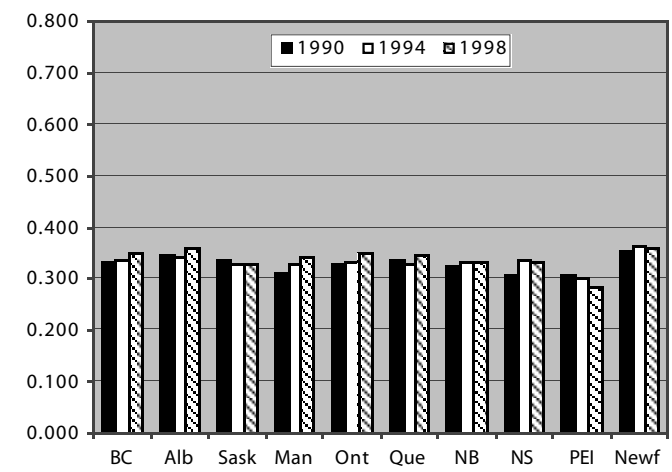
Figure 5.5: Gini coefficients for individuals, 1990, 1994, and 1998



Gini coefficients of after-tax income, economic families



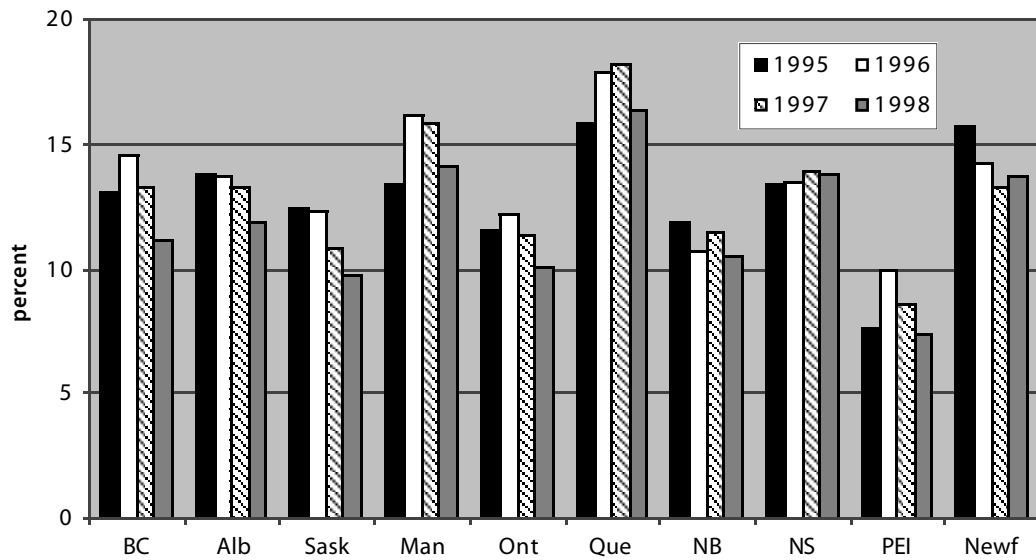
Gini coefficients of after-tax income, unattached individuals



Source: Statistics Canada, Incomes in Canada 1998

Source: Statistics Canada, Incomes in Canada 1998

Figure 5.6: Percent below LICO after tax, 1995-1998



Source: Statistics Canada, Incomes in Canada, 1998

Table 5.2: Percent below LICO after tax by group, 1998

	Economic families	Unattached individuals	Children under age 18
BC	8.2	26.3	10.9
Alberta	9.0	29.2	12.9
Saskatchewan	6.8	23.9	10.1
Manitoba	10.6	33.4	17.3
Ontario	7.9	25.4	12.9
Quebec	12.0	39.0	18.0
New Brunswick	8.5	27.1	13.8
Nova Scotia	10.7	32.0	15.7
PEI	5.0	24.8	7.1
Newfoundland	11.8	35.7	18.5

Source: Statistics Canada, Incomes in Canada, 1998

Table 5.3: Income assistance rates, 1999

	Single	Family
BC	6,330	17,830
Alberta	5,023	17,919
Saskatchewan	5,739	17,590
Manitoba	5,551	16,705
Ontario	6,822	18,130
Quebec	6,223	16,020
New Brunswick	3,367	15,170
Nova Scotia	4,573	16,633
PEI	5,515	17,799
Newfoundland	1,341	16,317

Note: "Single" refers to a single employable person; "family" refers to a couple with two children.

Source: National Council on Welfare, Welfare Incomes 1999

Figure 5.6 shows after-tax poverty trends by province over the 1995-1998 period. In 1998, 11.1% of all persons in BC lived below the after-tax low-income cut-off (LICO), Canada's unofficial poverty line.¹⁵ The percentage of British Columbians living below the LICO dropped from 14.5% in 1996 to 11.1% in 1998, the largest decline among the provinces. Interestingly, this drop came about during a period of economic slowdown in BC, while other provinces experienced more of a boom due to the strong US economy. BC's 1998 poverty rate was slightly higher than the 10.9% rate in 1990.

Table 5.2 breaks poverty rates down for 1998 (unfortunately, more recent data are not available). Table 5.2 notes that 8.2% of economic families and 26.3% of unattached individuals in BC lived below the LICO. With respect to children under age 18, BC's poverty rate of 10.9% was third lowest among the provinces. While BC has made significant strides in reducing child poverty with the introduction of the BC Family Bonus and the Earned Income Benefit, the fact that one in nine children still live below the LICO demonstrates that much work still needs to be done.

For many persons below the poverty line, income assistance is the primary source of income. In recent years, however, income assistance rates have been on a general downward spiral. Across all provinces, they have been reduced to a level that is no longer sufficient to meet basic needs. In BC, the 1996 BC Benefits overhaul of income assistance not only cut welfare rates, but also made the system more punitive and shifted assistance from the "welfare poor" to the "working poor" (reflecting an ideological separation between the "deserving" and "undeserving" poor).

Table 5.3 documents the dismal state of income assistance in Canada. A single employable person receiving income assistance in BC in 1999 had an annual income of \$6,330. In absolute terms, this is the second highest level of total welfare income for single employable persons among the provinces, behind Ontario at \$6,822. However, income assistance rates in all provinces are much

lower than the LICO, demonstrating that these rates are insufficient to meet basic needs like food and housing. Such low levels of support actually make it difficult for persons dependent on income assistance to have sufficient funds to effectively seek employment or even take public transit.¹⁶

Income assistance rates for families are less punitive than for single employable persons, but in all provinces they are still alarmingly low. A couple with two children received \$17,830 in income assistance in BC in 1999, the third highest absolute dollar amount in Canada. However, BC's relatively high ranking when compared to the other provinces in this case is akin to being "the smart kid in a dumb class." Given the levels of low income and the depth of poverty, it is clear that support for income assistance recipients is urgently needed.

Conclusions and Policy Implications

Despite the fact that BC is a good place to work, life for those who cannot work or cannot find work is difficult. Given the large number of people who depend on income assistance at some point, rates that are insufficient to meet basic needs expose all but the wealthiest citizens to the risk of poverty. Immediate government action is needed to change policies that have essentially become a legislated form of poverty.

The big danger in coming years is that rather than seeing an increase in social assistance rates, budget pressures may lead to rate reductions and an even more punitive system (such as Ontario's "workfare" and drug testing policies). Other policies friendly to business will also lead to a more unequal overall distribution of income. The damage that is caused by the shredding of social safety nets can only be swept under the carpet until the next major economic downturn when more people will turn to social programs for support. If the US economy continues its downward slide, Canada will go along for the ride. For the poor this would make a bad situation even worse.

Given the large number of people who depend on income assistance at some point, rates that are insufficient to meet basic needs expose all but the wealthiest citizens to the risk of poverty. Immediate government action is needed to change policies that have essentially become a legislated form of poverty.

Conclusion

DESPITE THE IMAGE PROMOTED BY THE MEDIA AND BUSINESS COMMUNITY OF A FISCALLY unsound, tax-happy and high-spending province, the data presented in this report tell a different story. In the face of difficulties created by reductions in federal transfer payments, the offloading of federal debt, and the Asian crisis, BC has performed well over the last decade in fiscal terms, maintaining low debt-to-GDP ratios and debt servicing costs while continuing to support essential services like health care and education. Unlike the dramatic cuts imposed in Alberta and Ontario – provinces that have experienced significant economic booms over the 1990s – BC has not sacrificed important public programs to the goals of tax and deficit reduction. Evidence of increases in economic inequality in these two provinces is indicative of the reasons why the BC government should continue to avoid such a policy platform.

BC's recently announced tax cuts offer little hope that the new Liberal government will choose a different path than Alberta and Ontario. The tax cuts give low- and middle-income British Columbians the lowest average income taxes in Canada – at least until the next province attempts to do the same. The largest benefit of the tax cuts accrues to high-income earners. Given the lack of improvement in both market and after-tax inequality over the last decade, and the pressing social problems in the province, tax cuts that benefit the wealthy are clearly unwarranted. In addition, tax cuts put at risk the quality and accessibility of social programs that are valued by British Columbians.

Despite the fact that overall labour market performance is relatively strong, BC is still plagued by poverty and profoundly inadequate levels of income assistance. While action is clearly needed in this area, the large deficit that the new Liberal government will likely run as a result of the tax cuts puts even the inadequate support available to

low-income persons at risk. In the face of declining revenues, there is increased potential for program funding cuts. A bit of hopeful news is that the government has promised to implement the scheduled increase in the minimum wage in November 2001.

Overall, indications are that BC will be pursuing a policy agenda that resembles the direction of Ontario and Alberta. Such changes to BC's public sector may undermine the gains that have been made through the 1990s. A shift may also bring to BC the inequality problems faced by Alberta and Ontario. As the North American economy slows down, the effect of cuts to social safety nets will be even more apparent than during boom times.

This report has shown that BC has many advantages, and clearly some weaknesses. As a new government settles into Victoria, it is imperative that BC's advantages not be squandered in pursuit of oversimplified answers to complex public policy problems.

Endnotes

1. Alberta Budget 2001.
2. See the Fraser Institute's Tax Freedom Day 2001 materials. For a more detailed rebuttal of Tax Freedom Day, see "The Tax Freedom Daze" by Marc Lee, available on the CCPA web site or as part of Lee's *Tall Tales about Taxes in BC*, CCPA, 2000.
3. See Flanagan 2000 for a synopsis.
4. Evaluating health care is a challenging and complex task. There is much that we do not know, and a great deal of disagreement over which indicators are most relevant. Because this section looks primarily at funding, a word of caution is in order: funding levels can tell us a great deal about the overall resources in the health care system, but are constrained in terms of our understanding of how effectively those funds are spent, and the final impact on outcomes or quality of care.
5. Unfortunately, no provincially comparable (and empirically reliable) data is available on waiting lists vis-à-vis other provinces. Waiting lists also vary depending on measurement issues, the nature of the ailment and the particular physician.
6. See CIHI 2001.
7. Comparisons of drug costs across provinces can be very difficult due to issues around which people and which specific drugs are covered. That Ontario has the highest level of public drug expenditures is somewhat puzzling given that overall drug coverage is less comprehensive than in BC. All provinces have seen an escalation in the cost of prescription drugs primarily due to rising drug prices and the substitution of costly new drugs for existing therapies. See BC Ministry of Health 2001 for more detail.
8. See also the CCPA's *Policy Options for Progressive Health Care Reform in BC*.
9. See Allen 1999 for a study of financial returns to education.
10. See Bouchard 2000 for more detail.
11. Data for this section are based on supplemental statistics from the Labour Force Survey. As a result, numbers may not be directly comparable to the 1999 *Behind the Headlines*.
12. For empirical results and an overview of the issues, see Goldberg and Green 1999.
13. Given that women are less likely than men to work full-time and year-round as a result of responsibilities related to care for children, the elderly, and other dependants, there are some limitations to comparisons between women and men on this basis.
14. Gini coefficients are derived by dividing income earners into fifths, and comparing the share of total income that accrues to each group. A gini coefficient of 1 means all income accrues to the top 20%, while a coefficient of 0 means income is shared equally across groups. In practical terms, the gini ranges from 0.2 (low inequality) to 0.6 (high inequality).
15. The low-income cut-off is the income level at which a household will spend a disproportionate share of its income on food, clothing, and shelter relative to the average family. LICOs are produced for both market income and income after taxes and transfers. We use the latter measure in this report because we are looking at the impact of government policy.
16. The income assistance rates listed for BC do not include the 2% rate increase (approx. \$3.50 per month) implemented in August 2000. Given the profound inadequacy of current levels of support, however, this small change will not significantly improve the situation for income assistance recipients in this province.

Appendix 1: Table for Figures 2.1 and 2.2

Provincial tax comparisons for various income groups, 2001

Source: 2001 BC Budget

Rankings are from highest taxes to lowest

	BC	Alb	Sask	Man	Ont	Que	NB	NS	PEI	Newf
Two Income Family of Four: \$90,000 total income										
Provincial Income Tax	\$5,988	\$5,235	\$7,261	\$7,457	\$4,571	\$10,476	\$7,384	\$7,451	\$7,062	\$8,020
Property Tax	\$2,273	\$2,740	\$3,924	\$4,696	\$3,788	\$3,554	\$2,514	\$3,247	\$2,639	\$1,800
Sales Tax	\$1,018	\$7	\$905	\$1,185	\$1,561	\$1,774	\$1,707	\$1,704	\$1,806	\$1,681
Fuel Tax	\$165	\$135	\$225	\$173	\$221	\$288	\$161	\$203	\$195	\$248
Health Care Tax	\$864	\$816	\$0	\$1,935	\$1,755	\$3,834	\$0	\$0	\$0	\$1,800
Total Provincial Tax	\$10,308	\$8,933	\$12,315	\$15,446	\$11,896	\$19,926	\$11,766	\$12,605	\$11,702	\$13,549
Federal Income Tax	\$11,416	\$11,416	\$11,416	\$11,416	\$11,416	\$11,416	\$11,416	\$11,416	\$11,416	\$11,416
Net Federal GST	\$1,559	\$1,656	\$1,551	\$1,525	\$1,621	\$1,485	\$1,494	\$1,491	\$1,617	\$1,471
Total Tax	\$23,283	\$22,005	\$25,282	\$28,387	\$24,933	\$32,827	\$24,676	\$25,512	\$24,735	\$26,436
% of Income	25.9%	24.5%	28.1%	31.5%	27.7%	36.5%	27.4%	28.3%	27.5%	29.4%
Rank	9	10	5	2	6	1	8	4	7	3
Two Income Family of Four: \$60,000 total income										
Provincial Income Tax	\$3,272	\$2,759	\$3,971	\$3,689	\$2,505	\$5,297	\$4,035	\$4,072	\$3,917	\$4,366
Property Tax	\$1,798	\$1,974	\$2,747	\$3,307	\$2,721	\$2,883	\$1,641	\$1,903	\$1,300	\$1,728
Sales Tax	\$796	\$5	\$719	\$954	\$1,219	\$1,462	\$1,357	\$1,355	\$1,430	\$1,343
Fuel Tax	\$165	\$135	\$225	\$173	\$221	\$288	\$161	\$203	\$195	\$248
Health Care Tax	\$864	\$816	\$0	\$1,290	\$1,170	\$2,556	\$0	\$0	\$0	\$1,200
Total Provincial Tax	\$6,895	\$5,689	\$7,662	\$9,413	\$7,836	\$12,486	\$7,194	\$7,533	\$6,842	\$8,885
Federal Income Tax	\$6,364	\$6,364	\$6,364	\$6,364	\$6,364	\$6,364	\$6,364	\$6,364	\$6,364	\$6,364
Net Federal GST	\$1,219	\$1,341	\$1,232	\$1,228	\$1,266	\$1,224	\$1,187	\$1,186	\$1,280	\$1,175
Total Tax	\$14,478	\$13,394	\$15,258	\$17,005	\$15,466	\$20,074	\$14,745	\$15,083	\$14,486	\$16,424
% of Income	24.1%	22.3%	25.4%	28.3%	25.8%	33.5%	24.6%	25.1%	24.1%	27.4%
Rank	9	10	5	2	4	1	7	6	8	3
Two Income Family of Four: \$30,000 total income										
Provincial Income Tax	\$413	(\$590)	\$954	\$220	\$145	(\$89)	\$1,190	\$1,022	\$1,020	\$1,319
Property Tax	\$1,798	\$1,974	\$2,747	\$3,307	\$2,721	\$2,883	\$1,641	\$1,903	\$1,300	\$1,728
Sales Tax	\$554	\$4	\$506	\$686	\$848	\$1,123	\$944	\$952	\$999	\$939
Fuel Tax	\$110	\$90	\$150	\$115	\$147	\$192	\$107	\$135	\$130	\$165
Health Care Tax	\$864	\$816	\$0	\$645	\$585	\$1,278	\$0	\$0	\$0	\$600
Total Provincial Tax	\$3,739	\$2,294	\$4,357	\$4,973	\$4,446	\$5,387	\$3,882	\$4,012	\$3,449	\$4,751
Federal Income Tax	\$1,996	\$1,996	\$1,996	\$1,996	\$1,996	\$1,996	\$1,996	\$1,996	\$1,996	\$1,996
Net Federal GST	\$366	\$541	\$385	\$401	\$398	\$458	\$344	\$351	\$412	\$339
Total Tax	\$6,101	\$4,831	\$6,738	\$7,370	\$6,840	\$7,841	\$6,222	\$6,359	\$5,857	\$7,086
% of Income	20.3%	16.1%	22.5%	24.6%	22.8%	26.1%	20.7%	21.2%	19.5%	23.6%
Rank	8	10	5	2	4	1	7	6	9	3

	BC	Alb	Sask	Man	Ont	Que	NB	NS	PEI	Newf
Unattached Individual: \$25,000 income										
Provincial Income Tax	\$1,190	\$926	\$1,629	\$1,363	\$914	\$1,796	\$1,445	\$1,459	\$1,446	\$1,559
Sales Tax	\$397	\$3	\$364	\$502	\$625	\$743	\$686	\$685	\$809	\$680
Fuel Tax	\$110	\$90	\$150	\$115	\$147	\$192	\$107	\$135	\$130	\$165
Health Care Tax	\$432	\$408	\$0	\$538	\$488	\$1,065	\$0	\$0	\$0	\$500
Total Provincial Tax	\$2,129	\$1,427	\$2,143	\$2,518	\$2,174	\$3,796	\$2,238	\$2,279	\$2,385	\$2,904
Federal Income Tax	\$2,360	\$2,360	\$2,360	\$2,360	\$2,360	\$2,360	\$2,360	\$2,360	\$2,360	\$2,360
Net Federal GST	\$303	\$342	\$308	\$308	\$324	\$320	\$292	\$292	\$337	\$287
Total Tax	\$4,792	\$4,129	\$4,811	\$5,186	\$4,858	\$6,476	\$4,890	\$4,931	\$5,082	\$5,551
% of Income	19.2%	16.5%	19.2%	20.7%	19.4%	25.9%	19.6%	19.7%	20.3%	22.2%
Rank	9	10	7	3	8	1	6	5	4	2
Unattached Individual: \$80,000 income										
Provincial Income Tax	\$7,517	\$5,843	\$8,499	\$9,173	\$6,247	\$12,719	\$8,718	\$8,797	\$8,648	\$9,713
Property Tax	\$1,502	\$1,848	\$3,042	\$3,005	\$2,536	\$3,213	\$2,072	\$2,475	\$1,300	\$1,300
Sales Tax	\$1,003	\$9	\$900	\$1,201	\$1,576	\$1,636	\$1,673	\$1,669	\$1,977	\$1,623
Fuel Tax	\$165	\$135	\$225	\$173	\$221	\$288	\$161	\$203	\$195	\$248
Health Care Tax	\$432	\$408	\$0	\$1,720	\$1,560	\$3,408	\$0	\$0	\$0	\$1,600
Total Provincial Tax	\$10,619	\$8,243	\$12,666	\$15,272	\$12,140	\$21,264	\$12,624	\$13,144	\$12,120	\$14,484
Federal Income Tax	\$13,290	\$13,290	\$13,290	\$13,290	\$13,290	\$13,290	\$13,290	\$13,290	\$13,290	\$13,290
Net Federal GST	\$1,543	\$1,688	\$1,524	\$1,473	\$1,593	\$1,384	\$1,464	\$1,460	\$1,576	\$1,420
Total Tax	\$25,452	\$23,221	\$27,480	\$30,035	\$27,023	\$35,938	\$27,378	\$27,894	\$26,986	\$29,194
% of Income	31.8%	29.0%	34.4%	37.5%	33.8%	44.9%	34.2%	34.9%	33.7%	36.5%
Rank	9	10	5	2	7	1	6	4	8	3
Senior Couple: \$30,000 pension income										
Provincial Income Tax	\$405	\$0	\$1,548	(\$486)	(\$287)	\$395	\$627	\$633	\$582	\$657
Property Tax	\$1,523	\$1,974	\$2,747	\$3,307	\$2,721	\$2,883	\$1,641	\$1,903	\$1,300	\$1,728
Sales Tax	\$585	\$7	\$498	\$673	\$870	\$1,184	\$1,097	\$1,066	\$1,105	\$1,126
Fuel Tax	\$110	\$90	\$150	\$115	\$147	\$192	\$107	\$135	\$130	\$165
Health Care Tax	\$768	\$816	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total Provincial Tax	\$3,391	\$2,887	\$4,943	\$3,609	\$3,451	\$4,654	\$3,472	\$3,737	\$3,117	\$3,676
Federal Income Tax	\$950	\$950	\$950	\$950	\$950	\$950	\$950	\$950	\$950	\$950
Net Federal GST	\$762	\$796	\$690	\$727	\$748	\$780	\$742	\$714	\$809	\$767
Total Tax	\$5,103	\$4,633	\$6,583	\$5,286	\$5,149	\$6,384	\$5,164	\$5,401	\$4,876	\$5,393
% of Income	17.0%	15.4%	21.9%	17.6%	17.2%	21.3%	17.2%	18.0%	16.3%	18.0%
Rank	8	10	1	5	7	2	6	3	9	4

Notes

1. "Provincial Income Tax" represents provincial income tax less basic provincial credits and typical major deductions at each income level. Where applicable, it is also net of child benefits. The two-income family of four with \$60,000 income assumes one spouse earning \$40,000 and the other \$20,000. The two-income family earning \$90,000 assumes one spouse earning \$50,000 and the other \$40,000. The family and the senior couple earning \$30,000 are both assumed to have two incomes of \$15,000 each.
2. Property taxes are net amounts for each province. Property taxes are based on comprehensive reviews of property taxes from a sample of Royal LePage's on-line listings of residential properties for sale. The individual earning \$25,000 is assumed to rent; the families at \$30,000 and \$60,000 and the senior couple are assumed to own bungalows; the family at \$90,000 is assumed to own a two-story executive-style home; the individual at \$80,000 is assumed to own a luxury condominium. All are for a major city in each province.
3. Sales taxes include taxes on meals, liquor and accommodation, and are based on expenditure patterns from the 1996 Survey of Family Expenditures and calculations of disposable income.
4. Fuel tax is based on annual consumption: 1,000 litres of unleaded fuel for the single individual at \$25,000, the family at \$30,000 and the senior couple; others are assumed to consume 1,500 litres.
5. "Health Care Tax" includes health care premiums and payroll tax. Health care premiums are levied in BC and Alberta only. Provincial payroll taxes exist in four provinces (Manitoba, Ontario, Quebec and Newfoundland).
6. "Federal Income Tax" represents federal income tax less basic credits. Federal payroll taxes, such as UIC and CPP, are not included in this table.
7. "Net Federal GST" represents GST expenditures estimates for each income group based on the Survey of Family Expenditures, net applicable GST tax credits.
8. "Total Tax" represents the sum of "Total Provincial Tax" plus "Federal Income Tax" and "Net Federal GST."

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