

behind the numbers

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Where's the beef in BC's fiscal plan?

By Marc Lee

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Remember that 1980s TV commercial: an old lady peers under the bun of what advertisers led her to believe was a big juicy burger, only to find a thin, scrawny patty. "Where's the beef?" she cried out to all of North America. The new three-year fiscal plan tabled with the 2002 BC Budget is kind of like that commercial.

The high level rhetoric coming from the government and its cheerleaders in the business community is that the Liberals have introduced a bold economic plan that will get the BC economy booming, after years of stagnation under the NDP. Huge personal and corporate tax cuts, eliminating one-third of regulations, cutting back the public sector, plus more to come (such as changes to the Labour code, employment standards and Crown corporations), are supposed to make the good times roll — creating a BC where "the future is brighter than the past" and we enjoy the "best performing economy in the country," according to the Budget speech.

Yet, for those that took the time to read the Budget documents, the government's rhetoric appears to be speaking about a different province. According to the government's own projections about the

future, the seeds of the revolution will not be sprouting any time soon.

To be fair, no one expects much this year. The global recession and the ongoing dispute over softwood lumber are hitting BC hard. For 2002, the Ministry of Finance estimates real GDP growth in BC of only 0.6%, down a shade from an estimated 0.7% in 2001.

The economic plan, however, is supposed to be short-term pain for long-term gain. So what are the numbers a few years out? The Ministry estimates that GDP growth will rebound to 2.8% in 2003, 3.1% in 2004 and 3.0% in 2005. These are not too bad, as growth rates go, but nothing to brag about when compared to other jurisdictions or BC's own historical experience. Compared to the rest of North America, BC will lag average Canadian and US growth for 2002 and 2003, then pull even in 2004 and 2005.

Most economists would agree that the 1990s were not kind to BC. But consider that in the last years of the NDP government, real GDP growth was 3.4% in 1997, 1.7% in 1998, 2.8% in 1999 and 3.9% in 2000. The last four years look better than the four years ahead of us, even though this period captures the Asian crisis that lasted from late-1997 to early-1999,

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an external shock that put the brakes on the BC economy.

In other words, despite the dictums of neoliberal economics that radical restructuring would lead to permanently higher growth rates, BC's economic growth for the foreseeable future will be less than spectacular, according to the government's own forecasts. One wonders if we are going to see 2000's economic growth of 3.9% again by decade's end, never mind surpass it.

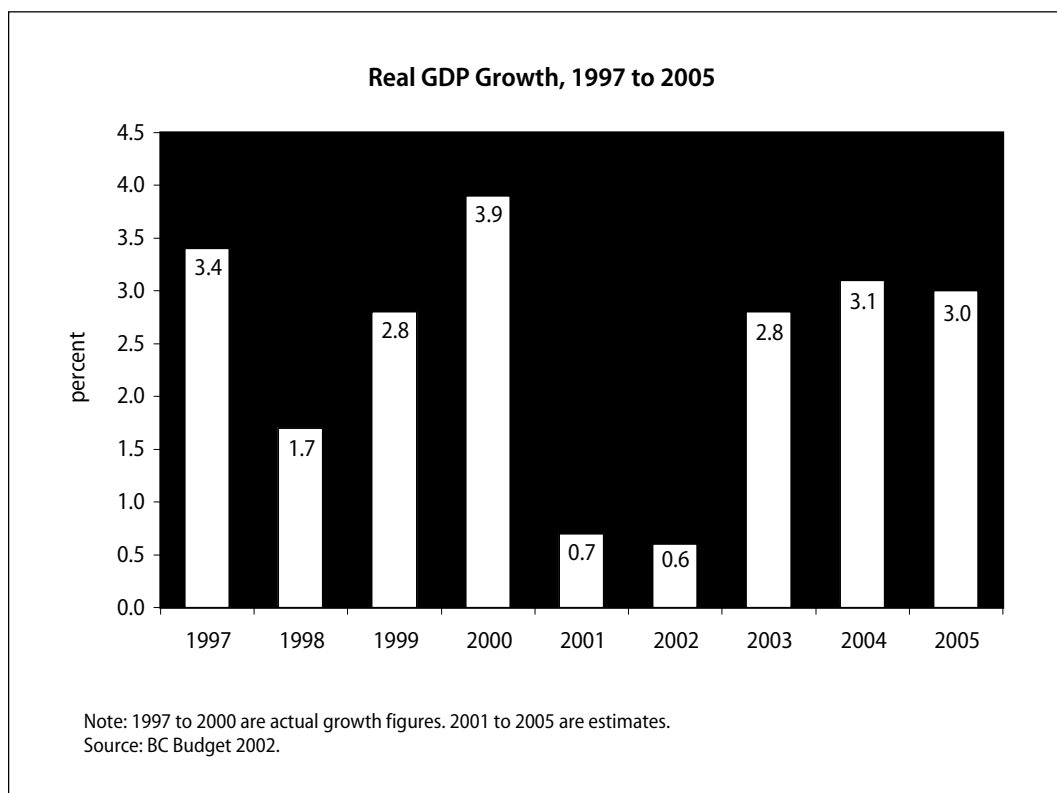
While these numbers hardly speak to a "new era of hope and prosperity," the government may just be erring on the conservative side in its projections. After all, lessons have been learned since the Finance Minister made a huge blunder in last summer's mini-budget by projecting GDP growth for 2002 of 3.8% due to the impact of the tax cuts (this number has since been revised down to 0.6%).

Unfortunately, the private sector average, from the Minister's own Economic Forecast Council, is not much better. The EFC projects growth of 0.7% in 2002, 3.0% in 2003, and 3.3% in each of 2004 and 2005. Even these slightly rosier projections suggest that when the economy turns around, we will be hard-pressed to match 1997's 3.4% growth, while 2000's 3.9% growth is but a dream.

But perhaps GDP growth is not everything in the "new era." The Budget also provides data and forecasts for other variables of interest to British Columbians. Total employment is scheduled to fall this year by 0.2%, then head back into positive territory with 1.8% growth in 2003, 2.3% in 2004 and 2.2% in 2005. Again, these numbers are not bad, but are still a far cry from the Budget speech's promise of a BC where "businesses are thriving, creating new jobs and giving new hope to all our communities." Going back to the previous government, BC employment grew by 2.7% per year on average from 1991 to 2000.

A similar story holds for the unemployment rate, which is projected to rise to 8.7% this year, then fall to 8.3% in 2003, and 7.3% in each of 2004 and 2005. Compare this to unemployment rates in double digits at the beginning of the 1990s, then dropping over the decade to a rate of 8.3% in 1999 and 7.2% in 2000. As far as the budget plan is concerned, the "new era" is not looking to outperform the old in terms of employment.

What about capital investment? The much touted tax cuts were all about boosting investment, according to the Liberals' supply-side economics. Budget projections suggest capital investment growth of 2.3% this year and 4.6% in



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2003 (no further projections are stated). The latter figure is equal to the growth in capital investment in 2000, the last full year of the NDP government, while capital spending for the 1991-2000 period as a whole averaged 2.4% growth per year. Tax cuts may mean that business confidence is up, but business is not showing us the money.

The impact on the revenue side of the budget is also telling. Personal income tax revenues will drop in the 2002-03 fiscal year by 9.4%, while corporate income tax revenues are set to fall to half their 2001-02 level. So much for tax cuts paying for themselves. As the economy improves, however, tax revenues start to grow again, but by 2004-05, personal income taxes are a mere 2.7% higher than their 2001-02 level, and corporate tax revenues remain 33.6% lower than their 2001-02 level. Meanwhile, the big jumps in revenue come from the Budget's regressive tax increases: sales tax revenues up 18.1%, tobacco tax up 33.4%, and MSP premiums up 42.9% respectively in 2004-05 over their 2001-02 levels.

The whole point of the tax cutting exercise was to stimulate the animal spirits of the private sector through radical

and painful measures. But according to these standard indicators, it is time to think again. The agenda of huge tax and spending cuts, deregulation and privatization seems destined only to increase inequality and poverty, while undermining vital public services. Many low and middle income people have already had most of their tax cut scaled back due to MSP premium and sales tax hikes. Is all of this pain really worth it?

In effect, the economic plan tells British Columbians to accept a reduction in their standard of living in order to boost investment to increase their standard of living. Good economics would tell us that this is perverse logic indeed. To date, many British Columbians believe the hype, and may be licking their chops in anticipation of their "happy meal." But before getting too excited, they should take a good look under the bun.

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