BC SOLUTIONS BUDGET 2005

FEBRUARY 2005

CCPA
CANADIAN CENTRE
for POLICY ALTERNATIVES
BC Office

BC Solutions Budget 2005

February 2005

The Canadian Centre for Policy Alternatives is one of the country's leading public policy research institutes. Every year since 1995, the CCPA has published an *Alternative Federal Budget*. The CCPA opened its British Columbia office in 1997, and now produces an annual *BC Solutions Budget.* These alternative budgets show that a more compassionate, yet realistic, approach to fiscal policy is possible. They demonstrate that good public policy is always about choices.

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Summary

After setting the record for the largest deficit in BC history two years ago, the provincial government is about to close out 2004/05 with BC's largest-ever surplus, anticipated to be over $2 billion. The outlook for 2005/06 and 2006/07 is for somewhat smaller surpluses (but still large by historical standards) of approximately $1.4 billion.

BC's surpluses give us an opportunity to take stock of what has happened over the past few years, and to make important choices about our priorities in the future.

With a pre-election budget to be tabled on February 15, we hope this year's *BC Solutions Budget* will stimulate public debate by outlining a series of options that set out our spending priorities and how to pay for them. The three options presented here are but a sample of what is possible. The point is that budgets are about choices, and whoever forms the next government can choose to substantially boost spending on programs that allow us to take better care of one another and the environment. We should also be paying for needed services through a more progressive tax system.

Our key recommendations for the 2005/06 budget are that:

- the government not use the surplus to pay down the provincial debt;
- the government not lock spending cuts into place with further tax cuts;
- at a minimum, the entire underlying surplus be spent on restored public programs; and
- additional revenues be raised by reversing upper-income tax cuts from 2001.

Downsizing the Public Sector

The context for the 2005 budget is a substantial downsizing of BC's public sector over the past three years. The province has also seen significant shifts both in which services are delivered and who pays:

- Total provincial expenditures are almost exactly the same in 2004/05 as they were three years before. Within expenditures there has been a reallocation of provincial spending towards health care and, to a lesser extent, education. Nonetheless, schools and health care facilities have been closed around the province due to the rising costs of providing these services.
- Other program areas, such as social assistance, children and families, environmental protection, transportation, and protection of persons and property, are down considerably. In total, annual spending outside health and education has been cut by $1.7 billion.
- Across the broad public sector, over 20,000 jobs have been eliminated or contracted out.
- Viewed as a percentage of GDP (i.e. relative to the province's annual income), the shrinkage in the size of the provincial government is more evident. On this basis *all parts* of the public sector are in decline, even health care. This finding underpins the need to re-invest in the public sector.
- The brunt of the cuts has been experienced by the most economically vulnerable people in the province. Yet, as the new surplus clearly shows, all of the pain and hardship associated with these cuts was unnecessary. There was no "structural deficit" that necessitated spending cuts.
- In terms of revenues, it is abundantly clear that tax cuts have not "paid for themselves." Personal income tax revenues in 2004/05 are still 15% lower than pre-tax cut levels. In fact, the loss of personal income tax revenues was closer to $2 billion, compared to Ministry of Finance estimates of $1.5 billion when the tax cuts were announced.
- BC's improved fiscal situation is strongly related to much higher federal transfer payments for health care and equalization. Crown corporation revenues are also adding to the provincial bottom line, including a 50% increase in gambling revenues. Large revenue gains also stem from MSP premium hikes, tuition fee increases, and windfalls in property transfer taxes and resource royalties.
- Like expenditures, provincial revenues relative to GDP are in decline. In particular, BC taxation revenues declined by more than a full percentage point of GDP between 2000/01 and 2004/05, and are forecast to decline further.
- BC's sweeping policy changes—the government's recipe for prosperity—have failed to produce the promised results. The bright spots in the BC economy are driven by high commodity prices and demand for BC's resource exports and by low interest rates. Capital investment outside residential construction, however, has shown little improvement—a major indictment of the government's tax cut strategy. Thus, the province has experienced a great deal of pain for minimal gain.

The combination of income tax cuts that disproportionately benefited high-income earners and MSP premium increases that had a bigger hit lower down the income ladder has shifted the task of paying for public services from upper- to middle- and modest-income earners. This shift is reinforcing rising inequality in market incomes. The provincial government has an important role to play in countering this growing gap through a more progressive tax system.

Budget 2005: BC's Fiscal Choices

The hot topic for the 2005/06 BC budget is what to do with the anticipated surplus. We estimate the underlying surplus to be at least $1.4 billion. It is not at all obvious, even in an election year, that this projected surplus will be rolled back into spending. Pressure is mounting from the corporate sector to use the surplus to further reduce taxes and to pay down provincial debt. This would be a mistake.

There is no reason why the surplus should be directed towards debt reduction or tax cuts. In spite of large deficits in recent years, BC still has a healthy fiscal situation. The province is on track to close 2004/05 with a debt-to-GDP ratio of 19.2%—exactly the same as it was in 2000/01 and second-lowest among the provinces after oil-rich Alberta. BC's tax structure is already more than "competitive" with other jurisdictions. BC has the lowest taxes in Canada for most income groups. We are greatly concerned that further tax cuts would lock in place the deep spending cuts of recent years.

We feel the opposite course is needed: the surplus must be used to un-do the damage done and re-invest in the public sector.

Solutions Budget Public Investment Options

	Option one: spend the surplus	Option two: anti-poverty strategy	Option three: invest in advanced education
Expenditures	(millions of dollars)		
Restoring the cuts	1,000	1,000	1,000
Early childhood education and care	280	400	400
K-12 education	250	250	300
Anti-poverty strategy		250	250
Post-secondary education			300
Training and apprenticeship			100
Total	**1,530**	**1,900**	**2,350**
Revenue options			
Existing surplus rolled into new spending	1,439	1,439	1,439
Federal funds for early childhood education and care	130	130	130
Reverse income tax cuts in top two brackets		370	370
Reverse income tax cut in middle bracket			80
Education and training payroll tax			370
Total	**1,569**	**1,939**	**2,389**
Additional contingencies	39	39	39
Balance	**0**	**0**	**0**
New capital expenditures			
Residential health care facilities	200	200	200
Social housing		200	200
Transportation			300
K-12 seismic upgrading			200
Total new capital expenditures	**200**	**400**	**900**

We would immediately use $1 billion of the projected surplus to restore capacity to those ministries outside health care and education that experienced the deepest cuts. Priority areas include the social services ministries, environmental protection and forestry.

Second, because the federal government is moving towards establishing a pan-Canadian early childhood education and care program, now is a good time for BC to get ahead of the curve. While final numbers are yet to be determined, BC's share of new federal funding will likely be about $130 million in 2005/06. If the provincial government were to match this, it would represent a significant step towards a provincial program.

Third, the K-12 education system is at great risk in terms of its ability to deliver high quality services to BC's children. We would increase education funding by $250 million, a first step towards restoring funding to levels of the early 1990s.

Fourth, the new federal-provincial health care deal changes the terrain of the debate away from funding shortfalls and towards reform. As the Romanow report urged, this new money must be used to buy change in areas like primary care, home care and long-term care. We support this move with an additional $200 million in capital expenditures to grow BC's stock of residential care facilities.

Beyond the Surplus

Even if all of the surplus is used to support additional spending, BC will still be in a situation where needs will be going unmet and important investments are not being made. Given the current economic upturn, the provincial government should balance its budget. Thus, additional investments beyond spending the projected surplus should come from partially reversing the 2001 tax cuts.

Beyond our first option of spending the surplus, we outline two incremental options for an enhanced provincial public investment program. In our second option, we accelerate the implementation of a provincial early childhood education and care program and outline a broad-based anti-poverty strategy. To pay for these spending increases, this option adds $370 million in operating revenues financed by reversing the tax cuts for the top two income tax brackets. This move would thus affect only those in the province making $76,000 or more (the top 5% of taxpayers). We also add $200 million in capital expenditures for the development of new social housing. This budget option thus concretely reverses what has been a recent transfer of income from the poorest among us to the wealthiest (who received the lion's share of the 2001 tax cuts).

Our third option builds on the previous two to develop an advanced education investment plan for BC, with a focus on post-secondary education and training and apprenticeships. The transformation of BC into a high-knowledge, service-based economy requires that a greater emphasis be placed on education than in the past. Moreover, a looming skills shortage has been frequently cited by both business and labour leaders as an important priority for the province.

This education agenda requires that business step up to support new investments from which they benefit. We create a new corporate payroll tax for training and education to raise an additional $370 million in operating revenues. We also reverse the tax cuts in the third income tax bracket to 2000 levels, raising an additional $80 million above option two. This affects only those with incomes above $66,000—individuals who benefit most from advanced education investments.

These new education investments provide new operating funds to post-secondary institutions in support of a new tuition freeze to ensure that higher education remains accessible to all students.

Added to these measures, we increase capital funding for long-overdue seismic upgrading of BC K-12 schools by $200 million. We also accelerate the development of mass transit projects in BC through $300 million in new capital funding.

Assessing the Solutions Budget Options

The options outlined above may sound radical, and will almost certainly be painted as such by some politicians and commentators. But even our full package (option three) is well within historical norms. Rather, it is the shrinkage of the public sector in recent years that is truly radical. We outline a plan that is more sound economically and socially. Moreover, under the options presented, BC individuals and businesses will still be paying less in taxes than they did in 2000. Only the upper tax brackets see a reversal of the 2001 tax cuts.

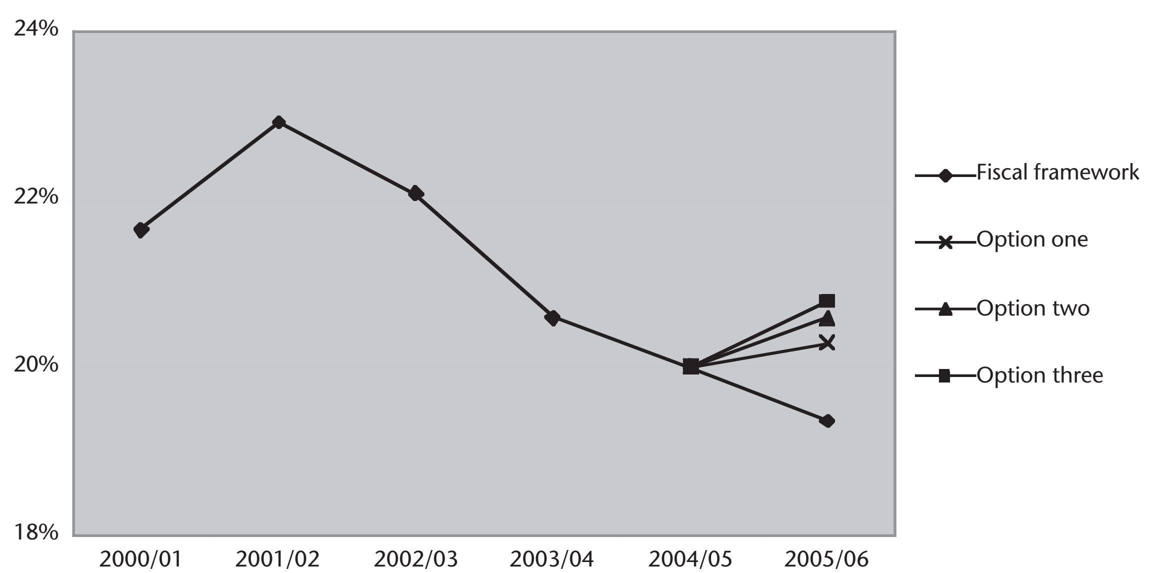
As the accompanying chart shows, relative to GDP our options only avert a continued fall in the size of the public sector. Rather than expenditures dropping to 19.4% of GDP in 2005/06, spending the surplus would increase expenditures-to-GDP slightly to 20.3%, while scenarios two and three would increase expenditures-to-GDP slightly more, to 20.6% and 20.8% respectively. These numbers are *lower* than the actual expenditures-to-GDP for most years going back to 2000/01. In this context, our expenditure proposals are quite modest.

Our options only slow the downward trajectory of BC's debt-to-GDP ratio. The current fiscal plan estimates a fall in the provincial debt-to-GDP ratio from 19.2% at the end of 2004/05 to 17.5% next year. Even under options two and three, which include additional capital investments, debt-to-GDP will still fall to 18.7% and 19.0% respectively. Thus, these additional investments can easily be afforded given BC's current fiscal situation.

We reiterate that budgets are about choices. Our *Solutions Budget* scenarios are but preferred options for funding re-investments in the public sector. There are infinite possibilities for funding services and investments, and doing so in a more progressive manner.

Some will argue that higher taxes and public spending is a recipe for economic disaster. But other places in the world have made choices to greatly reduce poverty and to make investments in people without the economic sky falling down. Re-investing in public services is not an illusive dream; through a common commitment we can make it a reality. This is the conversation that British Columbians need to have.

Expenditures-to-GDP Ratio, Government's Fiscal Framework vs. Solutions Budget Options



Source: See notes and sources for Table 2.

Introduction

What a difference a year makes. Last February the provincial government tabled a balanced budget—ostensibly by a thin margin. The budget made another round of spending cuts and forecast cushions were reduced in order to achieve that balance. With the release of two quarterly updates in the Fall of 2004, however, a very different reality has emerged: BC is now sitting on a massive surplus for 2004/05 in excess of $2 billion, and subsequent years show smaller surpluses (but still large by historical standards) of approximately $1.4 billion.

Budgets are about choices. The large size of current and projected surpluses supports the view that the wrong choices have been made in recent years with regard to provincial finances. Across the broad provincial public sector, more than 20,000 jobs have been eliminated or contracted out. Dramatic spending cuts have been made to core provincial ministries such as Human Resources, Children and Families, Forests, and Water, Land and Air Protection.

The real brunt of the cuts has been borne by the most economically and socially vulnerable people in the province. Yet, as the new surplus clearly shows, none of the spending cuts needed to happen. All of the pain and hardship associated with these cuts was unnecessary.

In past *BC Solutions Budgets*, we have outlined different choices available to the provincial government. Our message that none of this needed to happen has been consistent, but has consistently fallen on deaf ears.

The 2002 *Solutions Budget* argued that different tax and spending choices were required to respond to a major economic downturn. Using a fiscal impact model, we argued for increased spending while selectively rolling back upper-income tax cuts. And we showed why, as a small, export-oriented economy, BC was unlikely to see much benefit from tax cuts.

The 2003 *Solutions Budget* asked what would have happened to BC's original three-year budget plan had none of the tax or spending cuts (or subsequent tax increases) occurred. We found that, contrary to claims of a "structural deficit," BC would still have balanced its budget in the absence of the tax and spending cuts. The current budget surplus reaffirms this position.

The 2004 *Solutions Budget* outlined key spending priorities in the lead-up to hosting the 2010 Winter Olympics, and demonstrated how these could be paid for by modeling changes to the tax system to make it greener and more progressive.

This year, with a pre-election budget to be tabled on February 15, we hope to contribute to the debate with a series of options to pay for services we need. In the next section, we review the sweeping cuts and reforms made over the past three and a half years. We then re-evaluate the province's fiscal outlook, considering where we have been, and where we are headed under the government's three-year fiscal plan. We set out our spending priorities as a progressive series of options in the next section.

Underlying this year's *Solutions Budget* are a few fundamental recommendations. First, the surplus must be spent on restoring public programs. We must begin to reverse the cuts that have caused so much harm and dislocation. There is no compelling reason why the surplus should be directed towards debt reduction or further tax cuts.

The real brunt of the cuts has been borne by the most economically and socially vulnerable people in the province. Yet, as the new surplus clearly shows, none of the spending cuts needed to happen. All of the pain and hardship associated with these cuts was unnecessary.

Second, we need to invest in the people and infrastructure of the province to address unmet needs and a growing social deficit. If we are to build a more compassionate and just society, additional revenues must be raised. At the very least, the upper-income tax cuts of 2001 (which were not promised during the last election campaign) should be reversed—with the proceeds to fund an anti-poverty strategy and needed education investments.

Third, we need to revisit the distribution of taxes. BC's tax regime has become much less progressive in recent years due to income tax cuts that benefited high-income earners the most and MSP premium increases that had a bigger hit lower down the income ladder. As a result, the task of paying for public services has shifted from upper- to middle- and modest-income earners. This shift is reinforcing rising inequality in market incomes. The provincial government has an important role to play in countering this growing gap through a more progressive tax regime.

British Columbians need to have a conversation about what public services we need and want, and how we are to pay for them. The public has heard too many false promises, and been told too often we could have it all. The truth of the matter is that good public services cost money and must be collectively paid for through our tax system.

Yet the coming election is not shaping up to deliver that conversation. We are concerned about the directions of both leading contenders. We fear the Liberals will bow to business pressure and put the surplus towards more tax cuts and debt reduction. And we fear that the NDP (like the Liberals) are refusing to entertain a reversal of upper-income tax cuts and the need to reinvest in public services. British Columbians need more fiscal options on the table.

A Recipe for Prosperity?

The May 2001 election, and its changing of the guard in such dramatic fashion, was in large part a story about the economy (at least, *perceptions* about the economy). The previous government, it was alleged, were bad economic managers who drove the BC economy into the ground. Tax cuts, deregulation and privatization were touted as the key ingredients of a "New Era" economic recipe that would return BC to its glory days.

The New Era document stated: "High taxes, over-regulation and hostile business practices have driven workers and employers out of our province… We can turn that around in short order with the right attitude, policies and taxation environment." The government-in-waiting even went so far as to claim that its program, tax cuts in particular, would stimulate so much economic growth that provincial revenues would rise, not fall. This message obviously proved attractive to voters, who swept the new government to power with 77 of 79 seats.

However appealing, this message is too simplistic given BC's historical circumstances and external environment. It is unreasonable to expect these policy changes to have such strong and immediate impacts. The CCPA warned several years before the 2001 election that jumping on the tax cut bandwagon was not going to be a miracle cure for the province's ails.

Nonetheless, in just three years the new government has delivered sweeping changes to BC's social and economic life. Change has come more quickly than in some other provinces that have had their own "common sense revolutions." While the degree of change has not been enough to satisfy some, there is no question that BC has been remade through policies that favour business interests, while abandoning important clauses of the province's historic social contract.

The following is a summary of major policy changes and initiatives put in place to stimulate the "competitiveness" of BC's economy. The list is by no means comprehensive, merely indicative of the wide scope of the government's policy agenda.

Changes in the tax system include:

- Personal tax cuts that concentrated gains among people with high incomes. The top 0.4% of taxpayers (just over 8,000 individuals with incomes over $250,000) received about the same tax cut dollars as the bottom half of taxpayers (with incomes under $30,000).
- Increases in regressive taxes, including sales taxes (since reversed), MSP premiums, tobacco, alcohol and gas taxes, and other licenses and fees.
- Elimination of the provincial sales tax on machinery and equipment.
- Corporate income tax cuts and elimination of the corporate capital tax.

Changes in the delivery and scope of public services include:

- Budget cuts outside health care and education amounting to an average of one-third of 2001/02 levels. The total spending cut by 2004/05 outside health care and education was $1.7 billion below 2001/02.
- Elimination or contracting out of 20,000 jobs in the broad public sector.
- Elimination of the tuition freeze, leading to dramatic fee increases for post-secondary education.
- Real reductions in service quality in health care and education as funding has not kept pace with the cost pressures of providing services. Hospitals and schools have closed as a result.
- De-listing of health care services, such as eye exams and supplemental health therapies (e.g. physiotherapy and massage therapy).
- Pharmacare changes that shifted more of the cost of prescription drugs onto individuals.

Reductions in the social safety net include:

- The denial of welfare to youth until they meet a two-year “independence test.”
- Benefit rates cut for single parents on welfare and people aged 55–64.
- Implemented a 24-month limit on welfare (the government has since backed off this measure by introducing a plethora of exemptions, but the law remains on the books).
- Elimination of earnings exemptions that allowed welfare recipients to earn some additional income.
- Reduced child care subsidies for low-income parents (a cut that has recently been reversed) and cuts to child care programs.
- Elimination of funding for women’s centres.
- Cuts to the Ministry of Children and Family Development that have resulted in a reduction in case workers and lost programs for vulnerable youth.
- Closure of long-term care facilities and reductions in home support services.
- Deep cuts to legal aid.

Changes to labour and employment standards include:

- Decrease in wages in health care and community support services.
- A new $6 an hour “training” wage—25% lower than the general $8 per hour minimum wage—applicable to the first 500 hours of work.
- A lowered work-start age from 15 to 12, accompanied by reduced government oversight of child working conditions.

- Reduced minimum work day to two hours from four.
- Labour Code amendments that make it more difficult for workers to form unions and easier to decertify them.
- "Overtime averaging" provisions that reduce payments for overtime work by employees.
- Reduced protections for agricultural workers, who are now exempt from provisions on overtime and hours of work.
- Dismantling of the Industry Training and Apprenticeship Commission.

Environmental deregulation initiatives include:

- Exemption of all but "high risk" industries from permit requirements for the discharge of waste into the environment.
- Removal of most requirements for approval of pesticide use, accompanied by removal of public appeal process for pesticides.
- Relaxed guidelines for the development of coal-fired power plants (BC currently has none).
- Environmental assessments are no longer mandatory but at the discretion of the government.
- Enabled increased industrial activities in provincial parks.
- Regulatory streamlining for mining and oil and gas sectors.
- Provisions for over-riding regulations to move ahead "special projects."
- Elimination of staff in ministries responsible for monitoring habitat and industry compliance with environmental regulations.

Privatization initiatives include:

- The privatization of BC Rail.
- Contracting out of health support services (in areas such as security, food services, and housekeeping).
- Conversion of BC Ferries from a Crown corporation to a private agency.
- Breaking up of BC Hydro, contracting out of back-office operations to Accenture (about one-third of employees affected), and precluding BC Hydro from building new generation capacity.
- Outsourcing of Medical Services Plan and Pharmacare operations.
- Public-private partnerships made a condition for provincial participation in major public infrastructure projects (such as the Abbotsford hospital and the RAV line).

Changes that affect BC's rural and Interior communities include:

- Elimination of public sector jobs and closure of government offices, schools, health care facilities, and courthouses.
- Huge increases in the volume of raw log exports.
- Removed the obligation on forestry companies cutting on public land to process timber locally.
- Lifting the moratorium on fish farm expansion.
- Emphasizing coal-bed methane and offshore oil development.

Other provincial policy changes and initiatives include:

- Provincial and national ad campaigns promoting the province and the government's achievements.
- Changes to the *Residential Tenancy Act* that enable landlords to raise rents annually by two percentage points above the rate of inflation.
- Special projects legislation that can over-ride decisions made by municipal councils.
- A plan to reduce total provincial regulations by one-third.
- Financing and promotion of the 2010 Winter Olympics.

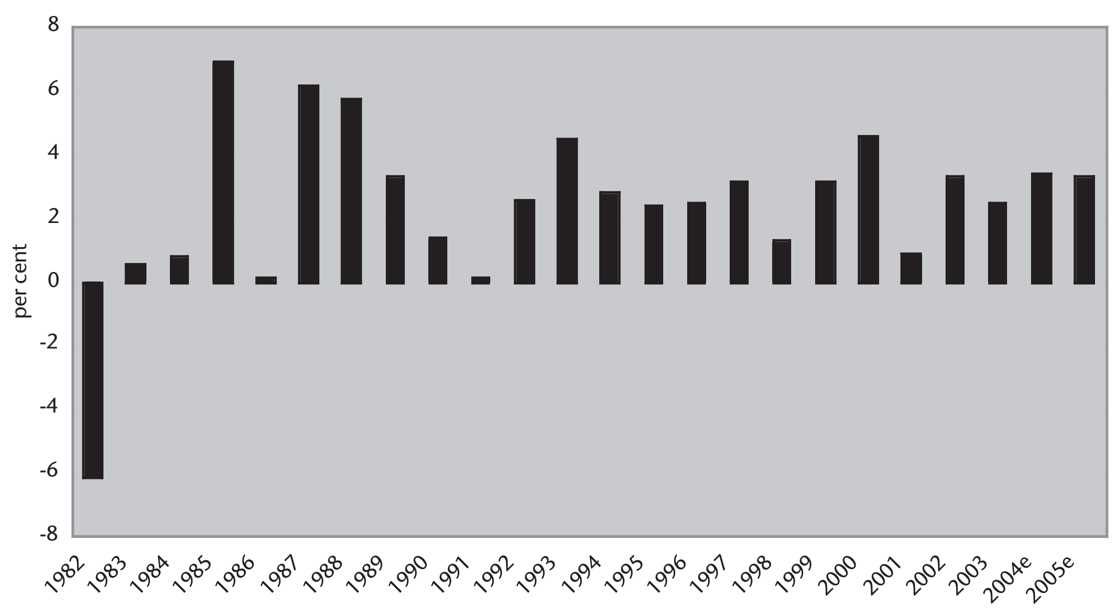
From this list, it is clear that the government has implemented many long-sought policy changes advocated by BC's corporate sector (see for example the report of the 1998 BC Business Summit). The promise was that these policies would positively affect incentives for workers to work longer and harder, and for businesses to make new investments in BC.

Has it Worked?

The key question is whether this program has actually made good on these promises. Many British Columbians may accept the need for painful economic medicine as the price to be paid for a booming economy. But paying a high price for little in return is surely a bad bargain.

A recent Ipsos-Reid poll found that over 70% of British Columbians think that the economy has improved—about double the rate just six months ago. But when asked about *their own economic situation*, there was essentially no change. Perhaps good PR has something to do with it. Tens of millions of taxpayer dollars have been hard at work pumping out a feel-good message about BC. Business groups have recently

Figure 1: BC Real GDP Growth Rate, 1982 to 2005



Source: BC Stats, BC Economic Accounts, November 2004 update for historical data up to 2003. Projections for 2004 and 2005 from Minister of Finance's Economic Forecast Council, December 2, 2004.

piled on with their own upbeat “You’re Hired” campaign. Then there is the unusual number of banner newspaper headlines trumpeting the resurgence of the BC economy.

So can the economy really be compared to a phoenix that has “risen from the ashes”? While the BC economy has definitely improved since a major downturn in 2001, and economic growth projections have been upgraded over the course of 2004, it is not exactly “red-hot” or “sizzling,” to quote two recent front-page headlines. The latest average private sector forecast is 3.4% real GDP growth in 2004 and 3.3% in 2005. These are respectable growth rates, but nothing extraordinary. In nine of the past twenty years, real GDP growth has been at about this level or better.

Employment indicators are a mixed bag. Employment growth of 2.4% in 2004 is middle of the road by historical standards. The good news is that the unemployment rate has been falling, from 8.1% in 2003 to 7.2% in 2004. Gains in construction jobs have led the way, accounting for 61% of job growth in 2004. In addition, strong export demand has led to employment gains outside the Lower Mainland, lowering unemployment rates in some regions—but Vancouver still accounted for 61% of total employment gains.

On the downside, the employment rate (total employed divided by the population) has nudged up only slightly from 60.1% in 2003 to 60.7% in 2004. Average hourly wages grew weakly in 2003, and actually declined in 2004 (and this does not account for inflation).

> Outside of residential construction, new capital investment in machinery and equipment and new facilities—the harbinger of future productivity growth—has been weak. If today’s optimism and yesterday’s corporate tax cuts do not translate into new investment, it is a major indictment of the government’s program.

How much credit should Victoria get? BC is a small, open economy and the provincial government is but one player. A strong external environment has definitely worked to BC’s advantage: low interest rates from the Bank of Canada that have spurred the real estate market and residential construction; a more stimulative federal fiscal policy, especially with regard to transfers to BC for health care and equalization; high world market prices for BC’s resource exports; and, strong demand in external markets. All of these are beyond the control of Victoria.

Perhaps Victoria’s biggest contribution has been optimism, which may be good for the economy if consumers and businesses feel confident enough to spend and invest. But outside of residential construction, new capital investment in machinery and equipment and new facilities—the harbinger of future productivity growth—has been weak. If today’s optimism and yesterday’s almost $1 billion in corporate tax cuts do not translate into new investment, it is a major indictment of the government’s program.

The provincial government is claiming that the economy is super and it is all because of them. But this is obviously a self-serving narrative. The previous government, the same story goes, drove the economy into the ground. Remember that the “rescue” has come at a high price: thousands of lost public sector jobs; reduced, eliminated or privatized services; greater economic insecurity; and, painful measures imposed on the most vulnerable members of society.

BC's Fiscal Framework:
Looking Back, Looking Forward

This section reviews budget trends going back to 2000/01 and looking forward to 2006/07 based on the current three-year fiscal planning framework. We look at changes in revenues, expenditures and the provincial bottom line in dollar terms and as a percentage of GDP.

Table 1 sets out the *status quo fiscal situation* for BC (i.e. the budget in the absence of any future policy changes). The table draws on official budget numbers: finalized numbers for 2000/01 to 2003/04, with updated estimates for 2004/05 through to 2006/07 drawn from Ministry of Finance quarterly reports. In addition to this, we have made the following updates not included in the recent quarterly reports:

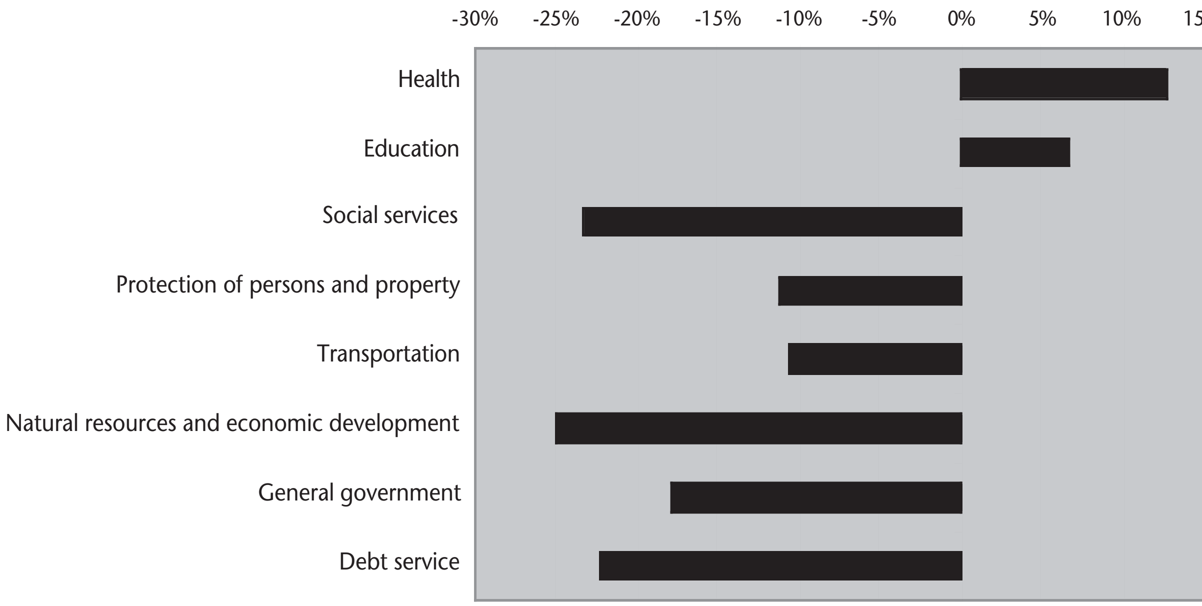
- New funding out of the September federal-provincial health accord does not appear in the most recent quarterly update, and has been added to federal transfers on the revenue side and to the health care budget on the expenditure side (i.e. in keeping with recent practice, we assume all new health care money from the federal government will be spent by the province on health care). This has no impact on the bottom line.
- We have added equalization estimates to federal transfers in 2005/06 and 2006/07. For 2005/06, this will be a net addition of $384 million. A new equalization formula, to begin in 2006/07, will be determined by an expert panel over the next year. In the interim we assume that in 2006/07, BC receives the same equalization contribution as in 2005/06.
- We lower sales tax revenues in each of 2005/06 and 2006/07 to reflect the return of the sales tax rate from 7.5% to 7%.

Table 1: BC Fiscal Framework: Looking Back, Looking Forward

	Actual				Government's three-year plan		
	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07
Revenues (millions of dollars)							
Taxation							
Personal income tax	5,963	5,366	4,150	4,877	5,080	5,302	5,616
Corporate income tax	1,054	1,522	612	775	1,214	1,023	1,130
Sales tax	3,625	3,552	3,795	4,001	4,091	4,156	4,363
Fuel tax	715	659	684	875	891	909	937
Tobacco tax	460	499	606	647	676	676	676
Property tax	1,452	1,481	1,541	1,576	1,647	1,718	1,788
Property transfer tax	262	303	407	518	600	475	425
Other taxation revenue	772	728	557	539	540	527	532
Total taxation revenues	**14,303**	**14,110**	**12,352**	**13,808**	**14,739**	**14,786**	**15,467**
Natural resources							
Natural gas royalties	1,249	836	1,056	1,230	1,419	1,381	1,292
Columbia River Treaty	632	360	100	230	260	255	205
Other energy and minerals	669	533	532	878	597	632	590
Forests	1,341	1,253	1,323	1,007	1,405	1,172	1,171
Other resources	308	298	270	308	302	395	420
Total natural resource revenues	**4,199**	**3,280**	**3,281**	**3,653**	**3,983**	**3,835**	**3,678**
Other revenues							
Medical Services Plan premiums	894	954	1,355	1,409	1,407	1,412	1,428
Post-secondary fees	440	452	580	781	832	905	957
Other health care related fees	411	383	445	222	178	189	189
Motor vehicle licenses and permits	339	342	351	363	377	385	394
Other fees and licenses	1,068	1,071	1,074	765	838	648	670
Other	3,320	3,107	2,860	2,473	2,741	2,704	2,750
Total other revenues	**6,472**	**6,309**	**6,665**	**6,013**	**6,373**	**6,243**	**6,388**
Contributions from government enterprises	1,725	1,085	1,766	1,894	2,409	2,412	2,334
Federal transfers	3,284	3,309	3,815	3,619	5,394	5,397	5,506
Total revenues	**29,983**	**28,093**	**27,879**	**28,987**	**32,898**	**32,673**	**33,373**
Expenditures (millions of dollars)							
Health	9,555	10,697	11,217	11,333	12,055	12,512	12,890
Education	7,856	8,386	8,505	8,516	8,952	9,084	9,386
Social services	3,276	3,480	3,145	2,867	2,669	2,704	2,717
Protection of persons and property	1,313	1,366	1,418	1,567	1,212	1,198	1,193
Transportation	1,577	1,576	1,761	1,272	1,408	1,289	1,293
Natural resources and economic development	1,776	1,836	1,532	1,511	1,377	1,233	1,331
General government	435	564	525	518	463	472	448
Debt service	2,050	1,828	1,637	1,476	1,420	1,542	1,629
Other	590	1,011	819	916	1,098	1,200	1,147
Total expenditures	**28,428**	**30,744**	**30,559**	**29,976**	**30,654**	**31,234**	**32,034**
Surplus (deficit) before accounting adjustments and forecast allowance	1,555	(2,651)	(2,680)	(989)	2,244	1,439	1,339
Accounting adjustments	(52)	1,464					
Forecast allowance					(300)	(300)	(300)
Surplus (deficit)	**1,503**	**(1,187)**	**(2,680)**	**(989)**	**1,944**	**1,139**	**1,039**

Sources and notes on following page.

Figure 2: Change in Nominal BC Government Expenditures, 2001/02 to 2004/05



Notes to Table 1 and Figure 2

Presentation conforms with Generally Accepted Accounting Principles and includes revenues of school districts, post-secondary institutions and regional health authorities, as per accounting changes made to the government reporting entity in 2004/05. Prior years are not comparable to previous *Solutions Budgets* for this reason.

2000/01 to 2002/03 are actual figures drawn from BC Budget 2004, Tables A7 and A8; 2003/04 are actual figures drawn from Ministry of Finance, 2004/2005 First Quarterly Report, Tables A6 and A10; 2004/05 are updated estimates based on Ministry of Finance, Second Quarterly Report, Tables A3 and A4. 2005/06 and 2006/07 are status quo forecasts based on 2004 BC Budget three-year fiscal plan, with revised numbers from First Quarterly Report.

Sales tax revenues have been reduced in 2005/06 and 2006/07 by $250 million from estimates in First Quarterly Report due to reduction in provincial sales tax (impact estimate from 2002 BC Budget).

Federal contributions for 2004/05 have been raised by $279 million due to September 2004 federal-provincial health care agreement. These funds were not included in the Ministry of Finance Second Quarterly Report. Projections of federal transfers for 2005/06 and 2006/07 have been revised to include new equalization and health care agreements. For 2005/06, this is an increase of $384 million in net equalization payments (see box on pages 15-16 in Second Quarterly Report) and $411 million in health care funds (see federal document cited below). For 2006/07, no equalization data is available pending changes to the equalization funding formula; figure has been revised upwards by same amount as 2005/06 for equalization and by $449 million for health care based on Block's (2004) calculations from federal Ministry of Finance data. We assume that new federal health care money is spent in the health care system. As a result, increased health care payments from Ottawa are offset dollar for dollar under health care expenditures for 2004/05 to 2006/07.

"Other" under "Other revenue" includes investment earnings, sales of goods and services, asset dispositions, reimbursements for health care and other services provided to external agencies, and other recoveries.

"Other" under expenditures includes all other expenditures plus government restructuring and contingencies.

Accounting adjustments for 2000/01 and 2001/02 reflect changes due to shift to joint trusteeship of certain public pension plans.

First Quarterly Report updated fiscal plan calls for forecast allowances of $400 million in 2005/06 and $300 million in 2006/07. This table revises the 2005/06 forecast allowance to $300 million.

Sources: BC Budget 2004; Ministry of Finance 2004/05 First and Second Quarterly Reports; Information on federal transfers from federal Ministry of Finance, Increased Investments in Health and Equalization, 2004/05 to 2013/14; and Sheila Block, What does increased federal funding for health care mean for medicare advocates? Behind the Numbers, vol. 6 no. 5. Ottawa: CCPA, 2004.

Total provincial expenditures are almost exactly the same in 2004/05 as they were in 2001/02 (note that these figures are in nominal terms and do not account for the rising cost of providing public services over time). Within expenditures, however, there has been a reallocation of provincial spending towards health care and, to a lesser extent, education. Figure 2 shows that nominal health care expenditures are up 12.7% in 2004/05 over 2001/02 levels. Nominal education spending is up a total of 6.7% since 2001/02. Other spending categories, such as social services, natural resources and economic development, transportation, and protection of persons and property, are down considerably. In spite of rising provincial debt, a low interest rate environment has reduced the annual cost of borrowing by 22.3%.

Given flat overall provincial expenditures, revenue growth accounts for all of the improvement in BC's financial position. Revenues in 2004/05 were $4.8 billion higher than 2001/02 levels. During this time, a provincial deficit of $2.7 billion in 2001/02 (prior to accounting adjustment) became a surplus of $2.2 billion (prior to forecast allowance), an absolute increase of $4.9 billion.

This does not mean that "tax cuts have paid for themselves"—far from it. The table shows that personal income tax revenues in 2004/05 are still 15% lower than pre-tax cut levels. Personal income tax revenues will approximately reach pre-tax cut levels in 2007/08, the result of the natural rise in tax revenues in line with a growing economy, population growth and inflation. It is also worth noting that tax cuts reduced revenues by even more than Ministry of Finance projections. The loss of personal income tax revenues was closer to $2 billion compared to Ministry estimates of $1.5 billion at the time the tax cuts were announced.

BC's improved fiscal situation is strongly related to much higher federal transfer payments, in particular a steady rise in health care contributions and increased equalization payments. Federal transfers surged in 2004/05, and are now more than $2 billion higher than 2001/02 levels. They are also larger than personal income tax revenues for the first time ever. This is a major reversal from the contractionary fiscal policy of the federal government in the mid- to late-1990s that adversely affected budgeting under the previous government.

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Higher contributions from Crown corporations also made a large difference to the bottom line over this period, a $1.3 billion increase in 2004/05 over 2001/02 levels.

On the revenue side, some other points are worth noting:

- A hot real estate market led to a doubling of property transfer tax revenues from $303 million in 2001/02 to $600 million in 2004/05.
- Tobacco and fuel taxes both increased substantially between 2001/02 and 2004/05.
- MSP premiums were increased by 50% as of 2002, and revenues have grown accordingly, from $894 million in 2000/01 (the last full year before the increase) to $1.4 billion in 2004/05.
- Tuition and other fees paid by students grew from $452 million in 2001/02, the last year before the tuition freeze was lifted, to $832 million in 2004/05. While some of this reflects an increase in the number of students, most of it is higher out-of-pocket costs for students and their families.
- Profits to the provincial treasury from gambling increased by 50%, from $562 million in 2000/01 to $842 million in 2004/05 (revenues flow through the BC Lottery Corporation, and are bundled with other Crown corporation revenues).

Honey, I Shrunk the Public Sector

When we look at revenues and expenditures as a percentage of GDP, the shrinkage in the size of the provincial government is more evident. Table 2 shows revenues relative to provincial GDP, using three measures: BC taxation revenues (including MSP revenues); all BC own-source revenues (taxation plus natural resource royalties and other revenues such as tuition fees); and all revenues (own-source revenues plus federal transfers and Crown corporation net income).

All measures show a decline in revenues relative to GDP by 2004/05 and looking forward over the next two years. In particular, BC taxation revenues declined by more than a full percentage point of GDP between 2000/01 and 2004/05, and are forecast to decline further for 2005/06 and 2006/07 based on the government's fiscal plan.

We suspect that, like the federal government, the BC government is understating revenues in order to provide additional "prudence." In the absence of major tax changes, however, tax revenues-to-GDP should remain roughly stable for future years (tax revenues tend to grow in line with the economy). It is highly likely that final revenue numbers will prove to be higher (and consequently, projected surpluses will prove to be larger). If this is correct, the BC budget has a built-in bias against making the expenditures we need, as any surplus must automatically be allocated to debt reduction.

Table 2 also shows total expenditures as a percentage of GDP and the government's largest spending areas of health care, education and social services. Total expenditures-to-GDP jumped from 2000/01 to 2001/02—the result of spending increases in the last budget of the NDP that were maintained by the incoming Liberals, matched against weak GDP growth in 2001. It is worth noting that the increase in 2001/02 was an exception to the pattern of the 1990s, which saw expenditures-to-GDP steadily decline since 1992 (refuting the notion that the previous government was a big spender).

Since 2001/02, expenditures have resumed their decline relative to GDP. In 2004/05, expenditures will be 20% of GDP, a large reduction over previous years. The status quo outlook is for an even further decline in the size of provincial spending relative to GDP, to 18.9% in 2006/07. This is an alarming reduction in the size of the provincial public sector.

Table 2 shows that health care spending as a percentage of GDP declined slightly in 2004/05 relative to 2002/03 but is still higher than 2000/01. The forecast, which includes new federal health care contri-

Table 2: BC Revenues, Expenditures and Debt as a Percentage of GDP (based on government's fiscal plan)

	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07
All revenues	22.8	21.0	20.1	19.9	21.5	20.3	19.8
BC taxation revenues	11.6	11.2	9.9	10.5	10.5	10.0	9.9
BC own-source revenues	19.0	17.7	16.1	16.1	16.4	15.4	15.0
All expenditures	21.6	22.9	22.1	20.6	20.0	19.4	18.9
Health	7.3	8.0	8.1	7.8	7.9	7.8	7.6
Education	6.0	6.3	6.1	5.9	5.8	5.6	5.5
Social services	2.5	2.6	2.3	2.0	1.7	1.7	1.6
BC taxpayer-supported debt	19.2	20.5	21.3	21.0	19.2	17.5	16.5

Notes: See notes and sources for Table 1. BC taxation revenues include MSP premiums. We assume nominal GDP growth of 5.3% for each of 2004, 2005 and 2006, based on average private-sector forecasts from the Minister of Finance's Economic Forecast Council, December 3, 2004.

butions, is for further, though small, declines in 2005/06 and 2006/07. Education spending is also declining relative to GDP, falling from a high of 6.3% in 2001/02. Social services spending relative to GDP has fallen sharply, by almost a full percentage point of GDP between the 2001/02 high and 2004/05.

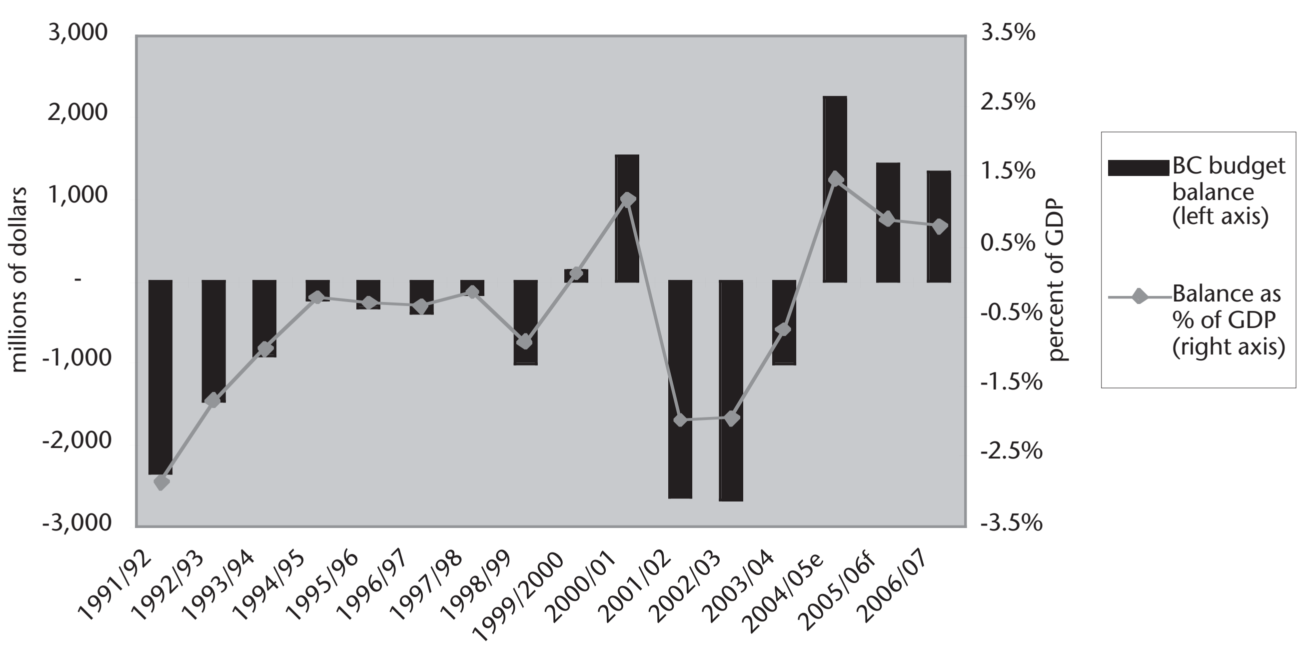
When viewed relative to GDP (i.e. how much of our current income we are investing in key public services), *all parts* of the public sector are in decline, even health care. This finding underpins the need to re-invest in the public sector. Fortunately, BC is in an excellent position to do so. As Table 2 shows, BC's debt-to-GDP ratio in 2004/05 is unchanged from 2000/01, and remains second lowest in Canada.

BC's Surplus

Figure 3 shows the remarkable swings in BC's bottom line, in dollar terms and as a percentage of GDP, going back to 1991/92. The current government has now broken the records for both largest deficit and largest surplus in BC history. The 2002/03 deficit of $2.7 billion (prior to a major accounting adjustment) topped the previous record by the Socred government in 1991/92 of a $2.3 billion deficit (although as a percentage of GDP, the 1991/92 deficit still claims top spot). The 2004/05 anticipated surplus of $2.2 billion, if nothing else changes, will top the previous record set by the NDP in 2000/01 of $1.6 billion (prior to a minor accounting adjustment). The outlook for 2005/06 is for a surplus of approximately $1.4 billion and about the same for 2006/07 (more on this in the next section).

When viewed relative to GDP, *all parts* of the public sector are in decline, even health care. This finding underpins the need to re-invest in the public sector.

Figure 3: BC Budget Balance, 1991/92 to 2005/06



Notes: The figure for 2004/05 is the latest estimate from the Second Quarterly Report. Figures for 2004/05 and 2005/06 include forecast allowances. The figure for 2001/02 reflects the underlying deficit—it is prior to an accounting adjustment of $1.5 billion. GDP growth rates are for calendar years, not fiscal years. For example, the budget figure for 2000/01 fiscal year is matched to the GDP growth rate for 2000 calendar year. GDP growth rates for 2004 to 2006 are the most recent average private sector estimates.

Sources: BC Ministry of Finance Financial and Economic Review 2004; BC Economic Accounts, November 2004 release; BC Budget 2004; Ministry of Finance First and Second Quarterly Reports, 2004/05.

These surplus figures are at odds with the "balanced budget" for 2004/05 (actually a $200 million surplus if counting the forecast allowance) tabled last February. That budget appeared to be a tight fit, with $350 million in spending cuts and a greatly reduced forecast allowance brought in to balance revenues. The new projected surplus of $2 billion is anything but balanced.

To put BC's surplus into perspective, ministries outside health care and education have experienced a budget cut as of 2004/05 of $1.7 billion below 2001/02 levels (we exclude debt service and "other" expenditures for restructuring expenses and contingencies in this calculation). These cuts hit hardest in areas such as environmental protection and social services. BC's surplus tells us that ministry budgets could have simply been held in check, and the government would still have had a balanced budget or better this year.

This is not necessarily the case for 2005/06 and 2006/07, although if we roll in the forecast allowance, and assume that revenues are being understated in line with recent budgeting practice, the numbers are likely very close. It is fair to say that none of the cuts needed to happen. There was no "structural deficit" that necessitated such deep and sweeping spending cuts made without even the completion of the government's own program review.

BC's new-found surplus does not mean that "we are no longer a have-not province," as then-Finance Minister Gary Collins boldly (and incorrectly) stated in September. In fact, BC will get a record $721 million in equalization payments in 2004/05, plus $596 million next year. On top of this, revised estimates for 2001/02 to 2003/04 work in BC's favour, and will provide an extra $248 million in "back equalization" payments that will be booked in this year's budget (i.e. this is "one-time" money).

> The current government has now broken the records for both largest deficit and largest surplus in BC history. There was no "structural deficit" that necessitated such deep and sweeping spending cuts.

If this sounds confusing, it is because the equalization formula is complex and highly misunderstood. And this October, a new federal-provincial agreement on equalization was reached that will lead to a new formula for dividing up the equalization pie as of 2006/07. As a result, politicians are able to make wild claims that are difficult to verify.

The bottom line, however, is that, as far as federal government calculations go, BC is still a "have-not" province. While this may hurt our collective pride, this money is supposed to support programs that we would not otherwise be able to afford, and should be used accordingly. It should not be used to pad an already large surplus.

Options for the 2005 Budget

In this section, we turn our attention to the 2005 BC Budget and outline our *Solutions Budget* proposals. We offer our analysis in three stages, each of which builds on the previous stage. The scenarios presented are intended to highlight the range of choices available to the government. We look at needed expenditures and propose revenue options to pay for these programs while maintaining a balanced budget.

First, we look at the expected surplus for 2005/06 and set out our priorities for restoring public services. Second, we speak to additional public investments that are required: an anti-poverty strategy funded by rolling back upper-income tax cuts in the top two brackets. And third, we propose an advanced education investment plan that rolls back tax cuts for the top three brackets and introduces a corporate education and training payroll tax. These revenue recommendations are but one set of options that could be considered; the key point is the need to reinvest in the public sector.

Option One: Spend the Surplus

The hot topic for the 2005/06 budget is what to do with the anticipated surplus of $1.4 billion (as noted this number could be even higher if we are correct in our belief that many tax revenue projections are too conservative). The current fiscal plan also builds in $240 million in contingencies that we do not include in the $1.4 billion number, but we do include the $300 million forecast allowance.

It is not at all obvious, even in an election year, that this projected surplus will be rolled back into spending to undo some of the damage done, especially outside of health care and education. Pressure is mounting from the corporate sector to use the surplus to further reduce taxes and to pay down provincial debt. Both options foreclose on renewing a public sector that has been scaled back in recent years.

There is no reason why the surplus should go toward debt reduction, given that BC already has a healthy fiscal situation. BC is on track to close 2004/05 with a debt-to-GDP ratio of 19.2%—exactly the same as it was in 2000/01. Even though BC increased its debt by a total of $5 billion in recent years, in large part due to tax cuts, because of a growing economy and this year's sizable surplus, the debt-to-GDP ratio has reverted. Only Alberta, blessed with its oil riches, has a better debt-to-GDP ratio among the provinces.

If all of the 2005/06 surplus is allocated to debt reduction, debt-to-GDP will fall to 17.5%. However, if all of the surplus is used for new spending or tax cuts, the debt-to-GDP ratio will still fall next year, albeit at a slower rate. The debt-to-GDP ratio will fall to 18.4% if we spend the surplus because of nominal GDP growth.

If not debt reduction, then what about more tax cuts? As we noted earlier in the *Solutions Budget*, tax cuts have already greatly reshaped BC's public sphere, not just in terms of adverse distributional consequences but because of the impact tax cuts have had on the size and scope of the public sector. Further tax cuts at this time would lock in the deep spending cuts made over the past three years. BC's tax structure is already more than "competitive" with other jurisdictions; further tax cuts are unlikely to have an impact. Moreover, BC has the lowest taxes in Canada for most income groups (only Alberta has lower taxes at the high end). In fact, BC's taxes were already among the lowest in Canada prior to the implementation of the 2001 income tax cuts.

We feel the opposite course is needed: the surplus must be used to un-do the damage done and re-invest in the public sector. Total cuts outside of health care and education amounted to $1.7 billion in 2004/05 below 2001/02 levels. Our priorities are to use the expected surplus to restore public services, and to address child care and progressive health care reform, two areas where the federal government has put new money on the table.

Restoring Public Services

With the public sector greatly pared back outside of health care and education, a thorough public process is needed to assess what the priorities should be for restoration of public services and staffing. Upon review, some cuts may not be restored (i.e. in the face of an objective program review, some cuts might have been made, others not). Nonetheless, the bulk—at least $1 billion—of the surplus should be reserved to restore capacity to ministries that were cut. Priority areas include social services ministries, environmental protection, and forestry.

The single largest cut has been to the Ministry of Human Resources (the Ministry responsible for social assistance). In many respects, the last four years have seen an extraordinary transfer of wealth from the poorest among us (who rely on welfare) to the richest among us (who were given the lion's share of the tax cuts). The cuts to MHR were largely achieved by reducing benefit rates for those on assistance (cutting incomes that were already thousands of dollars below the poverty line) and through the imposition of tough new eligibility rules that have left thousands of people unable to claim social assistance at all. The cost of these measures is now evident to everyone in the form of increased desperation, food bank use and homelessness.

Budget cuts to the Ministry of Children and Family Development led to the loss of 86 case-carrying (front-line) social workers, and more than a thousand job losses to support and administrative staff. This has left social workers with more administrative work to do, and resulted in less time for direct contact with children, youth and families. The MCFD investigated far fewer reports in 2003/04 (58.7%) than it did in 2001/02 (70.2%). The cuts also appear to have caused a marked reduction in the numbers of children and youth being taken into care.

The MCFD cuts also necessitated reductions in services. This has meant the loss of safe houses for children and youth aged 12 to 15 (Vancouver lost three safe houses that provided a safe place for 140 to 200 vulnerable youth per year). Youth alcohol and drug treatment services have been cut, fewer services are being offered to at-risk families, and contracted service providers have had to lay off staff and reduce the scope of some key programs.

Among the deepest cuts to public sector workers have been those in the various "earth" ministries. These include the Ministry of Forests and the Ministry of Water, Land and Air Protection. During the past three years of cuts, more than 800 men and women in the Forests Ministry lost their jobs. Those losses were on top of significant cuts made by the previous government. The result is that the public sector presence in the province's publicly-owned forests sits at about one-tenth the level of publicly-owned national forestlands in the United States.

There are powerful economic arguments to be made for reinstating many of those people cut from the provincial Forest Service. The provincial government reports that in fiscal year 2003/04 it collected $957 million in stumpage fees from forest companies logging public forestlands. The number of Forest Service personnel employed to ensure that the companies accurately reported the volume and value of what they logged was just 69 people that year. Those people on average were able to check no more than one in every 147 truckloads of logs to ensure company compliance with accurate reporting of log values. As a result, the public could easily be shortchanged. If the government set a goal of more rigorous spot-checking of log loads, the province could afford to pay for additional Forests Ministry employees.

Many social services cuts are similarly short-sighted and represent false economies. For example, cuts to social services that deepen poverty lead to greater usage by displaced individuals of emergency wards, the most expensive way to address health problems.

> Further tax cuts at this time would lock in the deep spending cuts made over the past three years. The surplus must be used to un-do the damage done and re-invest in the public sector.

Early Childhood Education and Care

Unlike most European countries, Canada does not have a coherent public system for early childhood education and care (ECEC). Canada, and BC in particular, was recently chastised by the Paris-based Organization for Economic Cooperation and Development for its low public support and patchwork arrangements for child care and early learning. Despite growing support for the concept at the federal and provincial levels, from academics, child care advocates and families, the perceived cost of embarking on a major new social program, in the context of federal and provincial downsizing, has proven to be a key barrier.

But looking at costs considers only one side of the ledger. While it is almost cliché to say that the early years are the most important for a child's development, we collectively have not been willing to make this financial investment for our children, even though the benefits would be significant.

Research suggests that the establishment of a high-quality, publicly-funded system for pre-schoolers would have immense benefits for their development prospects in key areas such as social interaction with other children, language and cognitive development, physical development, and establishing relationships with adults that are not immediate family. While children from all socioeconomic backgrounds would benefit, such a system would make a huge difference in the lives of children from disadvantaged backgrounds.

A second benefit relates to the labour market participation of mothers. An ECEC program would enable more mothers to enter the labour market and would enable those currently working part-time to work full-time. This means higher family incomes, stronger family resilience to economic shocks, and greater financial independence and social inclusion of women. It also facilitates enhanced promotion and career-development prospects, and increased job experience, over the course of a woman's career.

Because the federal government is moving towards establishing a pan-Canadian child care program, now is a good time for BC to get ahead of the curve. While final numbers are yet to be determined, BC's share of new federal funding will likely be about $130 million in 2005/06. At a minimum, if the provincial government were to match this, it would represent a significant step towards a provincial child care program. We allocate $280 million to this end, an amount that includes the federal contribution.

Additional Resources from the CCPA

Analysis and alternatives in the *Solutions Budget* draw on many research studies published by the CCPA. These are some of the key documents that readers can refer to for more background information on BC's public sector, and for more detailed policy alternatives. All are available for free from the CCPA website: www.policyalternatives.ca.

- The Education Dividend: Why Education Spending is a Good Investment for BC, by Robert Allen.
- Why Early Childhood Development must be a Public Policy Priority, by Clyde Hertzman.
- Who's Cutting Classes?: Untangling the Spin on K-12 Education Financing, by Marc Lee.
- Financing Higher Learning: Post-secondary Education Funding in BC, by John Malcolmson and Marc Lee.
- Home Insecurity: The State of Social Housing in BC, by John Irwin.
- Restructuring and Budget Cuts in the Ministry of Children and Family Development and the Effects on Vulnerable Children and Youth, by John Irwin (forthcoming).
- A Bad Time to be Poor: An Analysis of BC's New Welfare Policies, by Seth Klein and Andrea Long.
- Women's Employment in BC: Effects of Government Downsizing and Employment Policy Changes 2001-2004, by Sylvia Fuller and Lindsay Stephens.
- Legal Aid Denied: Women and the Cuts to Legal Services in BC, by Allison Brewin and Lindsay Stephens.
- New Perspectives on Income Inequality in BC, by Marc Lee.
- Rags and Riches: Wealth Inequality in Canada, by Steve Kerstetter.
- State of the BC Economy 2004, by Marc Lee.
- Bleeding the Hinterland: A Regional Analysis of BC's Tax and Spending Cuts, by Marc Lee.
- Re-Capturing the Wealth: Investment Solutions for Jobs and Environmental Sustainability in BC's Resource Sectors, by Dale Marshall.
- Policy Options for Progressive Health Care Reform in BC: Proceedings of a CCPA-BC Workshop on the Future of Health Care, edited by Marc Lee and Seth Klein.
- BC Commentary (the CCPA's thrice-yearly review of BC's social and economic trends).
- Past BC Solutions Budgets.

K-12 Education

Despite some modest increase in K-12 education funding, since 2000/01 *real funding* per K-12 student (i.e. funding adjusted for inflation and student enrolment) has actually dropped steeply. The past two years have seen the lowest funding since at least 1990, even though declining enrolment should make this an ideal time to recover lost ground.

The impact has been significant. Some 113 schools have been closed over the past three years, more than 14,000 students have been displaced from their schools, and 2,558 teaching positions have been cut. And this trend will continue for the next few years without additional contributions from the BC government.

As a result, the K-12 education system is at great risk in terms of its ability to deliver high quality services to BC's children. Under a "spend the surplus" scenario, the province could increase education funding by $250 million.

The alternative is an education system struggling to keep up. Already, parents are increasingly required to pay for school materials, field trips, music fees, and so on, while feeling compelled to pay again to support local schools through bake sales and "pizza day" fundraisers. Left unchecked, the result will be growing inequities, as schools in more affluent neighbourhoods have better access to extra funds from well-heeled parents. Schools in lower-income neighbourhoods are not so fortunate.

> Because the federal government is moving towards establishing a pan-Canadian child care program, now is a good time for BC to get ahead of the curve.

Health Care Reform

The new federal-provincial health care deal, hammered out last September, changes the terrain of the health care debate away from funding shortfalls and towards reform. An additional $411 million will flow to Victoria in 2005/06, courtesy of Ottawa. As the Romanow report urged, this new money must be used to buy change in the health care system.

The government must be more innovative in the ways it delivers health care. For example, crowded emergency rooms are a symptom of the need for health care reform. Much pressure would be taken off the existing acute care system if patients could be treated in locations more appropriate for their condition. This situation has been exacerbated by the closure of long-term care facilities (with planned replacement by less adequate assisted living units still lagging far behind) and cuts to home care services.

A progressive health care reform package should include the following:

- *Integrated community and continuing care*: Without adequate investment in new facilities, long-term care patients will increasingly take up acute care hospital beds, and our emergency rooms, in turn, will remain clogged. Home nursing and home support are also vitally important and should be expanded and brought fully within the public system.
- *Outreach and prevention programs*: Our health care system is based on treating people once they are already sick. We need to shift the culture of the health care system towards prevention, including a more holistic approach based on the socioeconomic determinants of health.
- *Primary care reform*: Revitalizing this first line of contact between patients and the health care system is crucial, and should include expansion of community health centres that provide 24-hour service through multidisciplinary teams of health professionals. It also means moving away from paying doctors primarily on a fee-for-service basis.

- *Adequate resources for the Provincial Mental Health Plan*: De-institutionalization has left too many mental health patients out in the cold. These patients still need adequate housing, incomes and support, and the on-going care of mental health practitioners.
- *Funding for drug and addiction support services*: This item includes treatment facilities, outreach and employment programs, and is linked to the need for a comprehensive "anti-poverty strategy."

We do not allocate operating funds for health care above and beyond the additional funds coming from Ottawa (in the fiscal framework in the last section, we have already allocated new federal funds to health care). However, there is a concern about accountability for these funds. It is vital that these new funds be used in accordance with September's federal-provincial agreement to support health care reform. We support this move with an additional $200 million in capital expenditures to grow BC's stock of residential/long-term care facilities.

Table 3: Solutions Budget Public Investment Options

	Option one: Spend the surplus	Option two: Anti-poverty strategy	Option three: Invest in advanced education
Expenditures	**(millions of dollars)**		
Restoring the cuts	1,000	1,000	1,000
Early childhood education and childcare	280	400	400
K-12 education	250	250	300
Anti-poverty strategy		250	250
Post-secondary education			300
Training and apprenticeship			100
Total	**1,530**	**1,900**	**2,350**
Revenue options			
Existing surplus rolled into new spending	1,439	1,439	1,439
Federal funds for early childhood education and care	130	130	130
Reverse income tax cuts in top two brackets		370	370
Reverse income tax cut in middle bracket			80
Education and training payroll tax			370
Total	**1,569**	**1,939**	**2,389**
Additional contingencies	39	39	39
Balance	**0**	**0**	**0**
New capital expenditures			
Residential health care facilities	200	200	200
Social housing		200	200
Transportation			300
K-12 seismic upgrading			200
Total new capital expenditures	**200**	**400**	**900**

Option Two: Anti-Poverty Strategy

While the public debate regarding the 2005 budget may be focused on what to do with the available surplus, even if all of the surplus is used to support additional spending, BC will still be in a situation where needs will be going unmet and where important investments are not being made. To make these investments, additional revenues will be required. We argue that given the current economic upturn, the provincial government should balance its budget. Thus, additional investments beyond spending the projected surplus should come from reversing upper-income tax cuts.

Our second scenario focuses on undoing the redistribution of income and resources from low-income to high-income people in BC over the past several years. At the heart of this scenario is an anti-poverty strategy that builds on the restoration of the cuts contemplated in the last section (a restoration that was incomplete given the available surplus).

We put forward an additional $370 million in new operating spending for this scenario. Our aim is for a balanced budget, so we would raise this money by reversing the tax cuts for the top two income brackets to 2000 levels. This move would thus only affect those in the province making $76,000 or more (the top 5% of taxpayers). These individuals would still be paying lower taxes than in 2000 because they benefit from the rate reductions in lower income tax brackets.

Anti-Poverty Strategy

An anti-poverty strategy must be broad-based to cover social assistance rates and eligibility, minimum wages, social housing, training and education, and transportation allowances or bus passes. If these supports are in place, there is little reason to believe re-instating earnings exemptions and raising benefit rates would lead to significantly increased welfare caseloads.

> Even if all of the surplus is used to support additional spending, BC will still be in a situation where needs will be going unmet and where important investments are not being made.

First of all, welfare benefit rates should be increased, to ensure a decent standard of living for all those in need. It is cruel and unreasonable to expect people to live on $6 a day. Welfare benefits need to meet the minimum costs of living.

Earnings exemptions, including flat rate earnings exemptions, are a key linkage to the labour market for those on welfare, and should be restored and increased from previous levels. A better model would see a flat rate exemption of $200 or higher, with additional earnings clawed back at a rate of 25% until a person's income is deemed sufficiently high (such as above the poverty line).

More employment support programs are needed, and they should be individualized and nurturing, offering one-on-one assistance to people that addresses their personal barriers to employment. The welfare system should no longer be punitive and humiliating, but a spring-board to help improve people's lives, and by extension, the economic and social well-being of the province.

Meaningful, long-term training and education must be offered and supported, so that low-income people can access stable, well-paying jobs. This requires increasing post-secondary spaces, and expanding apprenticeship training. This approach costs more in the short-term and takes longer than the "fastest route to a job" approach now in operation, but it represents the difference between being stuck in the low-wage economy and finding decent-paying work that is stable and self-sustaining. It also trains people for the higher-skill jobs we know will be needed in the modern, knowledge-based economy of the future.

While not a budgetary measure, increasing the minimum wage would be a proactive move that would reinforce the above elements by improving incomes for those working minimum wage jobs. The $6 an hour training wage should be eliminated. A CCPA study that examined the minimum wage suggested that it be gradually raised to $9.15 an hour, equivalent to Statistics Canada's low income cut-off based on a 35-hour work week.

A final element of an anti-poverty strategy should specifically target Canada's poorest postal code, Vancouver's Downtown Eastside. The province should fund priority initiatives in a variety of non-law enforcement areas, such as drug prevention, harm reduction and rehabilitation programs; women's shelters; youth shelters; etc. While the serious problems encountered in this area cannot be addressed entirely in one budget, we need to stabilize the situation.

With the Olympics now five years away, it is imperative to think about what it is that we want the world to see. If the spotlight is on images of a Vancouver ravaged by poverty and homelessness, crippled by traffic congestion, or in the middle of an environmental controversy, any efforts to promote the city or province will be seriously blighted. As we remarked in last year's *Solutions Budget,* the Olympics should anchor an enhanced public investment strategy that goes beyond the minimum requirements for hosting the games, and that uses the Olympics to address the province's pressing needs—a real legacy that could come from the games.

Early Childhood Education and Care

Related to the anti-poverty strategy and building on the restoration of cuts contemplated in the previous section, option two would enhance the funds available to expand early childhood education and care in BC. We allocate an additional $120 million for a *Solutions Budget* total of $400 million in new money for 2005/06 (including the anticipated federal contribution of $130 million).

This move fits well with an anti-poverty strategy. Lack of access to child care is a major barrier for low income families in terms of labour market participation. Early childhood education is also a key element in attacking the roots of poverty and ensuring that all children receive a solid head start.

Affordable Housing Stock

The current BC government is no longer supporting the development of new social housing for low-income people, instead using new federal funds to build assisted living units as part of the health care system (as a substitute for long-term care facilities). In spite of a boom in high-end residential construction, there has been little increase in affordable housing. Rents have been rising, placing more people in insecure housing situations.

The provincial government needs to re-invest in affordable housing. The *Solutions Budget* calls for the creation of 2,000 new units of social housing per year, focusing on areas where vacancy rates are low, and thus the pressures most acute. This amounts to a capital cost of approximately $200 million in 2005/06.

Option Three: Advanced Education Investments

For our third option, we encourage policy-makers to think long-term. Beyond the immediate needs of society, every year we must invest through the public sector to provide for future needs. While previous scenarios have considered re-investments in early education through to K-12 education, option three builds in a new plan to expand BC's capacity to provide the skilled labour that we need for the future by enhancing investments in post-secondary education and apprenticeships and training.

Education is essential to the development of a capable and productive labour force in the future. In the bigger picture, the transformation of BC into a high-knowledge, service-based economy requires that a greater emphasis be placed on education than in the past. In addition, a looming skills shortage has been frequently cited by both business and labour leaders as an important priority for the province. Investment in education is obviously part of the solution.

We increase spending by an additional $450 million in operating funds (or a total of $950 million above and beyond spending the surplus) to support major new investments in education. In addition, we add $500 million in capital investments related to transportation and seismic upgrading for schools.

To raise this additional revenue, we roll back the tax cuts in the top three income tax brackets to 2000 levels (the previous option did so only for the top two brackets). This revenue measure raises an additional $80 million beyond option two for a total of $450 million in reversing tax cuts for people with incomes over $66,000. Importantly, this measure still enables the provincial government to keep its 2001 election promise that tax cuts would be for the bottom two brackets.

Again, high-income people will still pay lower taxes than in 2000 because we maintain the tax cuts in lower brackets, and will still pay among the lowest taxes in Canada. However, high-income individuals are the principal beneficiaries of the advanced education program—we are asking them to shore up the public education system by paying back the province through a more progressive tax system.

In addition, the education agenda requires that business step up to pay for new investments for which they benefit. Business groups support education investments in general, and have called for more resources for apprenticeship and training to address a looming skills shortage. Thus, we create a new corporate payroll tax for training and education to raise an additional $370 million. A payroll tax is most appropriate, as companies with a larger number of employees have correspondingly higher needs for skilled labour. Similar to the case of individuals, corporations will still be paying taxes that are substantially less than pre-tax cut levels.

The education agenda requires that business step up to pay for new investments for which they benefit. Business groups support education investments in general, and have called for more resources for apprenticeship and training to address a looming skills shortage. Thus, we create a new corporate payroll tax for training and education.

K-12 Education

In this scenario, we would enhance the funds available to public schools by an additional $50 million, raising the *Solutions Budget* total to $300 million above the government's fiscal plan. This move would restore real per student funding to 1990/91 levels. In addition, we accelerate capital funding for long-overdue seismic upgrading of BC schools by $200 million.

Colleges and Universities

The BC government announced in 2004 an expansion of post-secondary education by 25,000 seats. This is good news, something that advocates for post-secondary education had been seeking. While less than half of these new seats will be created in the next three years, the rest will be brought on-line by 2010.

There are two main barriers to students seeking a post-secondary education. Unlike K-12 education, there are a limited number of seats, reflected in the minimum grades required to get in (for 2004, a first-year student at SFU needed an 80–85% average to make the cut). Second, and also unlike K-12 education, there is a financial cost to attend school, including tuition and other fees, and books. Governments have to make a choice about how much post-secondary education will be financed publicly and how much will be paid for privately by students and their families.

The challenge for the provincial government is to ensure sufficient funding for the new seats—and the post-secondary system in general—so that tuition fees do not continue to rise at rates that undermine financial accessibility. Put another way, the government needs to expand the number of students in the system *and* ensure that there is adequate funding for those students.

Since the tuition freeze was lifted, average undergraduate tuition fees at universities have nearly doubled relative to 2001/02 levels. The Ministry of Finance estimates that total fees for students will be $808 million in 2004/05, an increase of $356 million above 2001/02. While some of this is due to an increase in the number of students, most of it is simply the higher cost of going to school that comes out of the pockets of students and their families.

Students should not have to contemplate mortgage-sized student loans in order to get a post-secondary degree. The provincial government should re-introduce a tuition freeze, albeit at current, higher levels, while increasing its operating funding to post-secondary institutions to cover the difference. Our *Solutions Budget* option three adds $300 million in new money for BC post-secondary institutions to achieve this goal.

> A Statistics Canada report at the end of 2004 noted that BC is alone among the provinces in declining apprenticeship enrolment for most trades.

Apprenticeship and Training Programs

A Statistics Canada report at the end of 2004 noted that BC is alone among the provinces in declining apprenticeship enrolment for most trades. In contrast, eight provinces had record-high enrolments. Enrolment declines in BC apprenticeship and training programs included an 8.2% decline in enrolment for building construction (in spite of the recent boom in such investment), as well as declines in motor vehicles and heavy equipment, and metal fabricating trades. This is clearly an inadequate response to future skills shortages and could greatly increase the cost of skilled labour at a time when BC is preparing for the 2010 Olympic games.

The elimination of the Industry Training and Apprenticeship Commission (ITAC) has meant the loss of a representative coordinating body for training and certification of apprenticeships for the skilled trades. This system has been replaced with one that emphasizes “task-based” training, where workers may not have achieved a full scope of training, as has been the case in the past. We would re-establish a structure like ITAC to coordinate training and apprenticeships, with tri-partite participation (labour, business, government) and would also expand the number of training opportunities. Option three of the *Solutions Budget* allocates $100 million to revitalize apprenticeship and training in BC.

Transportation Infrastructure

An efficient transportation system is vital to BC's economy. This includes urban mass transit, the primary concern of the Lower Mainland, as well as transportation links within the province, such as the road and ferry networks. We recommend an acceleration of mass transit projects in BC and allocate $300 million in capital funding to this end.

We also carry forward the government's plan to expand road and highway infrastructure throughout the province. This is an important part of ensuring that the Olympics has benefits that spread beyond the southwest of BC.

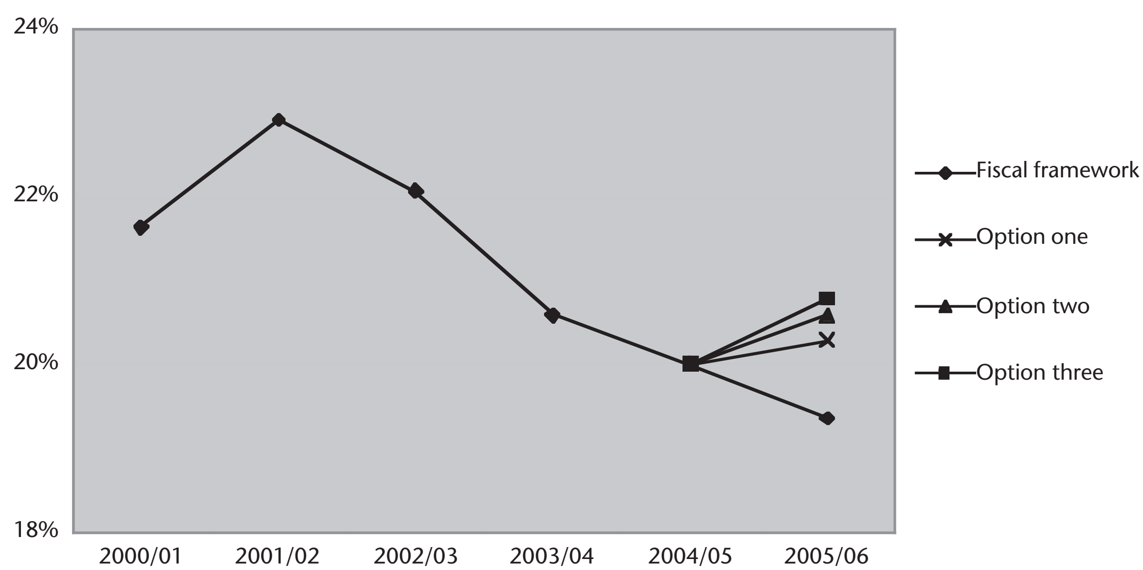
Assessing the Solutions Budget Reinvestments

The options outlined in the previous pages may sound radical, and will almost certainly be painted as such by some politicians and commentators. But even our full package in option three is well within historical norms. Rather, it is the shrinkage of the public sector in recent years that is truly radical. We merely outline a plan to get back on a path that is more sound economically and socially.

As Figure 4a shows, relative to GDP, even our full plan only averts a continued fall in the size of the public sector. Rather than expenditures dropping to 19.4% in 2005/06, spending the surplus would increase expenditures-to-GDP slightly to 20.3%, while options two and three would increase expenditures-to-GDP slightly more, to 20.6% and 20.8% respectively. In any of our options, these numbers are *lower* than the actual expenditures-to-GDP for most years going back to 2000/01. In this context, our expenditure proposals are not particularly radical.

Comparative numbers for expenditures, revenues and debt relative to GDP are presented in Table 4. In terms of revenues, the *Solutions Budge*t option three increases BC taxation revenues as a share of GDP to slightly higher than levels in recent years but lower than 2000/01 and 2001/02 levels. Thus, we restore BC's capacity to raise revenues but in a way that is well within historical norms. A similar story holds for the two other revenue measures ("own-source" revenues and total revenues).

Figure 4a: Expenditures-to-GDP Ratio, Government's Fiscal Framework vs. Solutions Budget Options



Source: See notes and sources for Table 2.

Spending the surplus (option one) only slows the downward trajectory for the provincial debt-to-GDP ratio. The current fiscal plan is set to see a fall in the provincial debt-to-GDP ratio from 19.2% at the end of 2004/05 to 17.5% next year. Spending the surplus, plus $200 million in new capital expenditures for health care, slows the decline in debt-to-GDP to 18.5% next year. An alternative possibility would be to pre-fund all of our capital expenditures out of the 2004/05 surplus.

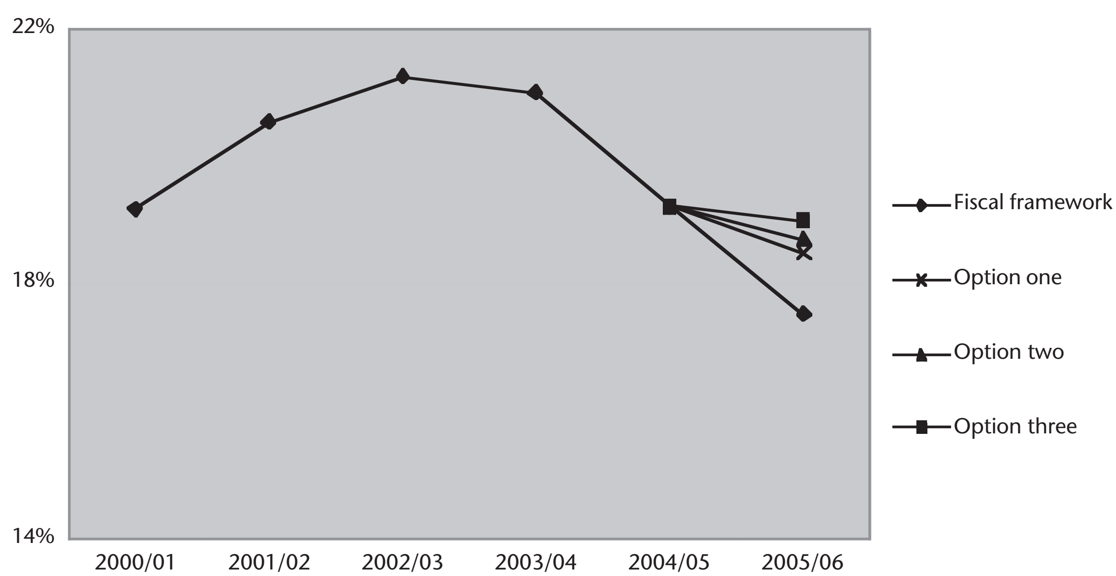
Figure 4b shows the government's fiscal framework compared to the three *Solutions Budget* options. Because options two and three pay for new expenditures by increasing tax revenues, the impact on provincial debt is limited to increases in capital expenditures. Options two and three include $400 million and $900 million respectively in capital expenditures that are not included in the government's fiscal framework. Adding these to provincial debt means that debt-to-GDP will fall to 18.7% under scenario two and to 19% under scenario three, instead of 17.5%. Thus, these additional investments can easily be afforded given BC's current fiscal situation.

Table 4: Fiscal Impact of Solutions Budget Options (as percentage of GDP)

	Government's fiscal framework	Option one	Option two	Option three
All expenditures	19.4%	20.3%	20.6%	20.8%
BC taxation revenues	10.0%	10.0%	10.4%	10.6%
BC own-source revenues	15.4%	15.4%	15.7%	16.0%
All revenues	20.3%	20.3%	20.6%	20.8%
BC taxpayer-supported debt	17.5%	18.5%	18.7%	19.0%

Source: See notes and sources for Table 2.

Figure 4b: Taxpayer-Supported Debt-to-GDP: Government's Fiscal Framework vs. Solutions Budget Options



Source: See notes and sources for Table 2.

Table 5 shows the distributional impacts of personal tax changes in options two and three. We use Statistics Canada's Social Planning Simulation Database and Model to assess the distributional impacts. For option two, the reversal of tax cuts only makes a difference to about 5% of BC taxpayers earning over about $76,000 per year. Option three extends the tax cut roll back to those earning over $66,000 per year, an additional 3% of taxpayers. We do not model the corporate payroll tax proposal here.

Our *Solutions Budget* scenarios are but preferred options for funding re-investments in the public sector. There are infinite possibilities for funding services and investments, and doing so in a more progressive manner. Options two and three fund new expenditures from revenue sources that are fitting with the expenditures themselves. Option two takes tax cuts back from the most well-off in the province to address the deepening poverty at the bottom of the income ladder. Option three extends the rollback of tax cuts to the next bracket, and adds a corporate payroll tax, to fund an advanced education program.

Table 5: Distributional Impact of Solutions Budget Options

				Changes in average taxes by income group	
Total income group, individuals	**Number of taxpayers (thousands)**	**Share of taxpayers**	**Average total income**	**Option 2: Roll back top two brackets**	**Option 3: Roll back top three brackets**
			(dollars)		
Min–10,000	1033	29.0%	3,479	-	-
10,001–20,000	782.1	22.0%	14,720	-	-
20,001–30,000	504.2	14.2%	24,615	-	-
30,001–40,000	368.4	10.3%	35,005	-	-
40,001–50,000	266.2	7.5%	44,867	-	-
50,001–60,000	219	6.1%	54,628	-	-
60,001–70,000	129.6	3.6%	64,536	-	11
70,001–80,000	88.9	2.5%	75,107	4	107
80,001–100,000	85.1	2.4%	87,969	265	641
100,001–150,000	48.8	1.4%	117,268	1,234	1,670
150,001–200,000	13.7	0.4%	177,165	3,432	3,876
200,001–300,000	15.8	0.4%	229,786	5,806	6,255
300,001–Max	6.7	0.2%	614,483	21,540	21,994
All	3,561.4	100.0%	28,850	103	126
2005 Income tax brackets	**Current brackets**	**Option 2**	**Option 3**		
$0–33,087	6.05%	6.05%	6.05%		
$33,087–66,177	9.15%	9.15%	9.15%		
$66,178–75,979	11.70%	11.70%	16.70%		
$75,980–92,259	13.70%	18.70%	18.70%		
$92,260+	14.70%	19.70%	19.70%		

Source: CCPA calculations using Statistics Canada's Social Planning Simulation Database and Model.

A theme that we have not addressed in this year's *Solutions Budget* that was central to previous versions was how to create better incentives in the corporate income tax structure to promote stronger private sector investment. In previous *Solutions Budgets* we have argued for a revenue-neutral shift that would increase the general corporate income tax rate but offset in revenue terms by the introduction of investment tax credits tied to locating new production and employment in BC. We still believe such a shift in corporate taxation would be well-advised.

We are also very concerned about MSP premiums, the most regressive tax in BC. Indeed, BC and Alberta are the only provinces that have such a tax; other provinces rely on income taxes or employer payroll taxes. A large share of MSP premiums are covered by employers as a health benefit—one that typically benefits those with more secure and higher income jobs. The individuals paying out-of-pocket are more likely to be of low- or modest-income (even after considering subsidy rates for people with less than $20,000 income). Transferring MSP revenues to a payroll tax or a more progressive income tax—as is the case in several other provinces—is recommended.

We reiterate that budgets are about choices. The provincial government can make the choices we have outlined if it so chooses. Some will argue that higher taxes and public spending is a recipe for economic disaster. But other places in the world have made choices to greatly reduce poverty and to make investments in people without the economic sky falling down. We can look to the Scandanavian countries as examples of how a bigger public sector can make a difference. Wiping out poverty and investing in public services are not illusive dreams; a common commitment to these goals can make them a reality.

Our *Solutions Budget* scenarios are but preferred options for funding re-investments in the public sector. There are infinite possibilities of how to fund services and investments, and to do so in a more progressive manner.

CONCLUSION

A New Conversation

We started the *Solutions Budget* by expressing the need for British Columbians to engage in a new collective conversation about what public services we need and want, and how we are to go about paying for them. We have outlined the current fiscal situation and many of the painful measures that have gotten us to this point. And we have suggested more hopeful alternatives that restore public services, reverse upper-income tax cuts and make public investments that we need.

The reaction to the tragedy of the tsunami in South Asia tells us that people do care about others—in this case people halfway around the world. The outpouring of support also tells us that people at home are willing to open their wallets to help others they have never met and never will.

Here at home, we need to rise to the challenges facing us through the public sector. The taxes we pay are today's investments in people, infrastructure and services that we all benefit from. If we want high quality public programs, we need to pay for them through taxes. There is no free lunch; you get what you pay for.

There are some 6–8% of British Columbians who live in dire poverty, and another 10–12% who are stretched to the limit. If we only look at economic growth, and not the distribution of that growth, improvements at the bottom will not happen, even though this is an area where the most gains could be made.

Many people with higher incomes, in contrast, are at the point of diminishing returns with regard to private consumption. For these people, there are immense opportunities for gains in standard of living through public services. Quality of life would be improved for people by having better transportation options, less crime, less poverty and homelessness, less drug addiction, better access to health care, better education opportunities, better water treatment, and so on. This is the realm of the public sector—and its price is taxes.

Some of the changes we recommend in this year's *Solutions Budget* may be criticized by people who have had their own frustrations with government bureaucracies. These frustrations have been fuel for those advocating neoliberal restructuring. We also must acknowledge that public services and regulation have not been perfect, even as we defend the principle of a viable public sector. The private sector is also far from perfect, as spectacles of corporate malfeasance, from Enron to Hollinger, demonstrate so vividly.

> The taxes we pay are today's investments in people, infrastructure and services that we all benefit from. If we want high quality public programs, we need to pay for them through taxes.

The alternative to public sector cutbacks, deregulation and privatization is to democratize the public sector. We do need public institutions, but they must be accountable, open and transparent, and they must be rooted in democratic input and oversight. In other words, we need a new vision for the public sector that is appropriate for the 21st century. As we contemplate the restoration of public services, we also need to intertwine it with a democracy agenda.

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