

# BC Commentary

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## British Columbia versus Washington State: How do we Compare?

By Donna Vogel

For years British Columbians and Canadians have been told that government had to “get it’s fiscal house in order,” that we had to “tighten our belts” and “learn to do more with less.” But just when it seemed that the days of sacrifice were finally over—deficits have been eliminated, the debt is under control, the federal government has accumulated a massive budgetary surplus—the goalposts have once again been moved. “Competitiveness” has become the new buzzword in the right-wing assault on the public sector.

British Columbians now frequently hear Washington State (WA) held up as an example to emulate. We are told we must lower taxes if we hope to remain “competitive” with Washington, particularly with respect to the burgeoning high tech sector. The key question is, however, “competitive” for what? There is mounting evidence in both Canada and the US that economic growth does not necessarily mean improved living standards for people. The gap between rich and poor has grown alarmingly over the past decade. If we want to arrive at a truly meaningful sense of how BC measures up against WA, we need to consider both the costs and benefits of taxes and public services, the treatment of vulnerable members of society, the degree of socioeconomic inequality, and the security and satisfaction of work. Such an analysis gives us a much better starting point for discussions about how and in what ways we are “competitive,” and what pressing social issues we must address.

Of course, taxes and other cost factors do have an impact on “competitiveness.” But, contrary to the tax cut rhetoric, BC rates very well in both these respects. BC’s taxes are entirely “competitive” by national, North American, and international standards. The cost of doing business in British Columbia is actually lower than in many American locations. With respect to competition for high tech investment and skilled employees, consulting firm

KPMG recently found that, in addition to a spectacular natural endowment and pleasant lifestyle, Vancouver offered lower business costs than seven leading high tech centres in the US, including Seattle, WA.



Personal taxes in BC are in line with the other Canadian provinces and with Washington State for all but a very small minority of wealthy individuals and families. More importantly, BC’s tax regime is far more fair than Washington State’s. WA has no personal income tax. Instead, WA’s tax revenue comes mainly from sales and property taxes. By far the largest share of WA tax revenue is raised by the state sales taxes, which accounted for just under 60% of total general government revenue in 1999/00. Sales and other consumption taxes place a disproportionate burden on low-income families. In WA, a family earning \$150,000 a year pays only 5.6% of their annual income in state taxes, while a family earning just \$15,000 a year pays 15.5%, almost three times as much—an imbalance that distinguishes WA’s as the most regressive tax system in the US.

In contrast, BC relies primarily on personal income tax, and this makes the overall effect of provincial taxes relatively flat across income levels (BC’s tax system would be more fair if we made the income tax system more progressive and collected less in sales and property taxes). A family earning \$90,000 a year pays 10.5% of their total income in provincial taxes, while a family earning \$55,000 pays 10.6% in total provincial taxes, and a family earning \$25,000 pays slightly less at 9.3% of total income in provincial taxes.

An average BC family does pay nearly \$1000 more a year in provincial taxes than a WA family pays in state taxes. But WA

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...continued from page 1... BC vs. WA spends more than a \$1000 less per person on public programs, and the effects of "smaller government" are evident in higher out-of-pocket spending by WA families for important goods and services. Students in WA pay almost \$2,500 a year more in tuition fees for public universities than stu-

dents in BC. Families in WA pay more for the water, electricity, and fuel they use in their homes. At \$763 a year, the difference in private spending on health care alone nearly wipes out WA's tax "advantage." Out-of-pocket spending on personal insurance and private pensions is also far higher in WA than in BC. Fami-

lies in WA spend \$2,300 dollars more per year on life insurance, public and workplace pensions (excluding RRSPs), and unemployment insurance than families in BC.

Like regressive taxes, higher out-of-pocket costs magnify the inequities produced by the market. WA is a far more polarized society than BC. The social safety net is far weaker in WA with respect to the degree of protection offered to people who are unable to earn a living in the job market. More than 900,000 adults and children in WA (almost 16% of the total population) have no health insurance. In 1999, WA held the dubious honour of being number one on the list of US states in which the number of uninsured *grew* in the last two years of the decade. Income inequality is far greater in WA than in BC and, while the gap between rich and poor has been growing in both places, it has widened more rapidly in WA than in BC. This after an economic boom in WA and the lowest unemployment rate in 30 years.

Greater inequality is also evident in WA's workforce. Workers in WA have far fewer employment benefits than do workers in BC. Many of the employment standards British Columbians take for granted are virtually non-existent in WA. In BC, workers are entitled to 11 statutory paid holidays a year and at least two weeks annual vacation. In WA, there are no laws providing for either paid holidays or annual vacations. Employees must negotiate time-off as a voluntary employer-provided benefit. In BC, women are entitled to 52 weeks of unpaid maternity leave and, if eligible, can collect employment insurance while they are off work. In WA, only women working in the public sector and for private companies with more than 50 employees (just 55% of the workforce) are entitled

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	BC	WA	The BC Advantage
Total provincial taxes (two income family of four earning \$55,000), 1998	\$5,830	\$4,855	-\$975
Public program spending per capita, 1998	\$4,983	\$3,865	\$1,118
Average university tuition, undergraduate, 2000	\$2,300	\$3,950	\$1,650
Average college tuition, undergraduate, 2000	\$1,700	\$1,969	\$269
Average expenditure-water, fuel and electricity, 1998	\$1,216	\$1,756	\$540
Average private expenditure-health care, 1998	\$1,499	\$2,267	\$768
Average expenditure-personal insurance and pension contributions (including life insurance and social security contributions), 1998	\$2,632	\$4,937	\$2,305

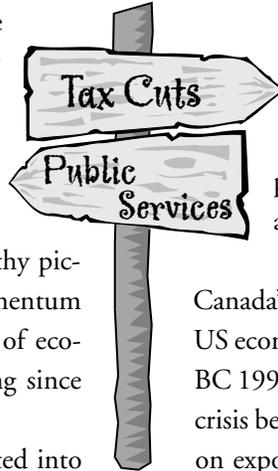
Notes: All expenditures are given in Canadian dollars. US numbers converted to Canadian at OECD purchasing power parity. Personal insurance payments and pension contributions include non-health insurance payments other than for homes and vehicles, and payments for life insurance, annuities, employment insurance, public and private workplace pensions (not RRSPs).  
Sources: Program Spending per Capita, 1998/99 (BC Budget 2000, WA Office of Financial Management, General Purpose Financial Statements, 2000.); Spending Patterns in Canada, 1998, StatCan, Cat. No. 62-202; Consumer Expenditure Survey, 1998, West Region, Bureau of Labour Statistics; BC Ministry of Advanced Education, Training and Technology; Washington Research Council, e-Brief, "Flexibility the Key to Rational Tuition Policy," Feb. 12, 2001.

	BC	WA
Annual social assistance income for single parent family with one child (WA in \$CAN at PPP), current	\$13,660	\$8,500
Number of individuals without health insurance, 1999	none	910,000 (15.8% of total population)
Ratio of total family income, top to bottom quintiles, 1998	6.2 to 1	9.2 to 1
Ratio of total family income, top to bottom quintiles, 1989	5.2 to 1	7.0 to 1
Infant mortality per 1,000 births, 1998.	4.03	5.7

**Note:** BC figures are after taxes and transfers, WA are after transfers but before taxes (given the regressive tax system in WA, the comparable gap would be even wider).  
**Sources:** Statistics Canada, Income in Canada 1998; Bernstein et al. January 2000, "Pulling Apart: A State-by-State Analysis of Income Trends." Center on Budget Priorities and Economic Policy Institute; Health Insurance Coverage by State: 1997-1999, US Census Bureau; BC Vital Statistics Agency; The State of Washington's Children, Spring 2000.

# British Columbia's Economy at the CROSSROADS

By Marc Lee



When times are tough it is easy to blame the government, just as when times are good governments like to take credit. But the truth is that the ebb and flow of economic activity in regions like British Columbia has much more to do with external market factors beyond government control. The past five years are a case in point.

In the Spring of 2001, the numbers paint a healthy picture of BC. The BC economy has been gaining momentum over the past two years. The most recent estimate of economic growth in 2000 is 3.4%—BC's best showing since 1994, and up from 2.1% in 1999.

The benefits of a stronger economy have translated into gains for workers. Through 2000 and into 2001, unemployment has been at its lowest level since 1981. The March unemployment rate for BC fell to 6.6%, the first time BC's unemployment rate has been lower than the national average (7.0% in March) in many years. In 2000, total employment in BC grew by 2.2%.

For the provincial government, this turn-around has been mirrored by a fiscal situation that is significantly better than anyone anticipated. Last year, budget deficits turned into surpluses, as if by magic. The 1999/00 final audited public accounts show that BC closed the fiscal year with a modest \$52 million surplus—a far cry from the \$1.5 billion deficit predicted in the 1999 Budget.

For 2000/01, the shift has been even more dramatic. The 2000 Budget's forecast deficit of \$1.3 billion is now projected to be a surplus of close to \$1.5 billion. This swing in provincial finances of \$2.8 billion is staggering, amounting to approximately 15% of the total budgetary expenditures.

The shift has passed with little comment, or outcry, in the

province. Compare this to the infamous 1996 “fudget-budget” in which a projected \$53 million surplus turned into a deficit of \$337 million—a swing of \$392 million, or about 2% of budgetary expenditures. This goes to show that budgeting is more like predicting the weather, and is at best an educated guess about the future, not a legal contract.

After several years of post-recession jobless growth, Canada's fortunes improved after 1997, thanks to a booming US economy. But while the rest of Canada rode this wave, for BC 1997 is better remembered as the year the Asian financial crisis began, which dragged on until early 1999. More reliant on exports to Asia than any other province, BC felt the effects of the crisis more forcefully, particularly in resource-dependent communities.

Today, there are signs that the long boom of the US economy is at an end. The tragedy is that this comes just at the time when the BC economy found its legs after the Asian setback. The business community and the media blamed the Asian crisis on the provincial government. Indeed, the resulting pessimism about the state of the BC economy that began with the Asian crisis lingered much longer than the Asian crisis itself.

This pessimism was reflected in the government's own projections for the 1999 and 2000 Budgets, and has a good deal to do with the turn-around in recent years from projected deficits to realized surpluses. By singing along with this chorus, the government allowed bad news stories to dominate the media well past their expiry date.

As the reigns of power change hands this Spring, the irony is that the 2001 Budget presented by the outgoing NDP government is likely the best budget BC has seen in many years. The tax cuts of previous budgets were wisely set aside, with all remaining fiscal room dedicated to new money for health care, education, social services and other measures. The Budget is balanced for the third year in a row (technically it will post a \$1 billion surplus, but this is due to accounting changes). And the government leaves behind a debt-to-GDP ratio of 19.6%, only slightly higher than 19.3% at the start of the mandate in 1996, and second-lowest of all provinces.

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The Price of Pessimism				
Fiscal Year	Real GDP Growth (percent)		Surplus/deficit (millions of dollars)	
	Budget Projection	Revised projection	Budget Projection	Revised projection
1999/00	0.5	2.1	(\$1,529)	\$52
2000/01	2.1	3.4	(\$1,278)	\$1,467

**Note:** Revised numbers for 2000/01 are not final numbers, and are based on most recent estimates in March 2001. The revised projected surplus for 2000/01 includes a \$150 million forecast allowance.  
**Source:** BC Budgets; BC Financial and Economic Review.

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to a mere 12 weeks of unpaid leave following the birth of a child, and no comparable system of unemployment benefits for maternity leave exists.

Historically, British Columbians decided to pay higher taxes than our neighbours in Washington State. We also developed a more progressive system of taxation. In return, we built a broader, more comprehensive network of public programs and services that not only reduces the inequalities produced in the market, but also improves the quality of life of everyone in the province. That we consistently top international surveys as one of the best places in the world to live is evidence of the wise policy choices we have made.

While there is much room for improvement in BC, our “competitive advantage” is dependent on the high quality, universal public programs and services that our taxes sustain. Tax cuts and more downsizing in the public sector will make us *less* competitive in the future. A far more effective strategy would be to address the major challenges we face—the growing gap between rich and poor, the lack of affordable housing, the need for progressive reform in our health care and welfare systems, the need for more public investment in education—and in so doing make British Columbia a *more* “competitive” place to live, work and do business.

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## Recent Indicators

Canada and BC Unemployment				
	Unemployment rate (%)			
	March 2001	February 2001	January 2001	March 2000
BC	6.6	7.3	7.4	7.0
Canada	7.0	6.9	6.9	6.8

Note: Unemployment figures are seasonally adjusted.  
Source: Statistics Canada

2000 Year-end Recap		
	BC	Canada
Unemployment rate (%)	7.2	6.8
Total employment (thousands)	1,949.1	14,909.7
Employment growth (%)	2.2	2.6
Average weekly wage	\$637.07	\$614.87
Growth of average weekly wage since 1999 (%)	1.9	3.2
Inflation rate (%)	1.9	2.7

Source: BC Stats

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Of course, this is a budget with an uncertain future. While 2001 presents BC with a wider variety of choices about the future of public policy than has existed for some time, a new government may choose the less creative path of tax cuts, deregulation, and privatization to make BC “open for business.”

In the Spring of 2001, BC finds itself on the cusp—in a kind of limbo. At issue is what type of society we want to live in. A battery of measures that shrink the public sector while strengthening the market mean less public services, higher levels of inequality and poverty, and per-

haps the end of cheap electricity and auto insurance via Crown corporations. Those with excessive faith in the market are all too often blind to its limitations.

BC is faced at this crossroads with both good and bad news. The good news is that reasonable economic growth is forecast for 2001 in spite of the US downturn, while the province’s finances are in great shape. The bad news is that the opportunities available may be lost to tax cuts that offer little in the way of economic stimulus, and that will cost us in a diminished capacity to better care for one another through public services.

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