

BLEEDING THE HINTERLAND

**A regional
analysis
of BC's
tax and
spending
cuts**

By Marc Lee

JANUARY 2003



CANADIAN CENTRE FOR POLICY
ALTERNATIVES — BC OFFICE

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A regional analysis of BC's tax and spending cuts

By Marc Lee • January 2003

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ACKNOWLEDGEMENTS: The author would like to thank Marcy Cohen, Shannon Daub, Sylvia Fuller, David Green and Seth Klein for their comments on this paper. The author would also like to thank Charles Morand and Dan Rosen for research support. Any errors are the full responsibility of the author.

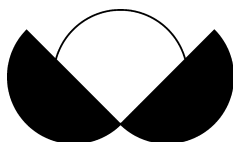
This research was assisted by an inequality research endowment fund provided by the Government of British Columbia.

Layout by Nadene Rehnby • ISBN: 0-88627-297-1 • \$10



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Bleeding the Hinterland

This paper looks at how tax cuts and spending cuts have affected BC's "two economies": the Lower Mainland and BC's "Hinterland." It finds that the tax and spending cuts are exacerbating regional inequalities in BC.

BC's income tax cuts concentrated dollars in Greater Vancouver, which is already the wealthiest part of the province. The remainder was spread thinly over a very large geographic area, even though this more resource-dependent part of the BC economy was much more in need of attention.

- Only 29% of BC's income tax cut pie went outside the Lower Mainland and Victoria, although such Hinterland areas comprise 34% of taxpayers.
- The Greater Vancouver Regional District received 58% of the tax cut compared to its 51% share of the population.
- Broken down by municipalities, inequalities are more stark. West Vancouver had an average tax cut of \$2,085 per taxpayer, the highest of BC municipalities, and three times larger than the average tax cut of \$714 for BC as a whole.
- The smallest average tax cuts were in the Okanagan. Keremeos had the smallest average tax cut in the province, at only \$335 per taxpayer, followed by Oliver (\$391) and Osoyoos (\$397).
- Loss of direct employment income due to layoffs and office/facility closures;
- The induced, or multiplier, effects of employment losses, as people losing their jobs spend less money for other goods and services in the community;
- Offloading of services, which either disappear altogether or must be replaced at the municipal level;
- User fees and other out-of-pocket cost increases for tuition, drugs, tolls and other fees;
- Lost individual time and increased financial costs to access services, such as courthouses, schools and hospitals located further away from the community; and
- Social and environmental costs to communities as a consequence of cuts to programs.

With the provincial books bleeding red ink from personal and corporate income tax cuts, the government initiated a program of spending cuts and selected tax increases that have disproportionately hurt BC's Hinterland. Because of higher Medical Services Plan premiums, sales taxes and tobacco taxes, many communities, on balance, receive little benefit from the changes in the provincial tax system.

For smaller communities, the social and economic impact of spending cuts is experienced on many levels:

It will be several years before the full range of impacts of spending cuts on communities can be fully assessed. The really bad news is that the worst is yet to come in terms of layoffs and office closures.

Economic development in BC's Hinterland needs to be put high on the government's agenda. Tax cuts, spending cuts and the Olympics are not up to the task. BC needs to be creative and innovative in the use of the many public policy tools available to the province to this end. Otherwise, the gap between the Lower Mainland and the Hinterland will only continue to grow.

BC's two economies

For several years now, many observers of the BC economy have noted a split between the highly diversified and populous Greater Vancouver area (plus Greater Victoria as the seat of provincial government) and the rest of the province, which continues to be resource-dependent and highly vulnerable to swings in international market conditions. The evidence of “two economies” in BC was clear during the 1997-99 Asian Crisis, when export markets for BC forest products collapsed: unemployment rates soared in BC’s “Hinterland” (with the notable exception of the Northeast, which, like Alberta, has an economy based on oil and gas exports to the US), while in the Lower Mainland, unemployment rates only nudged up slightly.

In this context, any economic strategy for BC should aim to foster economic growth and diversification outside the Lower Mainland. The provincial government must actively reckon with a twenty year fall in terms of trade (our exports purchase less than they used to), and a recent history that has witnessed the decline of major export markets in Japan and East Asia, and disputes over softwood lumber exports to the US.

To the limited extent that tax cuts have stimulated the economy, they have done so more in the Lower Mainland than outside it. But spending cuts have disproportionately hurt smaller communities.

The economic strategy coming from Victoria, however, only seems to be compounding the divergence between the Lower Mainland and the Hinterland. The province’s economic strategy has focused on tax cuts to spur BC consumers and businesses. But the results to date have been disappointing. The BC economy shrank in 2001 for the first time since 1982, and is forecast to trail other provinces for the foreseeable future. Nor is any boom in capital investment on the horizon. Yet tax cuts have led to a massive provincial deficit and painful spending cuts.

This paper looks in more detail at how tax cuts and spending cuts have affected BC’s “two economies”: the Lower Mainland and BC’s Hinterland. To the limited extent that tax cuts have stimulated the economy, they have done so more in the Lower Mainland than outside it. But spending cuts have disproportionately hurt smaller communities, as services have been lost altogether, or have been centralized in regional hubs. This paper reviews, to the extent possible at this time, how tax and spending cuts have affected the gap between the Lower Mainland and the Hinterland.

Unbalanced income tax cuts

BC's income tax cuts were announced with great fanfare on the first day of office of the new provincial government. This was the culmination of the BC Liberal Party's election platform that had tax cuts as its key plank—albeit with a twist, as upper-income tax cuts were not in the platform but constituted a big chunk of the tax cut package. Even corporate BC was (pleasantly) surprised at the government's largesse to the province's most affluent.

The skewed distribution of the tax cuts muted their economic stimulus. For example, half of the total tax cut went to the top 13% of taxpayers (those making more than \$60,000 per year).¹ People with high incomes are less likely to spend their tax cut in BC, preferring imported goods, vacations abroad and financial market investments.

The income tax cuts also failed to deliver much stimulus to BC's Hinterland, where an infusion of cash was arguably more needed. Table 1 shows the tax cut split between the Lower Mainland and the Hinterland.² Greater Vancouver, with 51% of all BC taxpayers, received a greater proportionate share (58%) of the total tax cut. A handful of regions had a share of the tax cut in proportion to their share of all taxpayers, but the vast majority had a share of the tax cut that was much less than their share of taxpayers.

Adding Greater Victoria and the Fraser Valley (although these regions received less than a proportionate tax cut share) to the Greater Vancouver numbers, we find that 66% of taxpayers living in the southwest corner of the province received 71% of the total tax cut. This leaves only 29% of the total potential stimulus of the income tax cuts to other parts of BC.

Another way of assessing the distribution of the tax cuts is to look at the average tax cut per taxpayer in BC regions and municipalities. This shows a high divergence between the size of tax cuts in places like Greater Vancouver and other parts of the province. Table 2 shows the total tax cut and the average tax cut per taxpayer by regional district (28 in total) and by municipality.

Across British Columbia as a whole, the average tax cut per taxpayer for 2002 was \$714. However, this figure is pulled up by a distribution that benefits those higher up the income ladder more (since the tax cut represents a larger share of income as income rises). At \$30,000 of income (49% of BC taxpayers make less than this amount, so this is just below the median income), the tax cut was only \$430.³

There is a fairly wide range of outcomes by region, and an even larger range by municipality. The average tax cut is highly correlated with the average income by region. In other words, this is a regional variation of the theme that “the rich got richer” as a result of BC's income tax cuts.

By region, the largest average tax cut is in the Greater Vancouver Regional District, at \$809 per taxpayer. All taxpayers outside the GVRD received an average tax cut

of \$615, almost two hundred dollars less. The smallest average tax cut is in the Okanagan-Similkameen Regional District, at \$477. On average, Vancouver taxpayers received a 70% larger tax cut than did those in the Okanagan. Of the remaining 26 regional districts, 10 had average tax cuts between \$500 and \$600, 13 had average tax cuts between \$600 and \$700, and three had average tax cuts between \$700 and \$800.

A look at the tax cuts by municipality provides a more revealing view of geographic inequality than does a regional analysis. Within Greater Vancouver alone there are large disparities. At one extreme, the average taxpayer in West Vancouver had a tax cut of \$2,085, the highest of BC municipalities. The West Vancouver average tax cut is thus three times larger than the average tax cut for

the province as a whole. West Vancouver taxpayers represent 1.2% of the BC total, yet they received 3.5% of the total tax cut.

The next largest average tax cuts were also in the Lower Mainland. Several small and affluent communities such as Belcarra (\$1,530), Lions Bay (\$1,467) and Anmore (\$1,115) received large average tax cuts. Taxpayers in the City of Vancouver received an average tax cut of \$920 (although there are disparities within the City of Vancouver not captured by these numbers). The low end of the Lower Mainland captures many suburban areas: Fort Langley taxpayers received only \$612 in tax cuts on average, followed by Pitt Meadows (\$639), Maple Ridge (\$643) and Surrey (\$648).

In the Capital Regional District, the average tax cut in

Table 1: Income tax cuts – regional shares¹

	Taxable returns (#)	Total provincial tax cut (\$000)	Average tax cut (\$)	Percentage of taxpayers	Percentage of total tax cut
British Columbia	1,937,520	1,383,249	714	100%	100%
Greater Vancouver RD	988,020	799,017	809	51.0%	57.8%
Capital RD (Greater Victoria)	181,070	123,679	683	9.3%	8.9%
Fraser Valley RD	110,240	61,780	560	5.7%	4.5%
Total Lower Mainland and Victoria	1,279,330	984,476	770	66.0%	71.2%
Selected regional districts in Hinterland					
Alberni-Clayoquot RD	14,350	8,841	616	0.7%	0.6%
Cariboo RD	29,680	18,567	626	1.5%	1.3%
Central Kootenay RD	26,610	13,698	515	1.4%	1.0%
Central Okanagan RD	75,680	44,920	594	3.9%	3.2%
Comox-Strathcona RD	47,740	28,062	588	2.5%	2.0%
Cowichan Valley RD	35,380	21,381	604	1.8%	1.5%
Fraser-Fort George RD	47,440	34,072	718	2.4%	2.5%
Kitimat-Stikine RD	17,040	13,229	776	0.9%	1.0%
Kootenay-Boundary RD	16,150	9,337	578	0.8%	0.7%
Nanaimo RD	63,110	36,204	574	3.3%	2.6%
Okanagan-Similkameen RD	39,410	18,790	477	2.0%	1.4%
Peace River RD	25,050	16,724	668	1.3%	1.2%
Squamish-Lillooet RD	16,570	11,006	664	0.9%	0.8%
Thompson-Nicola RD	57,810	35,127	608	3.0%	2.5%
Total all regions outside GVRD	949,500	584,231	615	49.0%	42.2%

Note: 1. Figures are based on 1999 income tax data. Tax cut calculations are based on a 25% tax cut applied to provincial income taxes paid in 1999.
Source: Author's calculations based on data from Canada Customs and Revenue Agency, and prepared by BC Stats.

Table 2: BC income tax cuts by region and municipality¹

	Taxable returns	Average income	Total taxable income	Provincial income tax paid	Total provincial tax cut	Average tax cut
	(#)	(\$)	(\$000)	(\$000)	(\$000)	(\$)
British Columbia	1,937,520	39,758	77,031,492	5,532,994	1,383,249	714
Alberni-Clayoquot RD	14,350	37,206	533,902	35,363	8,841	616
Port Alberni	12,320	38,009	468,276	31,565	7,891	641
Ucluelet	1,060	33,357	35,358	2,079	520	490
Tofino	800	30,998	24,798	1,409	352	440
Bulkley-Nechako RD	18,370	38,835	713,394	48,252	12,063	657
Vanderhoof	3,510	38,447	134,950	9,042	2,261	644
Fraser Lake	960	39,782	38,191	2,673	668	696
Fort St. James	1,840	40,510	74,539	5,181	1,295	704
Burns Lake	2,540	37,826	96,079	6,318	1,580	622
Houston	2,190	41,921	91,807	6,864	1,716	784
Telkwa	1,050	37,258	39,121	2,435	609	580
Smithers	5,380	38,436	206,786	13,733	3,433	638
Capital RD	181,070	39,319	7,119,453	494,716	123,679	683
North Saanich	910	54,211	49,332	4,467	1,117	1,227
Sidney	12,050	41,620	501,524	35,958	8,990	746
Sidney/North Saanich	12,960	42,504	550,856	40,425	10,106	780
Central Saanich	8,110	39,365	319,253	21,667	5,417	668
Gulf Islands	6,780	36,524	247,632	16,452	4,113	607
Greater Victoria ²	147,330	39,345	5,796,630	403,341	100,835	684
Cariboo RD	29,680	37,271	1,106,213	74,268	18,567	626
100 Mile House	2,970	35,004	103,963	6,573	1,643	553
Williams Lake	9,710	38,550	374,324	25,428	6,357	655
Quesnel	11,290	38,605	435,856	30,173	7,543	668
Central Coast RD	890	34,709	30,891	1,903	476	535
Central Kootenay RD	26,610	33,956	903,558	54,792	13,698	515
Creston	3,830	31,961	122,412	6,969	1,742	455
Salmo	900	31,931	28,738	1,700	425	472
Nelson	7,950	34,403	273,501	16,553	4,138	521
Kaslo	910	31,580	28,738	1,795	449	493
Castlegar	5,820	37,814	220,080	14,382	3,596	618
Nakusp	1,270	33,868	43,012	2,649	662	521
Central Okanagan RD	75,680	36,511	2,763,157	179,681	44,920	594
Kelowna	59,500	37,116	2,208,426	145,273	36,318	610
Peachland	2,500	33,245	83,112	5,002	1,251	500

Notes: 1. Figures are based on 1999 income tax data. Tax cut calculations are based on a 25% tax cut applied to provincial income taxes paid in 1999.
2. Victoria/Saanich/Oak Bay/Esquimalt/Langford/View Royal/Colwood/Metchosin/Highlands.

Table 2: BC tax cuts by region and municipality *page 2 of 4*

	Taxable returns	Average income	Total taxable income	Provincial income tax paid	Total provincial tax cut	Average tax cut
	(#)	(\$)	(\$000)	(\$000)	(\$000)	(\$)
Columbia-Shuswap RD	22,590	34,836	786,941	50,194	12,549	555
Golden	3,200	36,546	116,947	7,647	1,912	597
Revelstoke	4,290	36,194	155,273	9,899	2,475	577
Salmon Arm	8,230	35,616	293,123	19,159	4,790	582
Sicamous	1,590	31,065	49,393	2,998	750	471
Comox-Strathcona RD	47,740	36,402	1,737,818	112,246	28,062	588
Comox	8,150	36,449	297,063	18,862	4,716	579
Courtenay	14,120	34,086	481,300	29,673	7,418	525
Cumberland	1,170	31,725	37,118	2,203	551	471
Gold River	740	47,120	34,869	2,303	576	778
Campbell River	16,840	38,702	651,743	44,072	11,018	654
Cowichan Valley RD	35,380	36,979	1,308,330	85,523	21,381	604
North Cowichan	3,530	36,059	127,288	8,187	2,047	580
Duncan	14,100	36,653	516,810	33,693	8,423	597
Lake Cowichan	1,700	36,660	62,322	3,957	989	582
Ladysmith	6,040	36,231	218,836	14,034	3,509	581
East Kootenay RD	28,240	37,632	1,062,716	70,902	17,726	628
Elkford	1,190	49,159	58,499	4,566	1,142	959
Sparwood	1,870	40,630	75,978	5,170	1,293	691
Ferne	3,160	37,941	119,895	8,234	2,059	651
Cranbrook	11,650	37,284	434,359	28,406	7,102	610
Kimberley	4,100	37,133	152,246	10,092	2,523	615
Invermere	2,280	35,592	81,150	5,183	1,296	568
Northern Rockies RD (formerly Fort Nelson-Liard)	2,810	43,678	122,735	7,919	1,980	705
Fort Nelson	2,760	43,884	121,121	7,839	1,960	710
Fraser Valley RD	110,240	35,238	3,884,682	247,120	61,780	560
Hope	3,030	34,866	105,645	6,877	1,719	567
Chilliwack	29,830	34,397	1,026,068	62,924	15,731	527
Harrison Hot Springs	720	33,786	24,326	1,560	390	542
Kent	2,080	33,831	70,369	4,137	1,034	497
Abbotsford	55,810	35,711	1,993,052	128,562	32,141	576
Mission	15,190	35,735	542,817	35,636	8,909	587
Fraser-Fort George RD	47,440	40,291	1,911,403	136,286	34,072	718
Valemount	890	32,309	28,755	1,717	429	482
McBride	680	32,121	21,842	1,292	323	475
Prince George	42,310	40,253	1,703,116	121,323	30,331	717
Mackenzie	2,820	46,563	131,308	10,228	2,557	907

Table 2: BC tax cuts by region and municipality *page 3 of 4*

	Taxable returns	Average income	Total taxable income	Provincial income tax paid	Total provincial tax cut	Average tax cut
	(#)	(\$)	(\$000)	(\$000)	(\$000)	(\$)
Greater Vancouver RD	988,020	42,298	41,791,572	3,196,069	799,017	809
Fort Langley	8,240	36,393	299,879	20,187	5,047	612
Langley	56,650	40,039	2,268,199	162,128	40,532	715
Surrey	158,510	37,511	5,945,920	410,649	102,662	648
White Rock	13,740	43,431	596,736	44,283	11,071	806
Delta	51,930	42,987	2,232,307	168,971	42,243	813
Richmond	76,410	38,391	2,933,466	203,184	50,796	665
Vancouver	284,280	44,996	12,791,449	1,046,615	261,654	920
Burnaby	90,820	38,324	3,480,556	242,422	60,606	667
New Westminster	28,250	38,181	1,078,603	74,707	18,677	661
Coquitlam	53,370	40,329	2,152,354	153,600	38,400	720
Belcarra	370	63,895	23,641	2,265	566	1,530
Anmore	630	51,268	32,299	2,811	703	1,115
Port Coquitlam	26,250	40,399	1,060,466	75,710	18,928	721
Port Moody	12,100	44,950	543,899	42,115	10,529	870
North Vancouver	69,210	46,466	3,215,943	257,539	64,385	930
West Vancouver	23,500	76,644	1,801,131	196,002	49,001	2,085
Lions Bay	790	61,325	48,447	4,635	1,159	1,467
Pitt Meadows	7,920	37,767	299,113	20,245	5,061	639
Maple Ridge	31,840	37,992	1,209,676	81,844	20,461	643
Kitimat-Stikine RD	17,040	42,028	716,165	52,916	13,229	776
Kitimat	5,300	49,337	261,486	21,452	5,363	1,012
Terrace	9,450	39,404	372,369	26,271	6,568	695
Hazelton	520	35,419	18,418	1,160	290	558
New Hazelton	530	34,640	18,359	1,166	292	550
Kootenay-Boundary RD	16,150	35,952	580,625	37,349	9,337	578
Fruitvale	2,020	38,057	76,875	5,221	1,305	646
Montrose	740	39,646	29,338	1,995	499	674
Trail	5,340	36,584	195,357	12,650	3,163	592
Rossland	2,050	38,844	79,631	5,346	1,337	652
Grand Forks	3,510	33,146	116,342	6,933	1,733	494
Mount Waddington RD	5,920	39,887	236,131	16,502	4,126	697
Port McNeill	1,820	43,233	78,684	5,777	1,444	794
Port Alice	670	47,027	31,508	2,443	611	912
Port Hardy	2,350	37,095	87,174	5,750	1,438	612
Nanaimo RD	63,110	35,717	2,254,116	144,814	36,204	574
Nanaimo	39,200	36,234	1,420,386	91,299	22,825	582
Parksville	8,220	33,173	272,686	16,402	4,101	499
Qualicum Beach	7,010	35,328	247,649	16,463	4,116	587

Table 2: BC tax cuts by region and municipality *page 4 of 4*

	Taxable returns	Average income	Total taxable income	Provincial income tax paid	Total provincial tax cut	Average tax cut
	(#)	(\$)	(\$000)	(\$000)	(\$000)	(\$)
North Okanagan RD	35,720	35,565	1,270,374	82,438	20,610	577
Lumby	2,060	34,838	71,767	4,508	1,127	547
Vernon	26,100	36,397	949,959	63,303	15,826	606
Armstrong	4,100	33,784	138,513	8,303	2,076	506
Enderby	2,420	30,698	74,288	4,090	1,023	423
Okanagan-Similkameen RD	39,410	32,238	1,270,519	75,158	18,790	477
Osoyoos	3,260	29,136	94,984	5,171	1,293	397
Keremeos	1,160	26,866	31,165	1,553	388	335
Oliver	4,140	28,845	119,417	6,469	1,617	391
Princeton	1,950	35,223	68,685	4,369	1,092	560
Summerland	5,990	33,532	200,855	12,163	3,041	508
Penticton	18,760	32,707	613,590	36,715	9,179	489
Peace River RD	25,050	39,766	996,148	66,894	16,724	668
Tumbler Ridge	980	50,466	49,457	3,456	864	882
Pouce Coupe	620	34,245	21,232	1,197	299	483
Chetwynd	2,250	41,599	93,597	6,521	1,630	725
Dawson Creek	6,740	36,643	246,972	15,230	3,808	565
Taylor	680	40,100	27,268	1,954	489	718
Fort St. John	10,410	41,560	432,638	30,365	7,591	729
Powell River RD	9,550	36,876	352,163	23,272	5,818	609
Powell River	8,760	37,245	326,270	21,602	5,401	616
Skeena-Queen Charlotte RD	9,170	37,790	346,536	22,793	5,698	621
Prince Rupert	6,960	37,774	262,905	17,574	4,394	631
Masset	550	34,553	19,004	1,079	270	490
Squamish-Lillooet RD	16,570	37,764	625,750	44,022	11,006	664
Squamish	5,310	37,401	198,597	13,427	3,357	632
Pemberton	1,420	34,151	48,495	3,099	775	546
Whistler	5,290	38,663	204,526	15,517	3,879	733
Lillooet	1,560	36,217	56,498	3,583	896	574
Stikine Region	440	37,516	16,507	926	232	526
Sunshine Coast RD	12,480	36,385	454,080	30,170	7,543	604
Gibsons	4,470	38,046	170,064	11,784	2,946	659
Sechelt	4,350	34,530	150,207	9,418	2,355	541
Thompson-Nicola RD	57,810	36,941	2,135,578	140,506	35,127	608
Merritt	3,820	36,493	139,405	8,952	2,238	586
Ashcroft	990	37,275	36,902	2,295	574	580
Cache Creek	770	32,479	25,009	1,463	366	475
Logan Lake	1,160	39,558	45,887	3,058	765	659
Kamloops	41,930	37,685	1,580,127	105,719	26,430	630
Chase	1,990	32,804	65,279	3,934	984	494

Source: Author's calculations based on data from Canada Customs and Revenue Agency, and prepared by BC Stats.

Most communities under 500 taxable returns have not been included in this table, but are available upon request from the author.

the Greater Victoria area was \$684, but the community of North Saanich ranked among the biggest average tax cuts in the province, at \$1,227, close to double the average for the regional district.

For the province as a whole, the smallest average tax cuts were in the Okanagan. Keremeos had the smallest average tax cut in the province, at only \$335 per taxpayer, followed by Oliver (\$391) and Osoyoos (\$397). The average tax cut in West Vancouver was more than six times larger than in Keremeos.

Large average tax cuts were not entirely confined to the larger centres. A handful of smaller towns around the province received large average tax cuts. Most notably, taxpayers in Kitimat received an average tax cut of \$1,012, much larger than the average \$776 for the Kitimat-Stikine Regional District as a whole. Elkford (\$959), Port Alice (\$912) and Mackenzie (\$907) each had average tax cuts much larger than their region's average and the province as a whole. This reflects an unusual demographic, where certain resource towns have a larger percentage of taxpayers working for high-paying, unionized companies.

Nonetheless, these numbers show that BC's income tax cuts concentrated dollars in Greater Vancouver, which is already the wealthiest part of the province. The remainder was spread thinly over a very large geographic

BC's tax cuts concentrated dollars in Greater Vancouver, already the wealthiest part of the province. The remainder was spread thinly over a very large geographic area, even though this more resource-dependent part of the economy was much more in need of attention.

area, even though this more resource-dependent part of the BC economy was much more in need of attention. And to the extent that the Hinterland received tax cuts, they were typically less than their percentage share of taxpayers. Thus, from a regional development perspective, tax cuts do little to meet the needs of BC's Hinterland.

The other shoe drops: Paying for the tax cuts

In a matter of months after the announcement of personal and corporate tax cuts, it became apparent that—contrary to campaign rhetoric—tax cuts would not pay for themselves. With the provincial books bleeding red ink, the government initiated a program of spending cuts and selected tax increases. This culminated in the January 17, 2002 announcement of a three-year program of job and spending cuts, amounting to \$1.9 billion by the third year (2004/05).

Although spending cuts are being phased in over three years, by the time they are fully implemented they will greatly reduce any stimulus from the original tax cuts, regardless of region. A second thrust aimed at patching the large hole in the provincial budget left by income tax cuts was a resort to tax increases, announced as part of the 2002 budget. These tax increases have the opposite effect of the original income tax cuts. By taking money out of taxpayers' pockets, without being accompanied by more public services, they tend to be a drag on economic growth.

Regressive tax increases

While the BC income tax cuts were not distributed equally—by income class or by region—new tax increases reinforce this inequality. This is because the government did not roll back income tax cuts, in particular the surprise upper-income tax cuts, and instead raised Medical Services Plan premiums, sales taxes and the tobacco tax. While the income tax is a progressive tax (it funds government programs on the principle of ability to pay), MSP premiums, sales taxes and the tobacco tax are regressive,

meaning they are a bigger hit to the pockets of people with modest incomes. Thus, BC's tax system is now less progressive than it was before May 2001.

Medical Services Plan premiums, in particular, are very regressive—they are effectively a head tax. MSP premiums were increased by 50%. A single person now pays \$216 more per year in MSP premiums, a couple \$384 more per year, and a family of three or more will pay \$432 more each year. There were some changes that lower MSP costs for very low income families and individuals. Nonetheless, higher MSP premiums alone evaporate most, if not all, of the income tax cut for many people with low and modest incomes.

The provincial sales tax was increased by half a percentage point to 7.5%. While not as bad as MSP premiums, sales taxes are also considered regressive, as lower income consumers pay a greater share of their income to the tax than those with higher incomes. Smokers in BC were also hit with an increase in the tobacco tax.

Taken together, tax changes effectively redistribute the tax load from upper-income earners to modest- and middle-income earners. Higher sales taxes will increase provincial revenues by \$250 million in 2002/03. The in-

crease in the tobacco tax will raise an additional \$150 million. Higher MSP premiums will raise provincial revenues by \$358 million in 2002/03 and by \$392 million in 2003/04. The combined amount of these tax increases is \$758 million in additional revenues in 2002/03, in effect reducing the net economic impact of the original income tax cut (\$1.4 billion) by more than half.

For communities around BC, this means that additional money in the community due to the income tax cut is being partially offset by the money leaving the community in the form of other higher taxes. Lower income communities will feel the impact of these changes more than higher income communities. For many communities, on balance, there is little benefit from the changes in the provincial tax system.

Spending cuts

More importantly, this disappearing tax cut has been accompanied by a program of large spending cuts. Outside of health care and education, Ministry cuts will average 33% of previous budget levels by 2004/05. This is leading to the elimination of some services altogether, and dramatic reductions for others. To the extent that services remain, they are being centralized in larger centres.

Table 3 shows office closures for the direct public sector that were announced in January 2002, broken down over 12 regions.⁴ Some of these closures have not yet taken place or are currently in progress. The official closure of forestry offices, for example, was announced at the end of October 2002.

The delivery of public services was already uneven across BC. But a consequence of reducing public services is the elimination of programs and offices that provided services to, and employment for, smaller communities. Where services are merely cut back rather than eliminated, smaller communities are also affected by office closures as the province seeks to centralize operations in regional hubs.

Table 3 shows that there is pain all over the province. But geography magnifies the pain for smaller communities. Cuts in the Lower Mainland, for example, can be more easily absorbed. There are more people, a more dynamic economy, and more alternative employment opportunities to cushion the economic impact of layoffs and office closures. Where offices are closed, there may

“We’ve lost two of our five elementary schools, the 26-bed hospital is going to end up with 10 beds, we lost our courthouse and the women’s centre is losing funding. Kitimat is being hit hard. This will kill our community.”

— Carmen Nikal, social worker in Kitimat, *Vancouver Sun*, October 28, 2002

be others that can be accessed slightly further away, thus imposing a time cost to citizens, but still remaining at least somewhat accessible. Thus, the overall brunt of the cuts is less in the Lower Mainland.

The impact of public service job losses on smaller communities should not be underestimated. BC Stats has estimated the economic dependency of BC regions and communities on particular industrial sectors. Outside the Lower Mainland, the public sector is fairly consistently the first or second most important employer.⁵ Cuts to the public sector will have a disproportionate economic impact on these communities, as public sector jobs contribute relatively more to local people’s incomes.

For smaller communities, the social and economic impact of spending cuts is experienced on many levels:

- Loss of direct employment income due to layoffs and office/facility closures;
- The induced, or multiplier, effects of employment losses, as people losing their jobs spend less money for other goods and services in the community;
- Offloading of services, which either disappear altogether or must be replaced at the municipal level;
- User fees and other out-of-pocket cost increases for tuition, drugs, tolls and other fees;
- Lost individual time and increased financial costs to access services, such as courthouses, schools and hospitals located further away from the community; and
- Social and environmental costs to communities as a consequence of cuts to programs.

Table 3: Direct government office closures

Offices/facilities closed or to be closed, by region and community

Greater Victoria		Vancouver continued	
Victoria	Industry Training and Apprenticeship Commission (ITAC) Coroner's office Medical Services Plan office Human Resources office Closures due to Health Services amalgamation – Supplementary Benefits, Pharmacare, Travel Assistance Forest Renewal BC Forests Division Services Branch		Agriculture, Food & Fisheries office Vancouver Pre-trial IT Career Access office Residential Tenancy Branch Human resources office (x 3)
Sidney	Agriculture, Food & Fisheries office Probation office		
Sooke	Human Resources office		
North Island		Fraser Valley	
Campbell River	Forest Renewal BC	Abbotsford	Industry Training and Apprenticeship Commission (ITAC) Courthouse Coroner's office
Courtenay	Industry Training and Apprenticeship Commission (ITAC) Agriculture, Food & Fisheries office BC Housing Management Commission Transportation office	Agassiz	Human Resources office
Nanaimo	Industry Training and Apprenticeship Commission (ITAC) Energy & Mines office Transportation office Residential Tenancy Branch Human Resources office	Chilliwack	Transportation office Human Resources office Correctional Centre Probation office Coroner's office
Parksville	Courthouse Probation office	Hope	Transportation office Courthouse
Port Alberni	Human Resources office	Langley	Courthouse
		Lytton	Courthouse
		Maple Ridge	Courthouse Human Resources office
		Surrey	Industry Training and Apprenticeship Commission (ITAC) Transportation office Forest Nursery Human Resources office
		White Rock	Human Resources office
		Other	Correctional Centres at Mt. Thurston, Stave Lake and Aloutte River Children & Family Development – Boulder Bay Camp, Centre Creek Camp
Lower Mainland		Kamloops	
Burnaby	Industry Training and Apprenticeship Commission (ITAC) Transportation office Courthouse Medical Services Plan office Burnaby Correctional Centre for Women Human Resources offices (x 2)	Ashcroft	Human Resources office
Coquitlam	Industry Training and Apprenticeship Commission (ITAC) Human Resources office	Chase	Courthouse
Delta	Courthouse	Clearwater	Human Resources office
New Westminster	Human Resources office	Kamloops	Industry Training and Apprenticeship Commission (ITAC) Energy and Mines office Forest Renewal BC Transportation office
Sechelt	Forests District office	Lillooet	Forests District office Human Resources office Courthouse
Squamish	Courthouse	Merritt	Courthouse
Vancouver	Industry Training and Apprenticeship Commission (ITAC)	Salmon Arm	Forests District office Forests Nursery
		Other	Correctional Centres at Bear Creek, Ralieggh

Cariboo		Grand Forks	Forests District office Courthouse
100 Mile House	Probation office Courthouse Transportation office	Nelson	Industry Training and Apprenticeship Commission (ITAC) Transportation office Forests Regional office
Bella Coola	Human Resources office Forests District office	Peace River	
Clinton	Forests District office	Chetwynd	Courthouse Human Resources office
Hagensbourg	Forests District office	Dawson Creek	Industry Training and Apprenticeship Commission (ITAC) Transportation office Agriculture, Food & Fisheries office Human Resources office
Horsefly	Forests District office	Fort St. John	Transportation office Forests office
Likely	Forests District office	Prince George	
Quesnel	Transportation office	Fort St. James	Human Resources office
Williams Lake	Forest Renewal BC Forests Regional office Transportation office Industry Training and Apprenticeship Commission (ITAC)	McBride	Forests office Transportation office
Okanagan		Prince George	Industry Training and Apprenticeship Commission (ITAC) Northern Development Commission Energy & Mines office Transportation office Sustainable Resource Management – Land Title office Forest Renewal BC
Kelowna	Industry Training and Apprenticeship Commission (ITAC)	Vanderhoof	Courthouse Agriculture, Food & Fisheries office
Oliver	Courthouse	Other	Correctional Centre – Hutda Lake
Penticton	Forests office	Northwest	
Princeton	Forests office Courthouse	Hazelton	Human Resources office Forests District office
Other	6 Human Resources offices to be amalgamated into 3	Houston	Courthouse Human Resources office Forests District office
Cranbrook		Kitimat	Probation office Courthouse
Cranbrook	Industry Training and Apprenticeship Commission (ITAC) Forest Renewal BC Transportation office Energy & Mines office Human Resources office	Smithers	Forest Renewal BC Energy & Mines office Forests Regional office Agriculture, Food & Fisheries office
Fernie	Energy & Mines office Courthouse Human Resources office	Stewart Terrace	Forests District office Industry Training and Apprenticeship Commission (ITAC) Community Correctional Centre
Kimberley	Human Resources office Courthouse	Note: Office closures as announced by the BC government in January 2002. It is unclear whether all offices listed will indeed be closed, and if so, when.	
Invermere	Forests Human Resources office Courthouse	Source: BC Government and Service Employees' Union	
Revelstoke	Courthouse Human Resources office Transportation office		
Nelson			
Castlegar	Courthouse Human Resources office		
Creston	Courthouse Agriculture, Food & Fisheries Forests District office Human Resources office		

“The park has been abandoned, more or less. It’s not a criticism of the people who are working there now. It’s a criticism of the government budget cutbacks.

This is a huge park. It needs supervision and it needs services.”

— Myrna Boulding, who founded the adjacent Strathcona Park Lodge with her husband in 1959, on the effect of Liberal cuts to Vancouver Island’s Strathcona Park, *Victoria Times Colonist*, July 13, 2002

Putting numbers to such a broad array of impacts is difficult. Services have been provided because of need and their loss goes beyond the income and employment losses to the community. For example, the loss of women’s centres eliminates an avenue for women to escape abusive relationships, but there is no meaningful way to place a price on escape routes from pain and suffering. The loss of training and apprenticeship programs means an avenue for skills development and employment opportunities is closed—at precisely the time when labour and business are expecting a skills shortage in coming years. The broad scope of the government’s cuts has an incalculable cost for communities and families that relied on public services.

Even the direct income and employment losses for communities are not readily quantifiable at this time. This is in large part because the spending cuts are a moving target. This contrasts with the tax cuts, which were announced on the government’s first day in office and implemented retroactively, and are thus readily quantifiable. Despite many announcements and much public anger about spending cuts to date, the worst is actually yet to come. Impacts to date are still in the first fiscal year,

CASE STUDY: Prince George

The City of Prince George initiated a Task Force to study the impact of provincial spending cuts on the municipality and its residents. The Task Force reported on May 13, 2002.⁶ They estimated the direct economic impact of job losses and the loss of direct payroll as of the report’s release to be 150 jobs in Prince George in government Ministries (although they note that “the exact number of lay-offs is still not known with certainty and the situation is changing daily”), with a total loss of \$6.65 million in wages. These estimates are for the current year only, and include a known 153 FTE layoffs, less three jobs transferred to the Prince George courthouse from the closure of the Vanderhoof courthouse.

This latter point illustrates a complex situation for Prince George given its position as a regional centre. Direct job losses in the city may be partially offset by job gains at the expense of smaller communities, as some positions are centralized. But due to the uncertainties around this process, no estimate of potential job gains is included in the report.

The report also cites “knock-on” effects, such as the additional loss of six positions and payroll of \$180,000 from the closure of Northern Registry Services, as it can no longer do business due to the closure of the BC Land Titles Office. Two other registry offices have also indicated they will be closing their offices in Prince George.

In addition to employment and income impacts, the provincial spending cuts pose direct and indirect costs to the municipal government. Direct costs that affect the municipal budget amount to a net \$411,000 increase in known expenses (such as increased MSP premiums for City staff). A number of indirect and discretionary costs are also cited for the City: transportation development and planning; infrastructure planning and support; forest fire prevention services; wildlife/human encounters; and, victim services.

For the population as a whole, reductions in services will have social impacts on disadvantaged groups, including loss of home support services, legal services, changes in welfare rates and eligibility, and elimination of the debtor assistance program. The report also notes the terrible timing of the cuts: “[I]f the local economy were in a boom phase of the business cycle, the opportunities created and the effects on the City might be different from those in the current depressed state of the local economy.”⁷

whereas the spending cuts are spread over three years, with the biggest cuts coming in the next two fiscal years.

The process of direct public sector cuts is ongoing and a full picture of how they will ultimately manifest in individual communities and regions—in terms of layoffs and income losses—is not yet clear. Payroll issues around layoffs are also complicated by the timing of buyouts aimed at promoting early retirement, and by seniority bumping within departments. To the extent that there are buyouts, this represents income in the short-term that eases the impact of cuts on communities. Unfortunately, data on such matters are not readily forthcoming from the provincial government.

Health care and education

Within health care and education, there are also pressures to cut services and employment. Funding for health care was increased in 2002/03 to cover some wage and salary increases, but will remain flat for at least the next two fiscal years. Education funding did not receive any increase in 2002/03, with the exception of a modest \$20 million allocated to cover the additional cost of MSP premium increases, despite rising salaries and other cost increases.

In both health care and education, it is too early to tell the full impact of fiscal retrenchment. Real cuts in jobs and services are being driven by cost pressures from within the system in the context of frozen budgets. The provincial government has tried to wash its hands of these cuts by simply freezing the budgets of school and health boards, leaving them to make the difficult decisions about job losses and facility closures.

For K-12 education in BC, the net result is a total budget shortfall of \$211 million for the 2002/03 school year. This has translated into 44 school closures and the elimination of 1,966 teaching positions (on a full-time equivalent basis). Table 4 sets out the budget shortfalls, FTE teaching positions eliminated and schools closed, based on data collected by the BC Teachers' Federation. School closures were more common in school districts serving rural areas, and a large number were concentrated in the Prince George, Rocky Mountain and Coast Mountains districts. Again, numbers only tell part of the story. Larger class sizes will affect the quality of education. Reduced funding for special needs children will place those already at a disadvantage in even worse shape.

“Thumbs down to the province again, this time for using budget cuts as an excuse not to fix the washed out road to Myrtle Lake, in Wells Gray Park north of Kamloops. The lake is, or was, a popular tourist destination and the towns nearby that depend on tourism are hurting economically. It’s penny wise, pound-foolish.”

— Editorial, *Victoria Times Colonist*, July 14, 2002

Within the flat health care budget, internal cost pressures from a number of sources—general inflation, health care specific inflation, population demographic pressures, recruitment and retention costs, WCB premium increases and increased utility costs—amount to an effective 5% per year increase in costs that must be offset by layoffs and service reductions. In addition, wage and benefit increases amount to an increase of 5% for 2002/03 and 2% in 2003/04. By 2004/05, this represents a cumulative shortfall of \$873 million for the health care budget (this does not include the recent doctor’s settlement, which was funded by a one-time increase in spending, or future collective agreements).¹⁰

The government has already moved to centralize health care decision-making, reversing the trend to place decisions about care closer to the community. Previously, health service delivery was delegated to 11 regional health boards, seven community health service societies and 34 community health councils. This has been replaced by six health authorities (one of which is not regional but provides services for the entire province). From a cutting point of view, more centralization makes it easier to make decisions that would provoke strong resistance at the community level.

Table 4: Cuts to K-12 education, by community

School district	Budget shortfall (\$ millions)	FTE teaching positions cut	Schools closed	School district	Budget shortfall (\$ millions)	FTE teaching positions cut	Schools closed
Abbotsford	6.4	60		New Westminster	1.5	18.6	
Alberni	1.8	15.7		Nicola-Similkameen	1.2	9	
Arrow Lakes	0.7	10.19		Nisga'a	0	0	
Boundary	0.2	6		North Vancouver	6.7	87	
Bulkley Valley	0.9	10		Okanagan Similkameen	1.4	15.2	
Burnaby	7.5	80.35	Canada Way Ed. Ctre.	<i>Southern Okanagan</i>		12.3	
Campbell River	2.2	28.5	Central Elem.	<i>Keremeos</i>		2.9	
			Maple Elem.	Okanagan Skaha	2.5	30	
Cariboo-Chilcotin	4.5	29.5	Chimney Creek Elem.	Peace River North	1.1	15	
Central Coast	0.3	5.5		Peace River South	1.9	15	Kelly Lake Elem-Jr Sec.
Central Okanagan	6	40	Bellevue Creek Elem.	Powell River	1.2	9	J P Dallos Middle School
			George Pringle Sec.	Prince George	9.2	58	Blackburn Junior Sec.
			Peachland Primary				Gladstone Elem.
Chilliwack	2.5	26					Haldi Road Elem.
Coast Mountains	3.5	28					Hart Highway Elem.
<i>Kitimat</i>		14	Alexander Elem.				Mountain View Elem.
			Cormorant Elem.				Nechako North Elem.
<i>Terrace</i>		14	Copper Mtn. Elem.				Seymour Elem.
			Mountainview Elem.	Prince Rupert	0.7	18.5	
			Parkside Elem.	Qualicum	1.4	20	
			Stewart Elem.	Quesnel	1.2	12.5	Rich Bar Elem.
Comox Valley	2.8	21					Wells Barkerville Elem.
Coquitlam	5	44.7		Revelstoke	0.6	5.13	Big Eddy Elem.
Cowichan Valley	7.2	52	Mount Brenton Elem.	Richmond	9.6	132	
			Sahtlam Annex	Rocky Mountain	2.1	29	
			Honeymoon Bay Elem.	<i>Kimberley</i>		14	Chapman Camp Elem.
Delta	2.6	26.3					Meadowbrook Elem.
Fort Nelson	0.2	1					Wasa Elem.
Fraser-Cascade	0.95	12		<i>Windermere</i>		10	Canal Flats Junior Sec.
Gold Trail	3.7	14	Riverview Elem.				Radium Elem.
Greater Victoria	8.8	71.86		<i>Golden</i>		5	Columbia Valley Elem.
Gulf Islands	0.8	8					Edelweiss Elem.
Haida Gwaii/Q.Charlotte	0.5	2.5		Saanich	3.5	32.53	
Howe Sound	2	23		Sooke	3.7	34	
Kamloops/Thompson	8.5	63.05		Southeast Kootenay	2.8	25	C L Salvador Elem.
Kootenay Lake	1	17.5					Elkford Elem.
Kootenay-Columbia	2.9	20	Blueberry Creek				Muriel Baxter Elem.
			Community School	Stikine	0.1	4	
			Cook Avenue Elem.	Sunshine Coast	1.2	10	
			Sunningdale Elem.	Surrey	14	146.1	
			Valley Vista Elem.	Vancouver	25.5	200	
Langley	6.5	53		Vancouver Island North	1.4	18	
Maple Ridge-Pitt Meadows	4.8	35	Thornhill Primary	Vancouver Island West	0.7	11	
Mission	2.5	40		Vernon	3.2	16	
N. Okanagan-Shuswap	2	31.4		West Vancouver	3.2	17.52	
Nanaimo-Ladysmith	6.3	70		BC Totals	210.65	1966	44
Nechako Lakes	3.5	31.3					
<i>Burns Lake</i>		11.3					
<i>Nechako</i>		20					

Note: Numbers are as of September 2002.

Source: BC Teachers' Federation

Table 5 outlines what we know about reductions in health care services and employment. Acute care beds are being reduced in every region, as are long-term care beds. These changes will hurt BC's Hinterland much more than the Lower Mainland, both in terms of the relative cut to population, and because the Lower Mainland, even in the presence of cuts, has numerous facilities, and thus more alternatives in terms of care options.

The Vancouver Coastal Health Authority, which includes the Lower Mainland, is losing 11% of its acute care beds. This is a grave situation, but less of a proportionate cut than in other Health Authorities, where the loss of an acute care bed arguably carries more weight due to the lack of alternatives. The Interior Health Authority is losing 22% of its acute care beds (see box about the situation of Nelson), and the Northern Health Authority, which geographically covers the entire Northern two-thirds of BC, is losing 16% of its acute care beds. In terms of absolute numbers of bed closures, Vancouver Coastal is losing 236 beds, about the same as the Fraser Health Authority. The Interior Health Authority is losing an alarming 335 beds.

A similar dynamic is in effect for long-term care beds. While over 8% of Vancouver Coastal Health Authority's long-term care beds are being eliminated, this figure jumps to 17% for the Interior Health Authority, and 19% for Vancouver Island Health Authority. In terms of absolute numbers, the number of long-term care bed reduc-

“We are closed. If you have chest pains, dial 911.”

— This recorded message greets individuals in Lytton who need an emergency room between 10 p.m. and 10 a.m. The next nearest emergency room is two hours away.

tions is much smaller for Vancouver Coastal than for other Health Authorities, even though Vancouver Coastal covers about half of BC's population.

The time and financial costs of health care cuts can be substantial. For example, pregnant women in Bella Coola (part of the Coastal Health Authority) must go to Vancouver to have their babies (unless they schedule a c-section when local doctors are available), a perverse outcome, to say the least. This could entail up to a month or more in a hotel room waiting for labour. And the literature tells us that when women must relocate to give birth, they experience more adverse outcomes.¹¹

All this means that more people will be coming to Vancouver's specialty hospitals to give birth or for other acute care needs. Yet the largest employment cut in percentage terms is to the new Provincial Health Services Authority. This leg of the health care system is planning for a reduction in services, but what is unfolding in the regions is at odds with this plan.

CASE STUDY: Nelson

Nelson's Kootenay Lake Hospital has been reclassified to a Level One Facility (community hospital). This is reducing hospital capacity by one-third, and eliminating many surgical procedures and the Intensive Care Unit.⁸ Due to protests from the community, maternity care services were reinstated. However, other major hospital services will now be delivered in Trail, about one hour away over mountain roads—in good weather. The move has direct implications for access to care in a timely and effective manner, with increased likelihood of mortality and morbidity in emergency situations. The move also makes it harder for loved ones to be nearby and provide support.

Dr. Grant Falck, spokesperson for the Kootenay Lake Regional Hospital Medical Staff, notes that:

Contrary to reassuring statements from representatives from the Interior Health Authority, the physicians emphasize that their patients will be endangered if the infrastructure to support and maintain physicians and their capacity to intervene in emergencies is not sustained. . . In our view, the current plan presented by the IHA simply will not provide acceptable health care to the 30,000 people currently serviced by the Kootenay Lake Regional Hospital.⁹

The downgrading of the Kootenay Lake Hospital hurts Nelson's position as a retirement community, and as a tourist destination. It is a more difficult task to pursue such economic development strategies without a fully functional hospital. Rather than enhancing diversification and opportunities for economic development, this policy moves the community in the opposite direction.

“Once he went to the new place he went totally downhill. At May Bennett, the staff knew my brother by name. The care was totally different [at Windsor]. I’d say it wasn’t as good.”

— Bert Graf, whose brother Gilbert died shortly after the BC government shut down Kelowna’s May Bennett long-term care facility and moved him into a larger facility. At least five of the 24 seniors moved from May Bennett have died since the facility was closed one year ago, *The Province*, September 27, 2002.

The cumulative impact of these changes in health care for smaller communities is dire. Health care cuts are ultimately a matter of life and death, and pain and suffering. While Greater Vancouver is affected by service cuts, the region has the advantage of its size and number of alternatives to buffer the impact. When rural hospitals close, and access to maternity care and other services is lost, it sets in motion a domino effect. Rural communities will find it more difficult to recruit and retain physicians (who rightly want to practice the full spectrum of care, which requires hospital support). And patients have even more limited alternatives in terms of access to care.

There are other community impacts of tax and spending cuts that are not covered in this report. Communities lose out from the decrease in welfare rates and eligibility (made worse by a poor economic climate outside the Lower Mainland). Students are facing higher tuition fees to attend college and university. The scope of the government’s cuts plays out at the community level in complex and multifaceted ways. This report only sketches out some of the broad outlines of the cuts for communities, based on the information available at the time of writing. It will be several years before the full range of impacts of spending cuts on communities can be fully assessed.

Table 5: Health care reductions by region

Health region	Total FTE reductions 2002-03 to 2004-05	Cost pressures by 2004-05 (\$ million)	Acute care bed reductions 2002-03 to 2004-05		Long-term care bed reductions 2002-03 to 2004-05	
			Number	Percent of existing	Number	Percent of existing
Fraser	1600	197.2	232	11.6%	800	10.0%
Vancouver Island	432	143	66	n/a	920	18.5%
Interior	1206.5	131.61	335	22.1%	818	17.4%
Northern	266	45.32	91	15.7%	no data	no data
Vancouver Coastal	2153.2	241.73	236	11.1%	573	8.3%
Provincial Health Services	870	114.19	n/a	n/a	n/a	n/a
Total	6527.7	873.05	960	data missing	data missing	data missing

Notes: Cost pressures include unfunded increases from a number of sources—general inflation, health care specific inflation, population demographic pressures, recruitment and retention costs, WCB premium increases and increased utility costs—amounting to 5% per year increase in costs, plus wage and benefit increases of 5% for 2002-03 and 2% in 2003-04. This figure does not include doctors’ settlement or future collective bargaining outcomes. Fraser acute care bed reduction is a net reduction based on 882 acute bed cuts less 650 newly created sub-acute beds. Interior acute care bed cuts are only to 2003. No long-term care data available for North Vancouver Island and Northern health authority.

Sources: FTE estimates, acute care beds estimates and long-term care beds estimates from website of BC Health Authorities and materials distributed by Health Authorities at briefing on April 23, 2002; Cost pressures by 2004/05 calculated by the Hospital Employees’ Union.

An opportunity to change course

Tax and spending cuts have made BC a more unequal place. Over the past year, the CCPA has provided analysis and commentary in a variety of forms looking at the distribution of the tax cuts and the amount of cost-shifting caused by cuts to public services. The results show that higher income individuals received a much larger tax cut, both in absolute terms and as a share of their income. Meanwhile, the burden of spending cuts and increased user fees has disproportionately affected those with low and middle incomes.

This paper finds that BC's tax and spending cuts are also exacerbating regional inequality. While all of British Columbia is hurting from the impact of provincial spending cuts, BC's Hinterland has been affected disproportionately. With local economies that are much more dependent on the public sector, the closure of offices and the layoff of public servants has been a surprise to many that voted for "tax cuts without pain." The really bad news is that the worst is yet to come in terms of layoffs and office closures.

The timing of the cuts is also terrible. The province is in the midst of a major trade dispute with the US over one of its major export commodities. The overall terms of trade have shifted against resource exports. And resource communities are the weakest link in the chain, squeezed by provincial government policy and corporate strategies to boost profitability. Resource communities are finding that the tax and spending cuts are piling on to an already grim situation.

The provincial legislature's Select Standing Committee on Finance and Government Services recently toured the province and heard directly from citizens about the growing disparity between rural BC and major urban centres. Their report summarizes the views of many presenters, noting that:

[T]he closure of courthouses, hospitals and ministry offices was causing economic hardship for their communities. They pointed out that the loss of, say, 20 government jobs in a community of 3,000 people has a more significant impact than the loss of 200 positions in a big city like Vancouver... People living in rural communities told the Committee that they realized they could never have the range of services available in Vancouver and Victoria, but they found it difficult to accept the cutbacks in the few support services they have.¹²

The coming provincial budget provides an opportunity for the government to change course, and heed the lessons learned by the MLAs on the Finance Committee. But as of Fall 2002, the biggest economic development initiative in the government's arsenal is the 2010 Olympics, which if successful, will confine any public spending and any economic spin-offs to the Vancouver-Whistler area. BC's Hinterland will be forced to watch from the sidelines.

Economic development in BC's Hinterland needs to be put high on the government's agenda. Tax cuts, spending cuts and the Olympics are not up to the task. BC needs to be creative and innovative in the use of the many public policy tools available to the province to this end. Otherwise, the gap between the Lower Mainland and the Hinterland will only continue to grow.

Notes

1. For more on the distribution of BC's income tax cuts, see "The Great BC Tax Cut Giveaway" by Marc Lee in *BC Commentary*, Summer 2001, available from the CCPA at <http://policyalternatives.ca/bc/bccsummer01.pdf>
2. The regional tax cuts are derived from Canada Customs and Revenue Agency tax data, processed by BC Stats into regional and community tax profiles. The regional tax cuts are based on the latest available data year, 1999. Because the tax cuts were "sold" as a 25% across-the-board reduction for the 2002 tax year, we apply a 25% reduction for each region and municipality in order to arrive at our estimates. Technically, the tax rate reductions are: 28% for the first bracket (\$1-\$30,484); 23.1% for the second bracket (\$30,484.01-\$60,969); 29.9% for the third bracket (\$60,969.01-\$70,000); 26.7% for the fourth bracket (\$70,000.01-\$85,000); and 25.4% for the fifth bracket (over \$85,000.01).
3. See "The Great BC Tax Cut Giveaway" by Marc Lee in *BC Commentary*, Summer 2001.
4. The direct public sector is that part of the provincial government paid for directly by the government, rather than funding being allocated to other boards and agencies such as school and health boards.
5. BC Stats. 1999. *BC Local Area Economic Dependencies and Impact Ratios 1996*. Victoria, BC. Available online at <http://www.bcstats.bc.ca>
6. Final Report of the Service Delivery Impact Task Force to the City of Prince George, May 13, 2002. http://www.city.pg.bc.ca/pages/service_delivery.html
7. *Ibid*, p. 5.
8. Community Action Network presentation to the Select Standing Committee on Finance and Government Services, October 3, 2002, available on Kootenay Cuts website, <http://www.kootenaycuts.com>
9. Kootenay Cuts website, "Nelson doctors vote non-confidence," July 4, 2002, <http://www.kootenaycuts.com>
10. Internal estimates from the Hospital Employees' Union.
11. Klein M., Johnston S., Christilaw J., and Carty E. 2002. "Mothers, babies and communities: Centralizing maternity care exposes mothers and babies to complications and endangers community sustainability" in *Canadian Family Physician*, 48:1177-79.
12. Report of the 2003 Budget Consultation Process, Select Standing Committee on Finance and Government Services, Legislative Assembly of British Columbia, November 2002.

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