BC Solutions Budget 2004:
Getting Ready for 2010

We've invited the world.

They're coming.

And the place is a mess.

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CANADIAN CENTRE FOR POLICY ALTERNATIVES – BC OFFICE

2004 BC Solutions Budget

February 2004

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BC Solutions Budget 2004: Getting Ready for 2010

We've invited the world. They're coming. And the place is a mess.

LIKE THEM OR NOT, THE 2010 OLYMPIC GAMES ARE COMING in just six years. The Olympics present both opportunities and challenges for BC. Because "the world will be watching," 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 povertyand 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.

A truly world class performance by BC should demonstrate a diverse, advanced, compassionate society based on principles of social justice and environmental sustainability—something that is a far cry from BC in 2004.

In this year's *BC Solutions Budget*, we argue that the Olympics should anchor an enhanced public investment strategy that goes beyond the minimum requirements for hosting the games, and that uses the Olympics as a springboard to address the province's pressing needs—a real legacy that could come from the games.

The *Solutions Budget* articulates a pro-growth economic plan that restores BC's capacity to meet pressing needs, rolls back painful spending cuts, makes the tax system more fair, achieves substantial public investments in the BC economy, and maintains a healthy fiscal position.

Economic and Fiscal Update

Since mid-2001, radical policy changes have been implemented with the objective of kick-starting the BC economy. Yet, almost three years later, this program has not borne fruit. BC has trailed the rest of Canada in economic growth the past few years. No boom in private sector investment is on the horizon, and public sector investments have been curtailed in the name of budget restraint.

Given the economic situation, there is no compelling reason why balancing the 2004 budget should be the government's over-riding priority. Going from a $1.85 billion deficit in 2003/04 to zero in 2004/05 is no easy feat. Finance Ministry estimates suggest that about $800 million in spending cuts will be required to balance the 2004/05 budget. This means a move to balance the budget this year will be a drag on economic growth.

Balanced budget legislation is a completely artificial constraint. Spending cuts and restraint have already had a major impact in terms of health care waiting lists, school closures and larger class sizes, reduced eligibility for welfare, cuts to children and family services, and decreased environmental protection. Attempting to balance the budget this year will only make the situation worse.

A Public Investment Strategy for 2010

An investment revival is the key to BC reclaiming its status as an economic leader in North America. We argue that the public sector needs to take additional responsibility in launching new investment—along with measures that "crowd in" private investment.

The *Solutions Budget* rolls back spending cuts made to date and sets out a six-year public investment plan that:

- Establishes a fully-funded provincial early childhood education and childcare program, restores real per student funding levels for K-12 education to 1990/91 levels, and creates 25,000 new spaces in BC's colleges and universities;
- Accelerates transportation initiatives in Translink's capital plan;
- Creates 12,000 new social housing spaces; and,
- Injects funds into health care reform to reduce pressure on emergency rooms and address long-term needs.

This public investment plan boosts investment in these areas by $2.3 billion in 2004/05 (above and beyond rolling back the government's spending cuts), rising to $4.1 billion in new investments by 2009/10. Over the six years to the Olympics, our public investment plan is a cumulative $19.6 billion package.

Private Sector Investment Strategy

Stimulating new private sector investment is also essential to BC's economic revitalization. Tax cuts have not been up to the task. Above all, BC needs a coherent industrial strategy that includes resource industries through to manufacturing and advanced technology sectors.

We recommend three broad measures to stimulate private sector investment:

- An incentive-based corporate tax system that rewards companies willing to meet provincial economic, social and environmental objectives;
- A public investment bank to provide access to capital for innovative corporate, non-profit and co-operative ventures that would meet sector and region-specific needs, with an emphasis on renewable energy and sustainable development; and,
- A resource sector strategy based on diversification, with a focus on moving up the value chain and capturing emerging markets for eco-friendly resource products.

Paying for the Services and Programs we Need

Fulfilling the needs mentioned above cannot be done on the existing revenue base. To pay for services and programs that we value, we will have to pay higher taxes. *The Solutions Budget* implements a number of tax changes to fund our public investment strategy and that make the tax system more fair and sustainable:

- MSP premiums (the most regressive element of BC's tax structure) are eliminated entirely ;
- A more progressive personal income tax system. Most people with incomes below $40,000 would pay less in taxes once the benefit of MSP elimination is taken into account. But the alternative tax structure is steeply progressive for incomes over $100,000;
- An increase in the gas tax by $0.05 per litre, with the money going directly to improving transportation infrastructure;
- Corporate tax rates are restored to pre-2001 tax cut levels, but new tax credits are introduced to reward companies that are making investments in BC.

The *Solutions Budget* runs a deficit in 2004/05 and would gradually reduce this deficit over the course of the investment plan, ending with a zero deficit in 2009/10. Because the deficit is largely the result of our investments in people that have medium- to long-term paybacks, this deficit should not be as much a concern as recent deficits to finance tax cuts.

Above all, this *Solutions Budget* demonstrates that budgets are about choices and there are many alternatives to the narrow business-dominated thinking of the provincial government. Indeed, by making strategic and thoughtful investments, we can not only address our concerns but improve our economy at the same time. Whether or not the world is watching, the time for action is now.

An Olympian Challenge

LIKE THEM OR NOT, THE 2010 OLYMPIC GAMES are coming in just six years. The Olympics present both opportunities and challenges for BC. In this year's *BC Solutions Budget*, we argue that the Olympics should anchor an enhanced public investment strategy that goes beyond the minimum requirements for hosting the games, and that uses the Olympics as a springboard to address the province's pressing needs.

Olympics supporters point to a coming economic boom due to the games, gaining strength from here to 2010 (and spin-off benefits beyond). It is not obvious that this will be the case. Certainly, the games will lead to some job creation due to the increased tourism in Vancouver and Whistler in what is normally an off-peak time. The games might increase baseline tourist levels due to the "buzz" of the Olympics. Or not. The evidence in favour of such claims is thin at best.

Most of the economic benefits from the games are likely to be the result of increased public spending on Olympics-related infrastructure (including some projects like the new Vancouver Convention Centre and the RAV line, that are not part of the Olympics per se, but have been linked to them). Despite the cutbacks of the past two and a half years, when it comes to the Olympics, the provincial government seems to understand that government spending creates jobs and is good for the economy.

The Olympics are also seen as an economic opportunity for BC through basking in the global spotlight. By osmosis, the same Olympic "buzz" will lead to increased BC exports and higher levels of foreign investment. Again, there are good reasons to be skeptical.

Nonetheless, because "the world will be watching," it is imperative to think about what it is that we want the world to see. In February 2010, gorgeous mountain vistas may be hard to come by, leaving rainy cityscapes that are not all "ready for prime time." Vancouver's Downtown Eastside is but a short walk away from the new convention centre that is to be home to media from around the world. Social agencies report a doubling of homelessness over the past couple years, with the April 1 welfare cut-off looming on the horizon.

Imagine British or American network producers doing a feature story on the host town: what will they put on camera for the world to see? The Premier may tell a global audience that Vancouver (or BC) is the best place in the world to live, but viewers will ultimately get their impressions from what the media shine the spotlight on. If those images are 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.

This *Solutions Budget* envisions a marriage between the opportunity of the Olympics in 2010 and the challenges that face BC in 2004. The Olympics have broader strategic significance as an opportunity to envision and create the BC we want. A truly "world class" performance by BC should demonstrate a diverse, advanced, compassionate society based on principles of social justice and environmental sustainability—something that is a far cry from BC in 2004.

This *Solutions Budget* uses the hard deadline of the Olympic games as a focal point to articulate a public investment strategy aimed at boldly addressing these weaknesses, rather than attempting to sweep them under the carpet. And it aims to use those new public investments to spur private investments to reverse the twenty-year investment decline at the heart of BC's economic stagnation.

In the next section, we review BC's recent economic performance before turning to the government's fiscal situation. We outline a number of strategic public investments as part of an Olympic agenda, and consider some private sector investment incentives. Finally, we turn to the question of what an alternative tax system might look like to make this all possible.

Because "the world will be watching," it is imperative to think about what it is that we want the world to see: if those images are 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.

PART 1

BC in 2004:

Economic Update

BC'S ECONOMY HAS BEEN STAGNATING FOR TWO DECADES, a period that transcends the tenure of any particular government. The key factor behind this stagnation is a decline in the level of new capital investment relative to GDP. Beginning in the early 1980s and continuing through the 1990s, there has been a general decline in business investment as a share of GDP. By the 1990s, this amounts to a difference of around four percentage points of GDP compared to the 1960s and 1970s.

Nor has the public sector picked up the slack. Although public sector investment is much smaller in magnitude than private sector investment, it has also been on a four-decade declining trend when expressed as a percentage of GDP. This has compounded the decline in private sector investment somewhat, although the overall investment slowdown has much more to do with the private sector.

Since mid-2001, radical policy changes have been implemented with the objective of kick-starting the BC economy. Tax and spending cuts, deregulation and privatization are the core elements of this plan. Many British Columbians, though they dislike this economic medicine, have come to accept it as inevitable, and hopefully, good for them and the province in the end.

Almost three years later, this program has not borne fruit. BC has trailed the rest of Canada in economic growth the past few years. The outlook for 2004 is the best it has been since the new government came to power in 2001, but most economists expect only moderate rates of economic growth. Moreover, no boom in private sector investment is on the horizon, and public sector investments have been curtailed in the name of budget restraint.

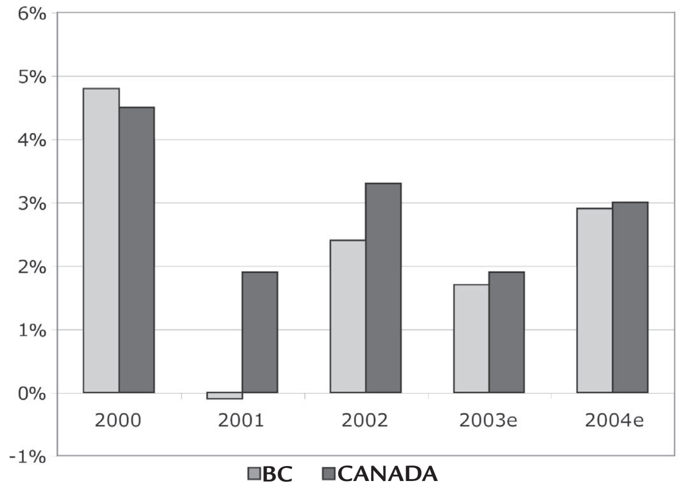
Recent Trends: Growth and Investment

After a slight decrease in BC's real GDP in 2001, economic growth in 2002 was a tepid 2.4%, compared to growth of 3.3% for Canada as a whole. As Figure 1 shows, 2003 is not looking any better. At the time of the 2003 Budget, the provincial government estimated that economic growth would be 2.4% in 2003, but since then expectations have been revised downwards. The Minister of Finance's Economic Forecast Council (as of December) had an average estimate for 2003 economic growth of 1.7%. Similar estimates at the national level estimate economic growth of 1.9% for Canada as a whole in 2003.

As the outlook for the United States and the rest of Canada has improved for 2004, so has the outlook for BC. For 2004, the Economic Forecast Council average projection is 2.9% real GDP growth (with a fairly narrow range of estimates from 2.4% to 3.3%). While this is an improvement over 2003, it is not exactly the stuff of miracles. Most forecasts reflect wishful sentiments—that things have got to get better some time—not hard data.

This reading of the economic tea leaves must be taken with caution. A continued high Canadian dollar vis-a-vis the US dollar will hurt Canada's, and BC's, economy. The overall state of the US economy remains uncertain amid mixed reports on economic conditions in recent

FIGURE 1: REAL GDP GROWTH, 2000-2004



Note: Revised numbers as of November 2003 release by Statistics Canada. 2003 estimates and 2004 forecast from Economic Forecast Council (BC) and consensus private sector estimates (Canada).

Sources: Statistics Canada, Provincial Economic Accounts, November 2003 release; BC Ministry of Finance; Federal Ministry of Finance, Economic and Fiscal Update, November 2003.

months. If the US economy continues its sluggish pace of the past few years in 2004, and in particular if US employment does not pick up, there will be negative spillover effects in BC.

BC's investment performance continues to be disappointing. As Figure 2 shows, when viewed as a percentage of GDP, private capital expenditures are essentially flat. BC's best year on the investment front, both in terms of dollars and as a percentage of GDP, came in 2001—but this precedes the introduction of corporate tax cuts (that were supposed to stimulate investment).

New investment has been hottest in the residential sector. Like the rest of Canada, low interest rates have fuelled a hot real estate market in general, and a boom in construction of new residential buildings. This creates jobs, and adds to the stock of housing. Still, this is but one engine on the provincial economic plane, and one that does little to enhance BC's overall productivity. Non-residential capital spending remains flat—particularly investment in machinery and equipment—and will be for the foreseeable future.

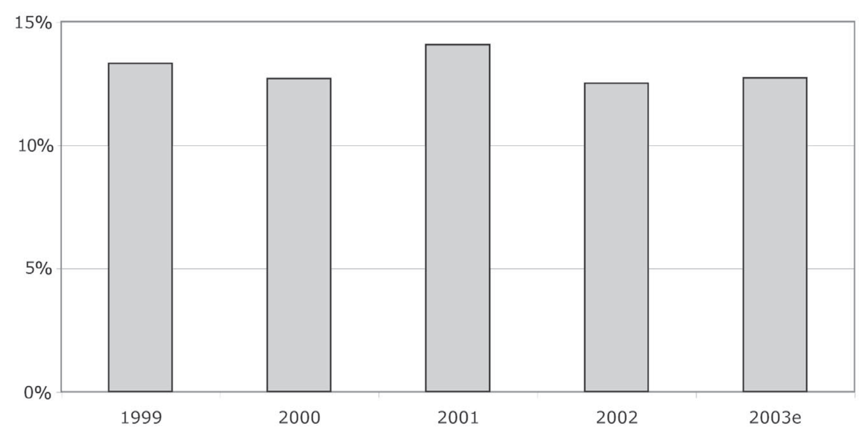
Recent Trends: Wages and Employment

A strong economy increases provincial income through both gains in employment and in higher wages and salaries paid. These factors matter most for typical British Columbians. On both counts, BC's performance has been far from spectacular over the past few years.

Total employment in BC fell from 2000 to 2001 by 0.3%, compared to 1.1% growth for Canada. Employment rebounded somewhat in 2002, with 1.6% growth, compared to a national rate of 2.2%. However, all of the growth in BC for 2002 was part-time employment.

The employment situation for 2003 has been much better, in particular the last four months of the year, with gains in full-time employment over the course of the year. In 2003, total employment was up by 2.5% over 2002, the best employment growth in BC since 1997, and stronger than the national average of 2.2%. The average unemployment rate was 8.1% in 2003, down from 8.6% in 2002, but still higher than the Canadian average of 7.6%.

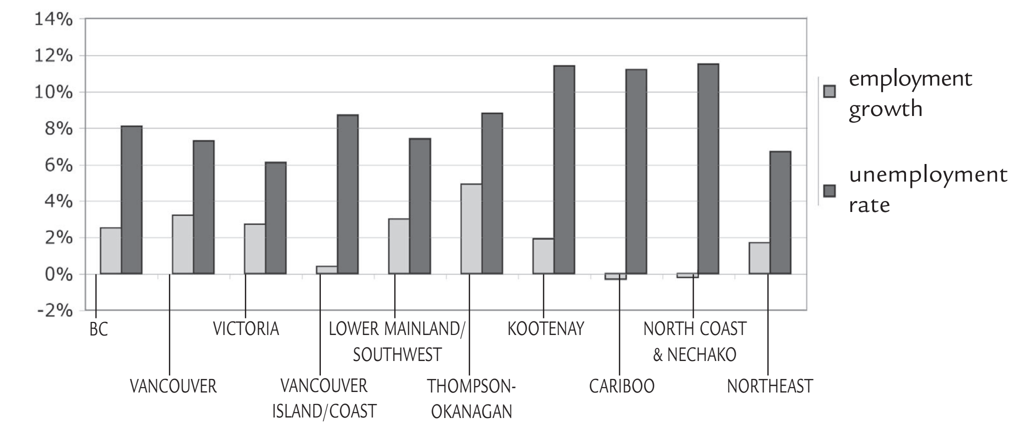
FIGURE 2: BC PRIVATE CAPITAL INVESTMENT AS PERCENT OF GDP, 1999-2003



Note: 2003 estimates based on 3.9% nominal growth in GDP, and investment intentions as estimated by Statistics Canada.

Sources: BC Economic Accounts, May 2003 release; BC Financial and Economic Review 2003.

FIGURE 3: EMPLOYMENT GROWTH AND UNEMPLOYMENT RATES, 2003



The recent drop in BC's monthly unemployment rate from 9.1% in September to 6.8% in December (both seasonally adjusted) is good news, although such a rapid drop points to potential anomalies in Statistics Canada's Labour Force Survey. In particular, the data show job gains in public administration and health and social services that do not accord with provincial government downsizing (public employment growth, according to the LFS, led both private employment growth and self-employment growth by a large margin). More time is needed to see if these employment gains are real. We can have much more confidence in the unemployment statistics when averaged over several months.

Based on the December figures (again, caution is required here), there are still 150,000 people in BC who are out of work and looking. There are some employment gains that have not yet been tapped. Some 17% of small manufacturers cited a shortage of skilled labour in 2002, as did 5% of large manufacturers. This highlights the need for training and education funding to bridge the skills of workers with the needs of employers. Such spending would aid the longer-term skills shortage that is expected as baby boomers begin to retire.

BC has trailed the rest of Canada in economic growth the past few years. The outlook for 2004 is the best it has been since the new government came to power in 2001, but most economists expect only moderate rates of economic growth.

On a regional basis, employment gains have not been distributed equally. As Figure 3 shows, employment growth has been stronger, and unemployment rates lower, in Vancouver and Victoria. Outside of these centres, employment growth has been very weak (in some cases, slightly negative), with higher unemployment rates, in particular for the Kootenays, the Cariboo and the North Coast. An exception is the Thompson-Okanagan, which experienced stronger than average employment growth in 2003, albeit with a rather high unemployment rate.

As the CCPA noted last year, the government's strategy of tax cuts concentrates the economic benefits in areas that need help the least. The Olympics risk doing the same. Thus, a truly equitable Olympics investment plan must ensure that all regions, especially those now hurting, share the benefits.

In terms of wages, BC has the third highest average weekly wage in Canada, after Ontario and Alberta. However, there have been few real gains in recent years. After accounting for inflation, average weekly wages grew by 1% in 2002 and by 0.4% in 2003 (year-to-date as of November). Moreover, as the BC Progress Board points out, for workers who are paid by the hour, real hourly wages have been essentially flat over the past decade.

BC's Fiscal Situation

WITH THE EXCEPTION OF A FEW BRIGHT SPOTS, BC's economy remains weak, and has not been kick-started by tax cuts. While economic performance is not dismal, there is little evidence of a boom on the horizon. The tax cuts have, however, had a significant impact on BC's public sector, in large part because they have not, as advertised, increased government revenues.

Table 1 shows own-source tax revenues for BC (i.e. not including federal transfers or natural resource royalties and other smaller non-tax revenue sources, such as gaming). It shows the contribution of lost revenues from tax cuts to the sizable deficits run by the provincial government in recent years.

Personal income tax revenues fell by 29% from 2000/01 to 2002/03. Corporate income tax revenues also dropped significantly. Even by 2005/06, these revenues are not expected to reach pre-tax cut levels. The revenue shortfall has subsequently been partially offset by increases in regressive taxes (MSP premiums, sales tax, fuel

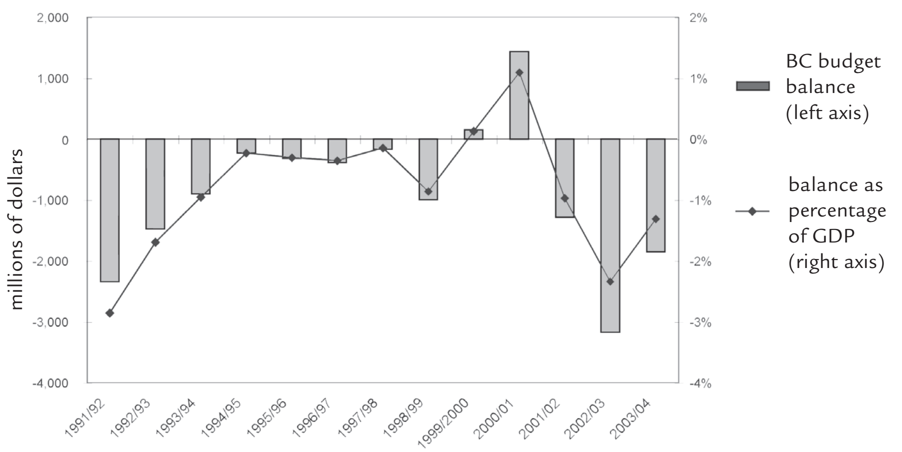
TABLE 1: BC TAXATION REVENUES, 1999/00 TO 2005/06

	ACTUAL				THREE-YEAR PLANNING FRAMEWORK		
	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06
	MILLIONS OF DOLLARS						
Personal income	5,825	5,963	5,366	4,150	4,851	5,027	5,337
Corporate income	943	1,054	1,522	612	733	873	929
Sales	3,355	3,625	3,552	3,795	3,895	4,224	4,430
Capital	460	459	395	198	101	99	97
MSP premiums	867	894	954	1,355	1,393	1,425	1,442
Other tax revenue	3,145	3,182	3,255	3,576	3,908	3,876	3,945
Total tax revenues (incl. MSP)	14,595	15,177	15,044	13,686	14,881	15,524	16,180
Tax revenues/GDP	12.1%	11.6%	11.4%	10.1%	10.6%	10.5%	10.4%

Note: Figures are based on BC Budget 2003, with 2002/03 and 2003/04 figures updated based on Second Quarter Report. Nominal GDP for 2003/04 estimated at 3.9%, for 2004/05 and 2005/06 at 5%. "Other tax revenue" includes fuel, tobacco, property and other taxes.

Source: BC Budget 2003; Second Quarter Report, November 2003; GDP figures from BC Economic Accounts, May 2003.

FIGURE 4: BC BUDGET BALANCE, 1991/92 TO 2003/04



Notes: The figure for 2003/04 is the latest estimate from the Second Quarterly Report. The government's official estimate is $2.3 billion, but this includes a $450 million "forecast allowance." 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 for 2003 is the most recent average estimate.

Sources: BC Ministry of Finance Financial and Economic Review 2003; BC Economic Accounts, November 2003 release; Minister of Finance's Economic Forecast Council.

tax and tobacco tax).

The current three-year fiscal plan shows a ratcheting downward of provincial tax revenues as a share of GDP to the 10.5% range. This permanently constrains the domestic tax base, and therefore the ability of the BC government to make needed expenditures.

Figure 4 shows recent BC's deficit/surplus position in both dollars (left scale) and as a percentage of GDP (right scale). BC's deficit hit $3.2 billion in 2002/03. This is easily the largest deficit in BC history, besting the $2.3 billion deficit posted by the outgoing Socred government in 1991/92 (although the Socred deficit was larger as a share of GDP). While overall debt levels are still in manageable territory, there is a large annual cost in interest payments to finance deficits that are largely the result of the tax cuts.

For 2003/04, the estimated deficit in the BC Budget is $1.85 billion after factoring in a $450 million forecast allowance (i.e. the published estimate is $2.3 billion, but since the forecast allowance is just extra padding, we do not count it).

When the Finance Minister stands in the Legislature to table the 2004 Budget, it will be this government's first balanced budget, after three consecutive deficits that rank among the largest ever in BC's history. The last balanced budgets came in 1999/00 and 2000/01 (actually a $1.4 billion surplus), brought in by the previous government.

But the return to budget balance gives little reason to celebrate. This was a painful process that has its origins in reckless tax cuts brought in by the government at the very beginning of its mandate. While the North American economic downturn would have pushed the budget balance into deficit without the tax cuts, certainly the tax cuts made the deficit deeper than it otherwise would have been. The return to a balanced budget was made possible by substantial spending cuts (outside of the core areas of health care and education) and regressive tax increases.

As we noted in last year's *Solutions Budget*, BC did not have a structural deficit prior to the tax cuts. If the tax cuts had not been enacted, spending levels could have been preserved, and even moderately increased, while still leading back to a balanced budget within a few years.

Given the economic situation, there is no compelling reason why balancing the 2004 budget should be the government's over-riding priority. Going from a $1.8 billion deficit in 2003/04 to zero in 2004/05 is no easy feat, since economic growth is not expected to be spectacular and any "easy cuts" have already been made. If economic growth had indeed picked up, according to plan, increased revenues would have made attaining a balanced budget much easier. Instead, Finance Ministry estimates suggest that about half of the distance to a balanced budget will come from spending cuts. This means a move to balance the budget this year will be a drag on economic growth.

Balanced budget legislation is a completely artificial constraint. Given the massive deficits in recent years to finance the government's tax cuts, the government needs to seriously re-think its strategy. Spending cuts to date have already had a major impact in terms of health care waiting lists, school closures and larger class sizes, reduced eligibility for welfare, cuts to children and family services, and decreased environmental protection. Attempting to balance the budget this year will only make the situation worse.

The good news is that in spite of recent large deficits, low interest rates have kept additional debt service costs low. Overall, BC's debt-to-GDP ratio will creep up to 21.9% at the end of 2003/04. This is the highest this figure has ever been, up from 20.8% at the end of 2001/02 and 19.3% at the end of 2000/01. Nonetheless, this is still low as debt-to-GDP figures go, and compares very well to other provinces.

Even if the most recent job report is accurate, there are still 150,000 people in BC who are out of work and looking. This is a much bigger group than those strictly on welfare (about 50,000 "employables," many of whom likely have persistent barriers to employment and gloomier labour market prospects). It is alarming that more cuts—including kicking people off welfare entirely—are being contemplated given the still-weak state of the economy.

We aim in this *Solutions Budget* to stop the next round of budget cuts in its tracks, and further, to restore funding that has been cut to 2001/02 levels (or higher if, as in the case of health care, funding has been increased). That is, we would restore funding to social services, children and families, environmental protection and other areas that have experienced cuts. A healthy public sector, rather than being a drain on the economy, plays an essential role underpinning demand in the economy through decent income support programs and high quality services.

Spending cuts to date have already had a major impact in terms of health care waiting lists, school closures and larger class sizes, reduced eligibility for welfare, cuts to children and family services, and decreased environmental protection. Attempting to balance the budget this year will only make the situation worse.

PART 3

A Public Investment Strategy for 2010

AN INVESTMENT REVIVAL IS STILL THE KEY TO BC RECLAIMING ITS STATUS as an economic leader in North America. In this section, we argue that the public sector needs to take additional responsibility in launching new investment—along with measures that "crowd in" private investment. With the 2010 Olympics a mere six years away, this provides a useful focus for the collective efforts of both public and private sectors.

As noted above, new investment is the key driver of future growth. When new investment expands across the economy, it sets in motion a process where more jobs are created, as strong demand conditions in the economy open up new profit opportunities for further investment. In economics, this process is known as the "investment multiplier." The continued weakness of private capital spending is cause for concern. While it was argued that tax cuts would stimulate new investment in BC, the results have been disappointing.

There is good reason why tax cuts do not lead to investment booms. Much current policy is based on the premise that if supply-side conditions (i.e. the "business climate") are improved, then new investment will automatically follow. Thus, calls for lower taxes—and weaker labour and environmental regulations, lower minimum wages, weaker unions and so forth—emanate from the business community with the promise of economic rewards.

But new investment is largely driven by demand conditions ("aggregate demand" in economics). It does not matter how much taxes are reduced or regulations slashed, if there is no demand for the product being produced, investment will not follow. This is not to say that supply-side factors do not matter at all, only that far too much focus has been placed on "creating the right business climate." Yet, demand conditions can be made worse precisely by the sorts of supply-side policies listed above.

Business leaders risk shooting themselves in the foot because what they want at this micro (or company) level turns out to be bad policy at the macro (or economy-wide) level. Tax cuts that lead to public sector layoffs; lower minimum wages; lower welfare rates and eligibility; de-unionization drives that lead to lower wages for workers—all of these moves undermine the level of demand in the economy, making investment less likely, not more likely.

In BC, where private capital spending has been weak, we need to be creative about how to get investment going. We argue that there is a critical role for the public sector to step up and get the ball rolling. Strong public investments in the next few years can strengthen demand conditions and make private investment more attractive.

As noted above, public investment as a share of GDP has been declining over the past decades. Interestingly, a recent study from Statistics Canada finds that public infrastructure investments have a large payoff (Harchaoui and Tarkhani 2003). Every $1 invested in "hard" infrastructure (such as roads and mass transit) yields a 17 cent-per-year benefit to the business sector. One-fifth of Canadian productivity gains in the private sector in recent decades are due to pubic investments. Thus, there is good reason to reverse the decline in public sector investment as a key objective of this *Solutions Budget*.

The 2010 Olympics, and the looming prospect of the world watching, are an excellent focal point for thinking about a new public investment strategy. The Olympics are already accelerating a number of projects led by the public sector. These include the RAV line extension, Highway 99 upgrades, the new Vancouver Convention Centre, the Southeast False Creek redevelopment, and the construction of Olympics-related facilities. Some of these facilities are not contingent on the Olympics, but are generally grouped under the Olympics umbrella.

We propose four themes for an enhanced public investment plan, all of which address pressing needs and will spur the quality of life of British Columbians—a real legacy that could come from the games. These themes are: investments in the people of British Columbia; transportation infrastructure; housing infrastructure; and progressive health care reform. Each of these themes are mutually reinforcing, and have cross-cutting goals of enhanced labour market participation, fighting poverty, and supporting effective demand in the economy.

Tax cuts that lead to public sector layoffs; lower minimum wages; lower welfare rates and eligibility; de-unionization drives that lead to lower wages for workers—all of these moves undermine the level of demand in the economy, making investment less likely, not more likely.

A summary of the public investment plan can be seen in Table 2. They include both capital expenditures and operating expenditures that can be considered to be investments (such as education). In 2004/05, this plan boosts investment by $2.3 billion (above and beyond rolling back the government's spending cuts) rising to $4.1 billion in new investments by 2009/10. Over the six years to the Olympics, our public investment plan is a cumulative $19.6 billion package.

TABLE 2: SOLUTIONS BUDGET PUBLIC INVESTMENT PLAN

	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
	MILLIONS OF DOLLARS					
Early Childhood Education and Care	300	400	500	600	700	800
K-12 Education	300	400	500	600	700	800
Post-secondary Education	500	600	700	800	800	800
Apprenticeship and Training	100	120	140	160	180	200
Social Assistance Training	100	100	100	100	-	-
Transportation	300	300	300	300	300	300
Social Housing	300	300	300	300	300	300
Health Care Reform	400	500	600	700	800	900
Total	2,300	2,720	3,140	3,560	3,780	4,100

Note: figures are combined operating and capital expenditures.

Investments in People

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 cited frequently by both business and labour leaders as an important priority for the province. Education is obviously part of the solution.

Public education is ultimately an investment. More money spent today will have large payoffs in the future in terms of graduates' abilities to enter the labour market and their earnings potential. A CCPA research study by economist Robert Allen in 1999 found that there is a huge societal payoff from education at all levels, with the largest payoffs for completion of high school. Huge amounts of money could be "profitably" spent on education when we take into account both the private return to the individual in higher lifetime income and the public return to the Treasury in the form of higher taxes paid on that income.

In BC, where private capital spending has been weak, we need to be creative about how to get investment going. We argue that there is a critical role for the public sector to step up and get the ball rolling.

Early Childhood Education and Care

A growing consensus is of the view that a high quality early childhood education and child care program will have large societal payoffs. The economic benefits of such a program would range from enhanced opportunities for labour market participation for parents, which would improve our productivity, to higher achievement levels (and future incomes) on the part of children. U of T economists Cleveland and Krashinsky (1998) find that these benefits would outweigh the costs to the public purse by a factor of two-to-one.

Based on their estimates, a fully-implemented program with an aim of providing services to 50% of children age 3-5, and 50% of children outside this range with parents in the paid labour force, would cost about $700 million per year for BC. Our aim would be to have a fully funded program in place by 2009/10. We allocate $200 million towards year one for 2004, with an escalation of operating costs over the next six years, plus $100 million per year in capital expenditures to expand the number of early childhood education and care centres.

K-12 Education

A recent CCPA study by Marc Lee (2004) found that K-12 education funding, adjusted for inflation and student enrolment, has been at its lowest levels in the past two years over the 1990-2004 period. Recent trends in school closures, elimination of teaching positions and larger class sizes is of great concern.

We allocate $300 million to restore real per student funding levels to those that prevailed in 1990/91. We then increase K-12 education funding by an incremental $100 million per year, so that funding by 2009/10 is $800 million above base levels today.

Post-secondary Education

The post-secondary system faces two key challenges: ensuring sufficient capacity so that high school graduates can get in to colleges and universities; and ensuring the affordability of post-secondary education. Public funding is increasingly taking a back seat to tuition hikes in order to meet needs. The average undergraduate tuition is about double what it was in 1993 (after inflation), putting post-secondary education out of reach of an increasing number of students. But even among students with sufficient resources, there are not enough seats.

We allocate an additional $300 million in operating funds in 2004/05 to BC's post-secondary institutions to address these challenges. Incremental funding increases of $100 million per year would be provided so that funding by 2009/10 is $800 million above current levels.

This funding would be used to enhance capacity through the addition of 25,000 new seats, phased in over four years, to address the current shortfall. The remainder would be used to address affordability issues, by greatly enhancing the grants available to students to attend post-secondary institutions, and by providing a pool of funding available to post-secondary institutions on the condition that they do not raise tuition levels. A medium-term objective would be to once again cap tuition levels.

We would also allocate $200 million per year for the first four years of the plan to meet deferred maintenance needs, plus new capital expenditures related to adding new seats.

Apprenticeship and Training

The closure of the Industry Training and Apprenticeship Commission (ITAC) has meant the loss of a representative coordinating body for training and apprenticeship for the skilled trades. This system is being 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 propose to stop the implementation of the new system.

We would re-establish a structure like ITAC to coordinate training and apprenticeship, with tri-partite participation (labour, business, government) and would also expand the number of training opportunities. We allocate $100 million in the 2004 Budget for this purpose, scaling up to $200 million over the course of six years. These measures would ensure that Olympics-related projects will have greater benefits for British Columbians, rather than relying on imported skilled labour.

Enhanced Training for Social Assistance Recipients

We need to provide more upfront investment in terms of skills training and education for those who have the most difficulty finding employment. The goal should be helping people find long-term, stable employment with decent pay—not the quickest route to a job. Welfare programs should become a springboard to help people's lives, and by extension, the economic and social well-being of the province.

Enhanced earnings exemptions should be implemented to ease the transition from welfare to work. We recommend a $200 earnings exemption, with any money earned above this amount taxed back at a rate of 25% until a person's income is sufficiently high.

Finally, there are some people considered "employable" that really have long-term barriers that prevent them from finding work. These people should be supported so that they are not living on the street or in abject poverty. People on social assistance spend every dollar they get. Putting more money in their hands will flow directly to the local economy. This supports effective demand and is good for the economy.

Some of these costs can be met by rolling back the spending cuts in social services ministries. Others are addressed by initiatives elsewhere in this plan (such as apprenticeship and training). Still others are matters of policy changes, such as enabling people to attend post-secondary education institutions without being cut off welfare.

In addition to these efforts, we allocate an additional $100 million per year for four years to invest in the specific education and training needs of marginalized British Columbians. We envision that after this time, policy changes will enable these needs to be addressed through other aspects of the education and training system.

Combined with other initiatives in the *Solutions Budget* such as child care, affordable housing, enhanced addiction services and restored public services, we have the core elements of an anti-poverty strategy for BC. By rolling back the cuts to the Ministry of Human Resources, the *Solutions Budget* allows benefit rates to be increased and punitive eligibility cuts—such as the two-year time limits, two-year independence test and three-week wait—to be reversed.

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. The Olympics process, however, is skewing the transportation priorities with costly mega-projects that undermine broad-based transportation needs.

The Olympics process has already accelerated the development of two major infrastructure projects with respect to transportation: the Highway 99 upgrade from Vancouver to Whistler; and Translink's Richmond-Airport-Vancouver (RAV) commuter transit line. Both projects, in addition to being immensely costly, have been vaulted to the top of the priority list due to the opening of federal and provincial coffers for the Olympics.

In the Lower Mainland, traffic congestion and air quality are major issues, and better mass transit is a key part of the solution. The move to put RAV at the top of the region's transit priorities is highly problematic. Nonetheless, RAV is part of an approved Translink 10-year, $4 billion capital plan that includes many other transportation priorities.

The *Solutions Budget* recommends an acceleration of the capital plan, with support for additional mass transit projects. We propose an increase in the provincial gas tax of $300 million. The revenue from this increase would be channeled to Translink to meet needs towards the GVRD Sustainable Region plan.

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.

Affordable Housing Stock

Before the federal government pulled out of building new social housing in the mid-1990s, combined federal and provincial funding supported about 1,800 units of new social housing per year. After the feds exited, this dropped to 600 units per year due to ongoing efforts by the BC government.

The current BC government, while not abandoning social housing entirely, has pulled back on social housing commitments. The construction of some 1,000 units has been stopped. Other units that were supposed to be for low-income social housing have instead been converted to assisted living units for seniors. This meets vital needs in health care, but at the expense of social housing for other people with low incomes. Both are badly needed.

The Olympics will support some development of new social housing—250 units from the athletes' village will be available for social housing post-games. Indeed, Southeast False Creek is an interesting way of considering Olympics investments. Rather than just a space for athletes, Southeast False Creek, by design, will spur development of local capacity to design and build next generation eco-housing (while also converting old industrial lands into new residential capacity).

While this is a positive development, the lead-up to the Olympics may worsen overall housing conditions in the Lower Mainland if house prices, and rents, continue to rise at the rates seen over the past few years. Even though new housing construction is currently booming, this does not seem to be translating into affordable housing alternatives. Other incentive measures, such as tax credits, should be considered to grow the stock of rental housing.

Ultimately, due to the current trends in homelessness and due to the substantial portion of British Columbians in core housing need (i.e. spending more than 30% of their incomes on housing), we need both federal and provincial governments to make a new commitment to building social housing. Municipalities can help by providing land, incentives for creation of rental housing, and so forth, but ultimately the funding must come from senior levels of government.

The *Solutions Budget* calls for the creation 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 per year. This measure will create 12,000 new social housing spaces over the six-year plan, and will provide an important buffer to rising homelessness. In addition, $100 million should be provided to low income people in core housing need in the form of rent supplements. These rent supplements may be more important than building new housing in areas where vacancy rates are already high.

Health Care Reform

In health care, there is no doubt that funding matters. Ultimately, however, the government faces a longer-term challenge to be more innovative in the ways it delivers health care. 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 more appropriate locations for their condition.

A fundamental principle underlying health care reform is that it strengthen the public system and reverse the creeping privatization we have witnessed in recent years. We recommend the following priorities be addressed as part of a health care reform package:

- *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 mental health services*: Deinstitutionalization 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.

In addition to new federal contributions towards health care, we add $200 million in 2004/05 to operating expenditures, rising by $100 million per year to $700 million in 2009/10 above current levels. We also add $200 million per year in new capital expenditures to facilitate the reforms mentioned above.

Other measures in the *Solutions Budget* will engender savings in the health care system, such as the deployment of an anti-poverty strategy and new social housing initiatives, that can be reallocated to other priorities. Reallocating funds also requires action to rein in the major cost drivers in the system, such as the escalating cost of prescription drugs and fee-for-service physician fees.

PART 4

Private Sector Investment Strategy

THERE IS, OF COURSE, ONLY SO MUCH HEAVY LIFTING that can be done via public sector investment. A revitalized economy will clearly need to stimulate new private sector investment. Incentives and access to capital must both play a role, but must be considered in the context of a broader industrial strategy that includes resource industries through to manufacturing and advanced technology sectors. The development of a new industrial strategy for BC should be a top priority for the new Ministry of Small Business and Economic Development.

Given the limitations of the provincial level, we need to be creative and use all the tools at our disposal, including tax policy, access to credit, and risk-sharing initiatives. And because the Olympics and related projects may serve to exacerbate existing regional inequality between the Lower Mainland and the Interior, means of ensuring sustainable livelihoods based around resource industries are key. These themes were discussed in more detail in last year's *Solutions Budget*.

Tax Incentives not Tax Cuts

The problem with corporate tax cuts is that they are a blank cheque—corporations benefit without necessarily committing to new investment or employment. Whether they do so in the end requires a leap of faith. Instead, we need to use the tax system creatively to provide carrots and sticks that create the incentives for investment, production and employment, plus other social and environmental objectives. The only tax cut implemented by the provincial government that was not a blank cheque was the elimination of the sales tax on machinery and equipment. In this case, only those companies making investments in machinery and equipment benefit from the tax cut.

In principle, there is no reason why the tax system should not reward companies that meet provincial objectives with lower taxes, but it should also ensure that companies that do not meet these objectives pay higher taxes. The system should provide a range of tax credits that would make BC a low tax jurisdiction relative to others in North America—but only for those companies that are willing to meet provincial economic, social and environmental objectives.

A Public Investment Bank

BC needs to channel resources into the real economy rather than getting caught up in the whirlwind of speculation that characterizes financial markets. We propose the establishment of a public investment bank, funded by a portion of resource royalties, export taxes on low value-added commodities, and interest-earning investments from governments, pension funds and individuals. Funding from the public investment bank would then be allocated to smaller "development councils" that would finance projects in particular sectors as well as projects in regions or communities.

A public investment bank would act as a provider of seed funding for new and innovative economic areas, where private sector financing is less likely to be abundant (if there at all), as well as focusing on the revitalization of the resource sector. Funding recipients would include new Crown corporations, cooperatives, worker-owned enterprises, communities, First Nations and other non-profit entities, in addition to traditional businesses—anyone with a solid business plan would be welcome.

A theme of sustainable development should be front-and-centre for the new entity. It could provide funding support for projects in sustainable agriculture; sustainable forestry; recycling facilities; investments in resource efficiency; and support for the development and purchase of environmental technologies and green power sources. There is a clear connection between these areas and an aggressive provincial strategy related to the implementation of the Kyoto Accord.

Resource Sector Strategy

BC's resource sector needs a bold and comprehensive investment strategy. The resource sector was plagued throughout the 1990s by a lack of investment. Forest companies, for example, invested just enough to counter the depreciation of their aging machinery. Opportunities to become more efficient and productive in pulp and to move up the value chain in solid wood have been foregone, leaving the industry in an uncompetitive and unstable position compared to forest companies elsewhere in Canada and abroad.

The focus of an investment strategy should be to adopt new environmentally-friendly technologies and move up the value chain, thereby providing resource-dependent communities with both economic stability and environmental sustainability. The provincial government can play a role in encouraging and facilitating investment—from many places and in different forms—to move the resource sector towards a more viable and responsible position, and to capture emerging markets for eco-friendly resource products. This strategy should challenge BC's resource corporations to enter into a new social contract with British Columbians.

Dale Marshall's *Re-Capturing the Wealth*, published by the CCPA in July 2001, elaborates on a number of hopeful and realizable policies that together form a compelling investment strategy to reinvigorate BC's resource sector.

We need to use the tax system creatively to provide carrots and sticks that create the incentives for investment, production and employment, plus other social and environmental objectives.

Paying for the Services and Programs we need

IT GOES WITHOUT SAYING THAT FULFILLING THE NEEDS mentioned above cannot be done on the existing revenue base. To pay for services and programs that we value, we will have to pay higher taxes. In this section, we consider both the capital and operating costs for the 2010 agenda. We assume that only the BC government is engaged in this program, although it is very likely that federal money would support these initiatives, in which case costs would come down for BC.

The *Solutions Budget* alternative is laid out in Table 3 beside the government's updated forecasts for the current fiscal year and 2004/05. On the expenditure side, we do not move ahead with projected spending cuts for 2004/05 and roll back spending cuts made over the past two years. We also add $1.3 billion in new operating expenditures from the Investment plan (see Table 2).

Total expenditures in the *Solutions Budget* plan for 2004/05 are thus $3.1 billion higher than the current Budget plan (which will, of course, be updated when the 2004 Budget is tabled). However, the expenditure increase is only $2.3 billion above 2003/04 levels, since the government's 2004/05 budget plan entails large spending cuts.

On the revenue side, rather than just restoring the tax rates that prevailed before income tax cuts, we consider changes to the tax system to make it more progressive. First, we eliminate MSP premiums—a tax cut of approximately $1.4 billion per year. MSP premiums are highly regressive, effectively a head tax, and only cover a small portion of health care costs. They go into general revenue, not directly into the health care system.

Second, we increase tax rates for personal income taxes to raise $2.8 billion per year (net of decreased sales taxes). We do this by modifying existing tax brackets, adding one new upper-income tax bracket and raising rates in each bracket. Table 4 outlines the revised income tax brackets, while Table 5 presents summary results for a simulation of fiscal impacts using Statistics Canada's Social Planning Simulation Database and Model.

The result is that most people with incomes below $40,000 would pay less in taxes once the benefit of MSP premium elimination is taken into account. For a single individual, MSP premiums amount to $648 per year (people with very low incomes pay less; see note in Table 5). For a family of three or more, MSP premiums amount to $1,296 per year. Thus, the elimination of MSP premiums is a significant offset to higher income taxes for modest-

TABLE 3: BC BUDGET VS. SOLUTIONS BUDGET

	UPDATED FORECAST, 2003/04	GOVERNMENT'S BUDGET PLAN, 2004/05	SOLUTIONS BUDGET 2004/05	DIFFERENCE BETWEEN 2004 GOV'T BUDGET AND 2004 SOLUTIONS BUDGET
	MILLIONS OF DOLLARS			
Consolidated Revenue Fund Revenues				
Taxation				
Personal income tax	4,851	4,954	7,896	2,942
Corporate income tax	733	848	1,448	600
Sales tax	3,895	4,070	3,944	(126)
Other taxation revenues	4,009	4,115	4,415	300
Total taxation revenues	*13,488*	*13,987*	*17,703*	*3,716*
Natural resource revenues	3,702	3,496	3,496	-
Medical Services Plan premiums	1,393	1,418	-	(1,418)
Other revenues	2,339	2,341	2,341	-
Federal transfers	3,810	4,490	4,490	-
Total revenues	24,732	25,732	28,030	2,298
Expenditures				
Health	11,035	11,124	11,324	200
Education	6,936	7,018	8,018	1,000
Social services	2,840	2,552	3,445	893
Debt service	1,565	1,772	1,892	120
Other	5,895	5,013	5,911	898
Total Expenditures	28,271	27,479	30,590	3,111
Net balance on Crown corporations	1,689	1,817	1,817	-
Accounting adjustments		100	100	-
Surplus (deficit)	(1,850)	170	(643)	(813)

Notes: 2003/04 figures are revised estimates based on Second Quarter Report. 2004/05 figures are drawn from updated 2003 Budget Plan in First Quarter Report, with the addition of $100 million in "other taxes" due to increases in tobacco and liquor taxes (we did not approximate revenue increases from these sources for 2003/04).

The Solutions Budget expenditures resore social services to 2001/02 levels. Debt service is $120 million larger than government plan due to $2.3 billion in higher debt. "Other" expenditures are based on actual 01/02 levels cited in BC Budget 2003, but use 03/04 estimates for "protection of persons and property" from First Quarterly Report as these are larger than 01/02 amounts.

Sources: BC Ministry of Finance, BC Budget 2003, First Quarterly Report, Second Quarterly Report.

to medium-income earners. (This, of course, would not be the case if their employer pays MSP premiums on their behalf. In this instance, employers would realize a net benefit.)

The alternative tax structure is steeply progressive above $100,000 of income. For example, people with incomes between $80,000 and $100,000 would pay an additional 3% of their income in taxes (an average of $2,660 per individual). But individuals with incomes over $300,000 would pay an additional 10% of their incomes in taxes. Notably, very few taxpayers are in this category.

Third, we increase the provincial gas tax by $300 million, or approximately 5 cents per litre (to 20 cents per litre). This is a pure "green tax" designed to encourage conservation, fuel efficiency, and decreased demand on highways and roads. This additional revenue will be transferred to Translink to accelerate the deployment of its 10-year capital plan while creating space for additional transit priorities to be funded.

Corporate tax rates would be raised to pre-tax cut lev-

TABLE 4: A MORE PROGRESSIVE BC INCOME TAX SYSTEM

CURRENT 2004 BRACKETS		PROPOSED SOLUTIONS BRACKETS	
TAXABLE INCOME RANGE	MARGINAL TAX RATE	TAXABLE INCOME RANGE	MARGINAL TAX RATE
$8,000 to $32,733	6.05%	$8,000 to $32,733	8.4%
$32,734-$65,469	9.15%	$32,734-$65,469	12.9%
$65,470-$75,166	11.7%	$65,470-$81,275	17.7%
$75,167-91,274	13.7%	$81,276-$99,999	22.7%
$91,275+	14.7%	$100,000-$149,999	25.7%
		$150,000+	30.0%

els and the corporate tax base would be broadened (for example, limiting the deductibility of meal and entertainment expenses). However, a number of tax credits for new investment would be put in place.

We anticipate that this would increase the total revenues for corporate income tax in year one by $600 million. As companies adjust their investment intentions, the size of the investment tax credit would grow. While this would diminish revenues over the medium-term, the benefit to the economy and the treasury from increased investment would make this revenue loss worthwhile. The result will be higher corporate taxes being paid by companies that are not investing in BC, but lower corporate taxes being paid by companies that are making substantial investments in BC.

The net impact of these revenue changes is an increase in total revenues of $2.3 billion—an amount equivalent to the revenue lost from the original personal and cor-

TABLE 5: PAYING FOR THE SERVICES WE NEED

TOTAL INCOME GROUP	TOTAL INCOME TAX INCREASE (MILLIONS)	AVERAGE INCOME TAX INCREASE $	AVERAGE BC INCOME TAX RATE (BEFORE) %	AVERAGE BC INCOME TAX RATE (AFTER) %	AVERAGE MSP TAX CUT (INDIVIDUAL) $	AVERAGE MSP TAX CUT (FAMILY OF THREE OR MORE) $
0-10,000	6.3	7	7.8	8.0	0	0
10,001-20,000	129.4	170	6.3	7.4	0-259	0-518
20,001-30,000	222	452	7.2	9.1	389-648	778-1,296
30,001-40,000	241.5	691	8.0	10.0	648	1,296
40,001-50,000	239.9	977	8.4	10.5	648	1,296
50,001-60,000	217.4	1,295	9.2	11.6	648	1,296
60,001-70,000	364.5	1,671	9.7	12.2	648	1,296
70,001-80,000	275.9	1,956	9.7	12.3	648	1,296
80,001-100,000	172.2	2,660	10.1	13.1	648	1,296
100,001-150,000	232	4,506	10.7	14.5	648	1,296
150,001-200,000	133.3	9,298	12.2	17.5	648	1,296
200,001-300,000	198.1	18,153	13.1	20.7	648	1,296
300,001-Max	509.7	54,634	13.4	23.4	648	1,296
All	2,942.2	854	9.0	11.8	-	-

Note: Under the current system, MSP premiums are eliminated for incomes below $16,000. Full rate applies on incomes above $24,000. Partial assistance available for incomes between $16,000 and $24,000. Ranges for "MSP tax cut" are indicative of this provincial subsidy.

Source: CCPA calculation based on Statistics Canada's Social Planning Simulation Database and Model porate tax cuts.

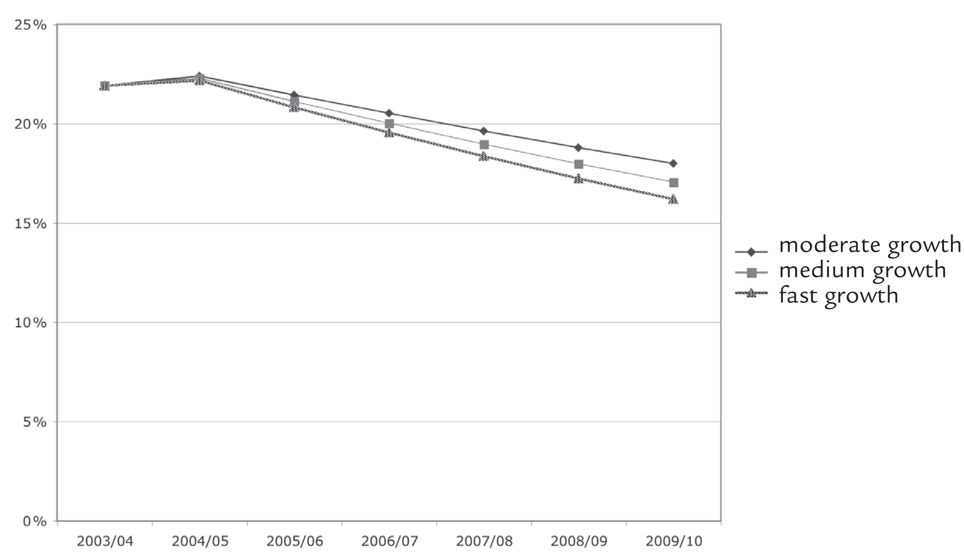
After accounting for the balance on Crown corporations, this leaves a *Solutions Budget* deficit of $643 million. We feel this is appropriate given prevailing economic conditions and the large magnitude of the government's 2003/04 deficit. We would gradually reduce this deficit over the course of the investment plan, ending with a zero deficit in 2009/10. Because the deficit is largely the result of our investments in people (treated as operating expenditures in the budget) that have medium- to long-term paybacks, this deficit should not be as much a concern as recent deficits to finance tax cuts.

In terms of capital costs, we add $1 billion of new capital projects per year to cover new investments in transportation, housing, education and health care. An innovative approach to financing these expenditures would be via the sale of Olympics Bonds to British Columbians. The bonds would pay a near-market rate of interest, and have the advantage of keeping interest payments in the province. Alternatively, these funds could be raised through the usual BC bonds process.

The net increase to provincial debt under the *Solutions Budget* is $1.64 billion in 2004/05. This nudges up the provincial taxpayer-supported debt-to-GDP ratio from 21.9% in 2003/04. We estimate three scenarios of moderate, medium and fast economic growth, shown in Figure 5, since the investment plan is designed to boost economic growth rates. In each scenario, debt-to-GDP rises modestly in 2004/05, then falls thereafter, even after accounting for the full six-year public investment plan. By 2009/10, debt-to-GDP in the moderate growth scenario is a healthy 18%, while it would drop to 16.2% in the fast growth scenario.

In other words, the *Solutions Budget* plan restores fiscal capacity to meet BC's pressing needs, rolls back painful spending cuts, makes the tax system more fair, achieves substantial public investments in the BC economy, and leaves BC with a smaller debt-to-GDP ratio than any year since 1991/92.

FIGURE 5: PROJECTED DEBT-TO-GDP RATIO



Note: Growth scenarios are as follows: moderate growth assumes 2.9% real GDP growth in 2004 and 3% real GDP growth in subsequent years; medium growth assumes 3.5% real GDP growth in 2004, and 4% real GDP growth in subsequrent years; fast growth assumes 4% real GDP growth in 2004 and %5 real GDp growth in subsequent years. All scenarios assume a 2% annual inflation.

Building a Compassionate Society

WHILE WE HAVE ANCHORED OUR PUBLIC INVESTMENT STRATEGY on the Olympics, the notion of building the BC we want is ultimately connected to issues of quality of life and livability of a region. We want to make BC an attractive place for people to live and work, and should use our knowledge, technology and wealth to make it happen.

It has been argued for many years that we need to cut taxes to make BC a more attractive location. But this is faulty logic. Not only have tax cuts not delivered on their economic promises, under-funded public infrastructure and services make BC less attractive, not more.

The biggest gains in terms of consumption leading to higher quality of life would be for the poorest among us to be able to consume at a higher level. There are some 6-8% of the population that live in dire poverty, and another 10-12% that 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, however, 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 to be made through the public sector. 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.

Contemplating such an expansion of the public sector given the prevailing political climate might seem to be a non-starter, but we feel that the time is ripe for such a discussion. We need to have a new collective discussion about what services we need and how we pay for them.

And we need to have a deeper discussion about the public sector in general, and how public services, regulation, and other public enterprises can be democratized so that people have a more meaningful say into decision-making, oversight and holding public institutions accountable. This *Solutions Budget* agenda should be less about Big Government and more about Big Democracy.

What this *Solutions Budget* has attempted to do above all is demonstrate that budgets are about choices and there are many alternatives to the narrow business-dominated thinking of the provincial government. Addressing our most pressing priorities is not something we cannot afford. There is nothing inevitable about poverty. Indeed, by making strategic and thoughtful investments, we can not only address our concerns but improve our economy at the same time. Whether or not the world is watching, the time for action is now.

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