

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

2004 BC Solutions Budget:

Getting ready for 2010

The 2010 Olympic games are coming in just six years. The world will be watching—but what will they see?

If the spotlight shines on 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.

The provincial government needs to prepare British Columbia for a truly world class performance in 2010. If we continue to ignore pressing social needs, we'll wind up hoping no one looks under the carpet, instead of welcoming the global spotlight.

The *2004 BC Solutions Budget* uses the Olympics to anchor a six-year public investment strategy that would go beyond the minimum requirements for hosting the games, and use the Olympics as a springboard to revitalize the provincial economy.

The *Solutions Budget* six-year plan restores the province's fiscal capacity (tax revenues), rolls back the painful spending cuts, creates a more fair and sustainable tax system, achieves substantial public investments in the BC economy and key public services, creates a meaningful plan to stimulate private sector investment—and leaves BC with a smaller debt-to-GDP ratio than in any year since 1991/92.

BC'S ECONOMY AND FINANCES: TIME TO CHANGE DIRECTION

So far, the provincial government's plan for BC has centred on tax and spending cuts, deregulation and privatization. But it simply is not working. The economy remains weak, and has not been kick-started by tax cuts. BC trailed the rest of Canada in economic growth the past few years, and the outlook for 2004 is not much brighter. There is no boom in private sector investment on the horizon, and public sector investments—with the exception of Olympics

commitments that are concentrated in Vancouver/Whistler—have been cut back 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 number one 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—and that would mean a drag on economic growth.

Balanced budget legislation is a completely artificial constraint. Spending cuts 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.

BUDGETS ARE ABOUT CHOICES

The *Solutions Budget* shows that budgets are about choices. There are many alternatives to the narrow business-dominated thinking of the provincial government. Indeed, by making strategic and thoughtful investments, we can address the province's social needs and improve our economy at the same time.

An investment revival is key if BC is to reclaim its status as an economic leader in North America. The public sector needs to play a stronger role in launching new investment—along with measures that encourage greater private investment.

The *Solutions Budget* rolls back spending cuts made since 2001 and sets out a six-year public investment plan that focuses on education and training, transportation, social housing and health care reform.

The six-year plan boosts investment in these areas by \$2.3 billion (above and beyond rolling back the government's



spending cuts) in 2004/05, 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.

Stimulating new private sector investment is also essential to BC's economic revitalization. Tax cuts have not done the job. Above all, BC needs a coherent industrial strategy that includes resource industries through to manufacturing and advanced technology sectors. We propose a system of 'carrots and sticks' that creates the incentives for investment, production and employment, plus other social and environmental objectives.

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, including the complete elimination of MSP premiums and changes to the personal income tax structure that make it more progressive.

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 investments in people, it should not be as much of a concern as recent deficits to finance tax cuts.

SOLUTIONS BUDGET HIGHLIGHTS

Rolls back the painful spending cuts and outlines a six-year public investment strategy 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 the GVRD Sustainable Region plan, and carries forward road and highway expansion plans throughout the province, using a \$300 million increase in the gas tax.
- Creates 12,000 new social housing spaces.
- Injects operating and capital funds into health care to reduce pressure on emergency rooms and address long-term needs.

Funds the public investment strategy using a combination of tax changes that make the provincial system more fair and sustainable:

- Eliminates MSP premiums entirely (the most regressive element of BC's tax structure).
- Changes the personal income tax system so that 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.
- Increases the gas tax by \$0.05 per litre, with the money going directly to improving provincial transportation infrastructure.
- Restores corporate tax rates to pre-2001 tax cut levels, but new tax credits are introduced to reward companies that are making investments in BC.

Outlines a strategy to stimulate new private sector investment in BC and reverse the province's 20-year investment decline:

- Proposes a corporate tax system that would make BC a low tax jurisdiction for those companies willing to meet provincial economic, social and environmental objectives.
- Establishes 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. Emphasizes renewable energy and sustainable development.
- Emphasizes the need to revitalize BC's resource sector by encouraging investments that move BC up the value chain and capture emerging markets for eco-friendly resource products.

Maintains a healthy fiscal position while pursuing a pro-growth economic strategy:

- Balances the provincial budget by 2010.
- Results in a lower debt-to-GDP ratio in 2010 than in any year since 1991/92.

BC BUDGET VS. SOLUTIONS BUDGET

	Updated Forecast, 2003/04	Government's Budget Plan, 2004/05	Solutions Budget 2004/05	Difference (Govt. vs Solutions)
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 Revenue	4,009	4,115	4,415	300
Total Taxation Revenues	13,488	13,987	17,703	3,716
Natural resource revenue	3,702	3,496	3,496	-
Medical Services Plan premiums	1,393	1,418	-	(1,418)
Other revenue	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)
<p>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 restore 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.</p>				



CANADIAN CENTRE FOR POLICY ALTERNATIVES

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

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