

Economic and Fiscal Update

JULY 30, 2001

Hon. Gary Collins
Minister of Finance

INTRODUCTION

Mr. Speaker. On May 16th, the people of British Columbia elected a new government and sent a clear signal:

They wanted change. They wanted their province to move in a new direction.

They wanted new leadership.

They voted for a new era of hope and opportunity. And this government is going to deliver.

British Columbia has incredible strengths, vast resources, the best location and the most talented people anywhere . . .

And British Columbians told us, on May 16th, that they were tired of seeing those advantages squandered.

Mr. Speaker, this province started the last decade as an economic powerhouse.

Within 10 years, we moved from the front of the pack to the back of the pack in almost every category that counts.

We went from one of the fastest-growing economies in Canada to one of the slowest-growing economies in Canada.

We went from a competitive tax environment to one that's uncompetitive in key areas.

We watched as people's real disposable incomes fell — year after year after year . . .

And — not surprisingly — the mood across the province went from hope and enthusiasm to disappointment, and even despair.

Mr. Speaker. The families in our communities deserve better. Our future as a province demands it.

And this government will return British Columbia to its rightful place as a leader in Canada and around the world.

We've promised bold and innovative change. We've promised a new era of hope and prosperity.

On May 16, the people of British Columbia elected a new government and sent a clear signal. They voted for a new era of hope and opportunity. And this government is going to deliver.

And today we take the next steps in fulfilling those commitments.

But before we move forward, we need to establish a starting point — a baseline for future accountability. And so I'd like to present the house with a high-level update of this year's economic and fiscal status.

ECONOMIC AND FISCAL UPDATE

Mr. Speaker, I want to be clear that this is just an update:

We will deliver our first full provincial budget on February 19, 2002 — including a comprehensive three-year fiscal plan.

The update I'm about to deliver is only an interim step — based on the provincial budget introduced on March 15th.

Since then, much has changed.

To revive our economy for the long-term, we've cut personal income taxes by 25 per cent — and I will be announcing further tax reductions today.

As well, the economic outlook for the United States, Europe and Asia has weakened — and that's had a negative effect on B.C. exports.

In summary, we have seen — since March 15th — our revenues decline by \$1.85 billion to \$22.7 billion.

At the same time, expenditures have risen by \$455 million to \$24.75 billion — mainly because we've chosen to include a number of expenditures that weren't fully recognized in the March budget.

Crown corporation income has strengthened slightly with a small net gain of \$23 million.

All in all, this means our spending exceeds our revenues by \$2.28 billion.

After the forecast allowance of \$500 million, and the one-time-only joint-trusteeship agreement benefit of \$1.28 billion, the overall summary accounts deficit is \$1.5 billion . . .

To revive our economy for the long-term, we've cut personal income taxes by 25 per cent — and I will be announcing further tax reductions today.

And that is where the province's finances stand today.

Clearly, we face a challenge. A very serious fiscal challenge. And — Mr. Speaker — it must be overcome.

It *will* be overcome. Because we just can't afford to continue down the old road of poor planning, overspending, over-taxation and economic decline.

The Fiscal Review Panel made that clear when it issued its report last week.

The panel concluded that B.C. has a structural fiscal imbalance and, if we did nothing, we could face a deficit of more than \$5 billion within three years.

The panel said that, if we kept doing what government did for the last decade, we would be in real trouble.

But, as you know, the panel wasn't entirely pessimistic. It also said our fiscal problems *can* be solved — with fundamental changes in the way government operates.

Mr. Speaker. We're taking that advice to heart.

We've already announced a Core Services Review of all public-sector programs to assess, in a logical, systematic way:

- what is government's business?
- how are we going to do it? and
- how can we do it better?

I expect to begin to see results from that review in the next few months. But that doesn't mean we're going to wait to take action.

Frankly, B.C. has waited long enough — and we know what we have to do to solve our fiscal problems.

Number one: we need to make our tax system competitive, as a first step to revitalizing economic growth.

And number two: we need to bring some discipline to spending, with strong, accountable fiscal management.

I'm announcing action on both fronts today — starting with a series of measures to get our economy growing again.

Clearly, we face a challenge. A very serious fiscal challenge. And — Mr. Speaker — it must be overcome. It will be overcome.

REBUILDING OUR ECONOMY

Mr. Speaker, over the last decade, our standard of living in B.C. has declined.

While other jurisdictions have enjoyed record growth:

- the average British Columbian's real disposable income has fallen by more than \$1,700 a year;
- investment growth has lagged behind almost every other province; and
- too many business owners — and too many skilled workers — have felt compelled to move.

British Columbians won't stand for that any longer.

They won't stand by and watch all the investment, all the good jobs and all the businesses go to competing jurisdictions like Alberta and Washington State.

If we don't do something now, over time B.C. will wither away and end up being a have-not province — without the strength to support quality social programs.

That's not what British Columbians want, or deserve.

It's not what this government wants either, Mr. Speaker — and we've already made that clear.

During the election, we promised dramatic personal income tax cuts within 90 days of taking office. We delivered on Day One — our first full day on the job — cutting personal income taxes by 25 per cent.

Starting in 2002, B.C. will have the lowest rates of any province in Canada for the bottom two income tax brackets — which apply to all taxable income under \$60,000.

During the election, we also promised to make B.C. a more competitive place to invest and do business. And today, I'm pleased to announce a new series of tax reductions designed:

- to increase investment,
- to begin to revitalize industries like logging, mining and transportation,

If we don't do something now, over time B.C. will wither away and end up being a have-not province — without the strength to support quality social programs.

- to strengthen emerging sectors such as high-technology, and
- to break down other barriers to economic growth.

Mr. Speaker, some of the current barriers to growth are tied to complex, sensitive issues that can only be resolved over time.

For example, uncertainty around aboriginal land claims, and questions about long-term land-use planning, continue to dampen economic growth and deter investment.

These issues will be addressed — in the months ahead — as part of our broader strategy to bring prosperity back to B.C.

In the meantime, we must address the tax issues responsible for driving investment and business away.

For example, for many years, B.C. has been the only Canadian jurisdiction to charge provincial sales tax on production machinery and equipment — without offering any significant offset for business.

In a world where there's stiff competition for every investment dollar, that makes no sense. So we're axing the tax.

Effective midnight tonight, we are eliminating the PST on production machinery and equipment bought by eligible manufacturers — and by businesses in the logging, mining and energy sectors.

This exemption will replace the three per cent tax credit introduced last year.

It will save businesses \$87 million this year and spur new investment — both in traditional resource industries and in emerging sectors such as high-tech manufacturing and software development.

Our next major tax cut will also encourage new investment, especially from overseas. And it'll make a real difference for British Columbians.

Mr. Speaker, the NDP introduced the corporate capital tax in 1992. It sent an immediate, negative message to Asian and other potential investors.

But this tax doesn't just affect big investors outside B.C.

In the meantime, we must address the tax issues responsible for driving investment and business away.

This move will free up more than \$100 million — and leverage significant new investment in our province.

It's also paid — indirectly — by small business and start-up companies through their rent or lease arrangements.

That won't be the case much longer, Mr. Speaker. We're phasing out the corporate capital tax on non-financial institutions.

The rate will be cut in half — from 0.3 per cent to 0.15 per cent — on September 1st this year. And the tax will be eliminated entirely on September 1st, 2002.

This move will free up more than \$100 million — and leverage significant new investment in our province. It will also bring B.C. back in line with most of the rest of the developed world, where capital taxes are recognized as disincentives to growth.

As well, B.C.'s general corporate income tax rate is currently among the highest in Canada and is a significant deterrent to people doing business in B.C.

As a further step to make our taxes more competitive, we'll reduce the corporate rate by a full three percentage points — to 13.5 per cent — effective January 1st, 2002.

And we will strive to keep the rate competitive in the years ahead, as our economy grows.

I'm also announcing today a series of tax changes to strengthen the transportation and mining sectors. These include:

- Cutting the tax on domestic jet fuel — from five cents a litre to two cents a litre — to bring our domestic rate in line with the rate on international flights, and with the rates charged by our competitors;
- Reducing the tax rate on aviation fuel from three cents a litre to two cents a litre;
- Eliminating the seven per cent tax on bunker fuel used to run large ships — opening opportunities to supply more fuel to ships visiting B.C. ports and helping to attract more cruise ship business; and
- Introducing a new, 20 per cent flow-through share credit for mineral exploration, modelled on the federal credit. People who don't use flow-through shares will still be able to use the existing mineral exploration tax credit.

We're also reducing the surtax on new vehicles that penalizes people for buying the cars and trucks they need for work, business and family use.

This tax is added over and above the seven per cent PST.

The tax kicks in at \$32,000 — placing an unfair burden on people who need large vehicles for work and safe travel — not to mention people who have a disability and need a van or larger vehicle just to get around.

So, effective midnight tonight, we're lifting some of that burden by raising the threshold to a more realistic level of \$47,000.

In total, these tax changes will put \$248 million back into our economy, this year alone.

Combined with our personal tax cuts — and other policy and regulatory changes spearheaded by the Minister of Competition, Science and Enterprise and the Minister of State for Deregulation . . .

. . . these moves to a more competitive tax system will start to renew our economy this year — and set the stage for even more significant growth next year.

Anyone who doubts that only has to look at the impact of our personal tax cut.

It took effect less than a month ago and, already, people are seeing our province in a new light.

Business confidence is up dramatically. So is consumer confidence.

In fact, the Conference Board of Canada has just reported a huge, 20 per cent increase in its B.C. consumer confidence index — compared to a rise of just three per cent nationwide.

We believe this confidence will translate into growth of 3.8 per cent in our economy next year — up significantly from the 2.2 per cent growth expected this year.

Tax cuts will allow businesses to once again compete, create jobs and attract investment. And they'll send a message — here at home, and around the world — that B.C. is back and ready to lead again.

In total, these tax changes will put \$248 million back into our economy, this year alone.

BETTER FISCAL MANAGEMENT — A KEY TO SUPPORTING SOCIAL PROGRAMS

Mr. Speaker, leadership is about responsibility.

It calls for bold, decisive action — like we're taking today.

It also calls for humanity, compassion, understanding and empathy for people's needs and priorities.

Education. Health care.

These are the top priorities the people of this province have identified, again and again.

They're our priorities, too, Mr. Speaker, but I have to ask:

How does a province with the slowest-growing economy afford the best social programs in the country?

The answer is we can't — not in any sustainable way.

But a province with a vital, vibrant economy *can* afford high-quality public health care and education. That's why it's so essential to get our economy back on track.

British Columbians want a top-notch education system.

We want our schools to be at the leading edge of educational achievement and excellence. And, with the innovative ideas being put forward by the Minister of Education, we will achieve that goal.

We want our public health care system to guarantee all patients the care they need, where they live and when they need it. And I know the Minister of Health Services and the Minister of Health Planning are working every waking hour, trying to make that happen.

This government has an unflagging commitment to these objectives. And today I'm pleased to reaffirm that — as promised — we will maintain funding for both health and education.

The health budget will be \$9.5 billion this year. That's up \$1.1 billion from last year.

The budget for K-12 education is \$4.8 billion — up from \$4.6 billion last year.

But a province with a vital, vibrant economy can afford high-quality public health care and education. That's why it's so essential to get our economy back on track.

And we will increase those levels in the future, as we reap the rewards of new growth and prosperity.

The tax cuts I've just announced will help achieve prosperity — but tax cuts are only part of the answer.

It's just as important to properly manage the \$68 million a day the government now spends on behalf of British Columbians.

We must ensure that every one of those dollars is spent wisely — and we have a strategy to make that happen.

Mr. Speaker, our strategy includes the Core Services Review I mentioned earlier — a top-to-bottom examination of every government program and service, to make sure we focus resources where they're needed most.

Once we've done the review, we will publish three-year budgets and service plans that tell people, clearly, what they can expect from our government.

We will set out, on budget day — beginning next February 19th:

- what we're going to do,
- how we're going to do it,
- what results we plan to achieve, and
- how much it'll cost.

We'll also provide health authorities, school boards and post-secondary institutions with three-year funding commitments — so they can plan and act with the certainty that only comes with long-term funding.

Finally, we'll implement an all-out attack on red tape, business subsidies and waste — and, thanks to our new Waste Buster Web site, we'll soon have four million sets of eyes seeking out, and reporting on, government waste across the province.

These steps will ensure we get the maximum value from every dollar.

Today, I am also tabling two pieces of legislation that form the legal framework for our fiscal management plan:

The *Balanced Budget and Ministerial Accountability Act* mandates a balanced budget by 2004/05 — and for every year thereafter.

We must ensure that every one of those dollars is spent wisely — and we have a strategy to make that happen.

We have a duty, too, to deliver on our promises; to re-establish B.C.'s leadership role in Canada; to have the leading economy in Canada and the highest levels of private-sector investment anywhere.

It also makes us more financially accountable by tying ministers' salaries directly to our budget targets.

Starting April 1st, 2002, the government will automatically withhold 20 per cent of cabinet members' ministerial salaries.

Ministers will be able to earn back 10 per cent by meeting their ministry budget targets. The other 10 per cent will be paid out only if we meet our provincial budget target — providing a new level of both individual and collective political accountability.

The second piece of legislation I'm tabling today amends the existing *Budget Transparency and Accountability Act* — to ensure we move to fully implement generally accepted accounting principles.

In addition, it eliminates the traditional use of special warrants.

Unlike previous governments, we don't believe in spending the people's money without due process and debate in this, the people's legislature.

And so we will permit the use of special warrants only:

- in the case of a natural disaster, such as an earthquake; or
- immediately following a B.C. election, for a brief period, to ensure the continued provision of public services.

Mr. Speaker, this is one more measure of this government's commitment to accountability.

We understand that what we call "government revenue" comes out of the pockets and purses of British Columbians.

We understand that the money isn't ours to spend however we please: it belongs to the people we serve, and we have a duty to manage it wisely.

We have a duty, too, to deliver on our promises; to re-establish B.C.'s leadership role in Canada; to have the leading economy in Canada and the highest levels of private-sector investment anywhere.

Will it be easy? No.

There will be bumps along the way. We will face difficult and contentious choices.

But nothing of real value comes without a challenge . . .

And I can't think of a challenge more deserving of our efforts than the challenge of rebuilding the province of British Columbia.

CONCLUSION

Mr. Speaker, I was born and raised in Saskatchewan.

Every summer, my family would come and visit B.C. — and, as far back as I can remember, this was where I wanted to be.

It wasn't just the mountains and rivers that spoke to me.

It wasn't just the cities, or the beaches, or the forests.

What I felt as a young person, visiting this province, was a sense of hope; a sense of incredible opportunity; a sense that this was a place where great things could happen.

It's saddened me in recent years — just as I know it's affected so many British Columbians — to see that sense of opportunity evaporate, and see the mood of the people turn from hope to cynicism.

Over the last 10 years, they've seen their paycheques shrink, their tax burden rise and their opportunities narrow — so who can blame them for feeling cynical?

A few people console themselves by saying: Oh well, at least we're not as badly off as so-and-so. Because, if you look hard enough, you'll always find some other jurisdiction that's faring worse.

But is that the way we want to measure ourselves in B.C.?

Is that as good as it gets?

I say no. British Columbians deserve better. And the fact is, we haven't been living up to our potential.

Our resources in this province are immense and our people have unlimited talent.

With sound fiscal management, clear priorities and bold, innovative changes . . . we can sweep aside that sense of hopelessness and

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despair, and create the sense of optimism and energy that is British Columbia.

We can build upon the rubble of the last decade and re-establish this province as a place of opportunity.

And we can truly deliver on the promise of a new era of hope and prosperity for all of us . . . in the best province, in the best country, anywhere in the world.

***And once again, we
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Thank you.