



Publication

BUSINESS ALERT

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A CREATIVE AND BALANCED ECONOMIC PLAN

Amid steadily deteriorating global economic conditions, on Wednesday, October 22nd Premier Gordon Campbell delivered a 15 minute dinner-hour address covering a 10 point stimulus plan for BC. The plan offered a measured approach to help support economic activity through tax relief for businesses and individuals, stepped up infrastructure spending and a few other items aimed at shoring up consumer confidence.

The plan draws upon a range of policy tools available to the province that collectively will support different elements of the provincial economy. It also strikes a balance between providing stimulus while avoiding tipping the budget towards a certain deficit. By advancing a number of planned tax cuts by one or two years, much of the short-term stimulus is funded by the current operating surplus for fiscal 2008/09 without incurring excessive unbudgeted revenue hits in subsequent years.

In addition to its positive economic impact, the 10-point plan sends a signal that the government is being proactive in getting ahead of the emerging slowdown. So far the provincial economy has weathered the external economic storm quite well. Here the downturn is not as sharp as in Central Canada. However, with growing signs that the domestic side of the BC economy is slowing, the Premier's address is well-timed. At this stage, with the province's economy weakening but still relatively healthy, keeping the budget balanced is the correct approach.

The plan contains a number of announcements for businesses in the province including:

- A 50% school property tax rebate for light and heavy industry (\$115 million over the next three years);
- Advancing the planned reduction in the small business tax rate from 3.5% to 2.5%, to December 1st this year (two years earlier and \$146 million in savings for small business over three years);
- Doubling the commission paid to businesses for collecting the PST and the provincial hotel room tax (\$60 million to business over the next three years).

The government's decision to reduce the school property tax burden on light and heavy industry is especially welcome. The Business Council has long been concerned that onerous rates of property tax paid by industry and the widening gap between residential and industrial rates puts BC at a competitive disadvantage. Last night's announcement builds upon the reduction in the school property tax rate announced in the 2008 Budget, which delivered a full year savings of \$24 million annually for major industry.

Measures aimed at individuals include:

- An accelerated and retroactive personal income tax cut (\$144 million returned to BC taxpayers);
- A 33% reduction in ferry fares for all routes during December and January.



While modest, this tax relief directly benefits individuals. The Premier announced a 5 percentage point reduction in the provincial personal income tax rate retroactive to January 2008. As part of the revenue offset for the provincial carbon tax, income taxes were cut by 2 percentage points on July 1st and were scheduled to be reduced another 3% in January 2009. By making the full 5 percentage point cut retroactive to the beginning of 2008, the government has taken advantage of the surplus available this fiscal year, without introducing unplanned cuts to revenues in future years.

The Premier's plan also contained a number of other innovative measures. For example, he announced a voluntary new private sector pension. While details are still limited, it appears as though the province will establish a defined contribution plan for employers, employees and self-employed individuals on a voluntary basis.

The government also announced unlimited deposit insurance for (provincially regulated) credit unions. Deposits were previously insured up to a level of \$100,000 per account. Although deposits are not at any risk, this measure was aimed at alleviating individual fears. The provincial credit union system is very well capitalized and has an excess of liquidity. This measure is a step a number of other jurisdictions have taken.

Two other noteworthy items are accelerated infrastructure spending and reining in avoidable government spending. The former will see the province spend more on infrastructure, focussing on projects that do not have long lead times. This is the right approach, as the stimulative effect from capital spending is needed in the short term, not two or three years from now. Here the government may have some additional flexibility, as capital outlays are not counted as part of the province's operating budget.

Finally, the government will rein in avoidable government spending. Contrary to what some critics have said, this does not reflect an intention for deep spending cuts. Instead, the government will target "unbudgeted" spending increases, meaning spending outlined in the budget (including health care and education) is not under consideration for unplanned cuts.

In total, the tax cuts and support for business amounts to \$485 million over the next three years. In addition, spending on public infrastructure will be accelerated. As the province's other engines of economic activity slow or stall (consumer spending, housing, non-residential construction and exports), this plan provides some welcome and much-needed stimulus. Still, against the backdrop of a \$38 billion provincial budget and \$190 billion (in current dollars) provincial economy, the dollar amounts are modest.

This government has a strong economic and fiscal track record. Wednesday night's address suggests it is continuing to focus on what it does best.

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