



# Publication

## BUSINESS ALERT

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### REVIEW OF LIBERAL AND NDP ELECTION PLATFORMS

With both major political parties releasing their platforms last week, what follows is a brief summary and analysis of their respective promises and proposals. Amidst a severe global downturn and financial crisis, economic issues are sure to figure prominently in the campaign and are therefore the main focus of this commentary.

The NDP's platform calls for a number of notable policy changes, including eliminating the carbon tax, boosting the minimum wage, and imposing a moratorium on the development of renewable energy by the private sector. There is also a call for increased government spending on health, education and social programs relative to the commitments in the Liberal government's 2009 budget. The NDP's three-year plan, if implemented, would result in higher levels of government outlays, larger operating deficits, and steeper taxes for some segments of the business community.

It's fair to say the BC Liberal Party's platform is thin on new promises. The document is more a revisiting and confirmation of existing policy directions than a roadmap of new ideas. The Liberals are running on their record. That said, there are a handful of new proposals – e.g., to introduce Recognition and Reconciliation legislation for First Nations, reduce the small business tax rate to the lowest in Canada, and double the BC training tax credit. In the light of the current economic situation, an argument certainly can be made in support of policy stability and stay-the-course fiscal management.

#### Carbon tax and climate policy

Arguably, the highest profile item in the NDP's platform is the pledge to eliminate the carbon tax which the Liberals instituted in 2008. While this may be popular with some constituents (including some in the business community), it is problematic from a fiscal standpoint. Scrapping the carbon tax will result in a loss of \$2.3 billion in government revenues over the next three years, thus creating a sizable hole in the provincial budget.<sup>1</sup> The difficulty is that the carbon tax package introduced by the Liberals was revenue neutral in aggregate, as the government lowered corporate and personal income taxes to offset all of the revenue generated by the carbon tax. Yet the New Democrats suggest they will not reverse

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<sup>1</sup> According to the Budget, the carbon tax will raise \$2.3 billion in revenues for the fiscal years 2009-10 through 2011-12. In the NDP platform the cumulative revenue loss from scrapping the tax is put \$1.8 billion. If the NDP won the election they would likely repeal the tax on July 1<sup>st</sup>, meaning the revenue loss for 2009-10 would only cover three quarters of the fiscal year. But their plan shows a smaller revenue hit in each of the three fiscal years than the figures in the 2009 budget.



these business and personal tax reductions. This raises a question: how would the loss of carbon tax revenue be dealt with by an NDP government? The answer, in part, is that the New Democrats would impose higher taxes on oil and gas producers, re-impose the capital tax on financial institutions, and legislate an undefined “greenhouse gas emissions” levy by the third year of their fiscal plan. But even with these measures their fiscal program does not fully add up, the more so because they intend to spend more than the Liberals (see below).

The NDP’s platform also states that under the existing carbon tax, “...big polluters are let off the hook...” This claim is false. Regardless of one’s view of a made-in-BC carbon tax, under the current scheme business and industry contribute a majority of the revenue collected – which is not surprising, since the business sector (broadly defined) is the biggest consumer of fossil fuels in the province. A positive feature of the BC carbon tax is its broad application to all forms of fossil fuel consumption in the province. The New Democrats seem to believe that putting a price on carbon emissions should only be done “upstream,” so that consumers are shielded from the impact. Since the goal of attaching a price to emissions of carbon dioxide and other greenhouse gases is to encourage greater energy efficiency and speed the shift to a low-carbon economy, it makes sense to apply the same price to all emission sources, including those under the control of consumers and households.

Related to the issue of the carbon tax is the prospect that BC may in the future set a “hard cap” on greenhouse gas emissions from industry – the NDP promises to do so by 2010, while the Liberal government has also committed to hard caps on industrial emissions as part of the province’s participation in the proposed Western Climate Initiative cap-and-trade program. While details are scant, the NDP platform states that the party will use hard caps as the “foundation to meet our objective of a 33% reduction in [greenhouse gas] emissions by 2020.”

### **Fiscal Management**

Evaluating the fiscal strategies outlined by the two parties is complicated by the fact that economic conditions have deteriorated since the BC budget was unveiled in February. We now expect that the economic downturn will be more serious than projected in the 2009 budget. That means baseline revenues will also be lower than is assumed in the two parties’ platforms. As a result, the operating deficits facing the next BC government are apt to be larger than the \$495 million and \$245 million which the budget projected for 2009-10 and 2010-11.

A key difference however, is that the NDP plans to increase the deficit, irrespective of any unanticipated revenue shortfalls. According to the party’s platform, the NDP would return to a balanced budget only in year four of their term. Additional spending and the revenue loss from eliminating the carbon tax will increase the operating deficit by \$877 million this fiscal year and by \$597 million and \$172 million, respectively, in 2010-11 and 2011-12. To help close the fiscal gap over time, the NDP is counting on “multiplier effects” from the additional operating and capital expenditures, as well as spending “reallocations” and



selected tax hikes. Although there is little in the way of detail, reallocation for the NDP includes rolling back executive pay and achieving savings on contracted services, travel and other discretionary spending. The party's platform also cites the "the elimination of agencies like Partnerships BC" as a source of savings.

Yet in preparing the 2009 budget, the Liberal government already trimmed \$1.9 billion in spending by cutting outlays on travel, professional services and other discretionary items and reducing the number of senior public servants. So finding an additional cumulative \$1.2 billion in savings over next three years, as the NDP wants to do, will be a challenging task if the NDP is elected to office.

The Liberal platform follows the spending and revenue trajectory laid out in the 2009 budget. Under the Liberals' plan the deficit is slated to shrink over the next two years before and move back into balance by 2011-12. Even though we are not convinced these targets can be met given the onset of a serious recession, it's clear that compared to the NDP's plan the Liberals' fiscal strategy would result in smaller operating deficits, less build-up of new debt, and a faster return to a balanced/surplus budget.

### Tax Policy

The NDP's commitments to eliminate the carbon tax and to provide a temporary one-time tax cut for small business are positive for the business community. But the party's platform contemplates more than \$1 billion in new taxes - mainly on business - over the next three years. Included in this total are:

- a new "flaring" royalty on the natural gas industry;
- a surcharge on liquor sold in private liquor stores;
- higher water rental rates;
- introduction of some form of greenhouse gas emission pricing on industry (the platform provides no further details); and,
- restoration of the corporate capital tax on financial institutions.

From our perspective this list of proposed tax hikes raises a number of concerns.

The natural gas industry has emerged as an important economic driver and export engine for BC. It has also been a big source of revenue for the province over the past several years. A key reason why the industry has thrived is the province's innovative royalty structure, which, *inter alia*, encourages year-round drilling and exploitation of marginal and higher-cost reserves. The NDP's proposed flaring royalty would make BC less attractive for upstream producers and likely tilt future investment decisions in favour of other locations. It is also unclear whether the proposed flaring royalty would actually yield the revenues assumed by the New Democrats.

Re-imposing a capital tax on financial institutions is also a bad idea. British Columbia has a substantial and growing financial services cluster which has been supported by the province's



status as an International Financial Centre. A capital tax on financial institutions would weaken BC's competitive position in this sector. Oddly, the NDP's promise to reinstate the capital tax comes just as Ontario and Quebec are finally moving to eliminate similar taxes on financial enterprises.

Other than the pledge to reduce small business taxes and double the training tax credit, the Liberal's platform contains no new tax measures beyond those announced in February's budget and the Premier's 10 point economic plan last fall. The Business Council believes the Liberals deserve high marks for their handling of tax policy. British Columbia today has a competitive overall tax structure, with relatively low taxes on business income and the lowest personal tax rates in the country on incomes up to \$116,000. From our perspective, the only problematic feature of the Liberal government's tax record in recent years was the decision to establish a made-in-BC carbon tax in a context where competing jurisdictions have opted not to adopt a similar levy.

### **Energy policy**

A central thrust of the NDP platform is to move away from the current government's strategy of stimulating the development of renewable energy by the private sector. The New Democrats have long opposed this; their platform calls for a moratorium on independent power projects, along with an enhanced role for BC Hydro in supplying the province's future energy needs. Specifically, the NDP wants to "[end] privatization at BC Hydro" and take measures "to control rising [electricity] rates." Yet, it is a misrepresentation to say that BC Hydro has been privatized. BC Hydro's electricity dams, reservoirs, and other facilities are secured as provincial assets. True, some back-office and other administrative operations at the utility have been contracted out to the private sector, but this does not amount to "privatizing Hydro" in a general sense.

The NDP's intention to halt the development of renewable energy projects proposed by independent power producers would strangle BC's emerging "green" energy sector, leading to less capital investment and fewer jobs in this industry.

### **Infrastructure priorities**

The NDP's platform references a wide range of infrastructure spending in transportation and transit and accelerated investment in seismic upgrades at schools. On transportation, the plan envisages additional spending on roads in rural areas, advancing the construction of the Cariboo connector, and expanding passenger train service between Vancouver and Seattle.

Based on their platform, the New Democrats propose spending an additional \$618 million on capital projects this fiscal year and another \$940 million in 2010-11, on top of the amounts included in the 2009 provincial budget. These capital outlays would provide additional economic stimulus but also add to the overall debt burden.



The Liberal platform sticks with already identified transportation projects. In our view, the government deserves credit for successfully delivering a large amount of new transportation infrastructure (as well as new infrastructure in the health and education sectors, often by tapping private sector funding and expertise through public-private-partnerships). The Liberal plan envisages accelerating the expansion of the Cariboo connector (as does the NDP's) and reiterates the commitment to a new 10-lane Port Mann bridge and the South and North Fraser Perimeter roads (here the NDP platform is notably silent).

### **Post secondary education**

On post-secondary education, the NDP platform emphasizes affordability and enhanced student funding. If elected, the party will freeze tuition fees (and provide offsetting increases in grants to post-secondary institutions); the New Democrats also want to make greater use of grants and low-interest student loans - an idea the Business Council has previously endorsed. The NDP also commits to expand the number of apprenticeship spaces (which have been increasing steadily under the Liberals).

The Liberal platform focuses more on spaces and facilities. It proposes a new law school at Thompson Rivers University, a new medical school at UBC Okanagan, and a major expansion of the Sauder School of Business. The Liberals plan to hold tuition increases to the rate of inflation and say they will maintain the higher funding level for student aid announced in the 2009 budget.

### **Other issues**

A significant NDP commitment is to boost the minimum wage to \$10.00/hour, from its current level of \$8.00, and to link it to the rate of inflation after that. While a case can be made that the government should have adjusted the minimum wage during its eight years in office, we believe it would be unwise to legislate a big one-time increase at a time when the economy is slumping and many small businesses are struggling to survive.

Forestry remains a hot-button issue in many parts of the province. The industry today is in crisis due to low lumber prices, declining pulp prices, and collapsed US housing markets. Major tenure reform remains elusive. Looking at the platforms, one notable red flag is the NDP's proposed ban on raw log exports. The economic reality is that a large percentage of the logs exported today would not be harvested if they couldn't be sold outside of the province. Nor do we believe it is appropriate for government to impose restrictions on what private forest land owners do with the fibre resources they own. A ban on log exports would translate into more job losses in an industry that is already shedding workers and contractors.

Finally, the Liberal platform reaffirms the government's intention to move ahead with a Recognition and Reconciliation Act, which will set "out the principles for defining and honouring the province's new commitments to Indigenous Nations." Because the government "went public" with this far-reaching initiative just weeks in advance of the writ,



and because the proposed legislation will result in significant policy changes with respect to the management of Crown land and resources, the Business Council recommends that the province hold extensive public consultations and legislative hearings before proceeding with this measure. The NDP's platform does not mention new legislation in this area, but it appears to have similar objectives as the document references the need to "work with First Nations and all other British Columbians to bring about reconciliation and shared decision-making on land and resources so we all benefit from settling these long-standing injustices."

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