

After a month of HST, the sky hasn't fallen

BY JOCK FINLAYSON, SPECIAL TO THE SUN AUGUST 4, 2010

August 1 marked the one-month since the introduction of the harmonized sales tax (HST). So far the sun is still shining, the birds are chirping, and British Columbians appear to be going about their business pretty much as they did before the implementation of the tax.

Critics of the HST have made a number of arguments. Here I will deal with several of those advanced by the "Fight HST" coalition and its more prominent supporters about the supposed economic consequences of the tax.

To begin with, Bill Vander Zalm, the putative leader of the anti-HST forces, has suggested the tax will devastate our economy and perhaps even cause B.C. to slip back into recession. Suffice to say that no professional forecaster shares this view. A quick scan of recent forecasts from TD Bank, CIBC World Markets and Scotiabank shows that they all expect B.C. to match or out-perform Canada on economic growth and job creation over the next 12-18 months.

In truth, no credible economist believes the HST will damage B.C.'s economy. Indeed, almost all of the published research confirms that the HST will have a positive, long-term impact on investment, jobs and per capita GDP.

The HST does involve a shift in taxation from businesses to consumers, as a result of the elimination of the former provincial sales tax (PST) on goods and services purchased by B.C. businesses to run their operations; and the fact that certain items that were exempt from the PST are now subject to the HST.

However, much of the PST that companies previously paid on their "inputs" was embedded in selling prices paid by B.C. customers. The HST removes taxes on business inputs, thereby reducing the cost of producing goods and services in the province. The bulk of these savings will be passed on to consumers over time.

Vander Zalm and his colleagues are skeptical that businesses pass on cost savings. But both economic logic and empirical research indicate that this is what happens in a competitive marketplace. Studies show that reduced business costs led to lower (pre-tax) prices for consumers in Quebec and the Atlantic provinces that enacted value-added sales taxes. Were this not the case, one would expect to see a sharp and sustained increase in the profit margins of consumer-oriented industry sectors in jurisdictions with HST-type consumption taxes. No such evidence exists for the provinces that harmonized their sales taxes with the federal GST in the late 1990s.

Consumers will not directly benefit from lower prices for goods and services that are exported. These benefits go to external purchasers of B.C. goods as well as local exporting firms. But because the cost of producing goods and services in B.C. will decline under the HST, our exporters will become more internationally competitive and thus in a stronger position to invest and create jobs at home. In this

way, the HST should bolster the province's export base and the hundreds of thousands of jobs that it supports.

Many critics also insist the positive impact of the HST will accrue to large companies alone, with smaller firms left out. This assertion doesn't stand up to scrutiny. In fact, many of the industries expected to benefit from the HST are heavily populated by small and mid-sized businesses. The average manufacturer in B.C. has fewer than 100 employees, the typical construction firm fewer than 50. Most agricultural producers are even smaller. And a large majority of firms in B.C.'s advanced technology sector employ between five and 50.

A final misrepresentation is that the HST disproportionately hurts poor households. A legitimate concern with any consumption tax is that lower-income individuals spend a higher share of their disposable income on consumer necessities. This is why the provincial government is providing HST tax credits for lower-income households, just as Ottawa did when the GST was adopted.

Jock Finlayson is executive vice-president, policy, at the Business Council of British Columbia.

© Copyright (c) The Vancouver Sun