

## Horgan New Democrats set to reverse decline in B.C.’s program spending?

The elevation of John Horgan’s New Democratic Party to government on July 18, 2017, almost certainly will bring a reversal the 16-year decline in public spending that was overseen by its predecessor, the BC Liberals.

“It was clear in the results of the last election,” Carole James, the new NDP Finance minister said in the opening words of her Budget Update last September, “that the majority of British Columbians were frustrated about the direction the province was taking.”

She followed up by stating: “For the past 16 years, we’ve seen children and parents struggle to get supports, seniors who can’t find the care they need, families unable to afford housing ... We’ve seen increasing fees people paying more while getting,

less. B.C. has had one of the highest poverty rates in the country.

“These aren’t just examples or statistics. These are real families, individuals and businesses struggling to get by because of the choices made over the last 16 years.”

The remedies for these myriad challenges likely means an increase in provincial government expenditures. How soon and by how much may depend on the extent of spending cuts administered between 2001 and 2017 by successive BC Liberal administrations.

It is useful to recall the mandate the BC Liberals believed they had won in the province’s 37th general election, held in May 2001.

In February 2002, in his first full-year Budget Speech, Finance minister Gary Collins declared that his new BC Liberal government was “absolutely committed to getting our fiscal house in order.”

He continued: “That means getting rid of the structural deficit, once and for all, by ensuring that government spending doesn’t exceed our revenues.”

It was (and is) debatable as to whether British Columbia at the time had a structural deficit – the incoming BC Liberal administration, after all, “inherited” a \$1 billion-plus surplus from the preceding 2000/01 fiscal year – but the new government’s commitment to balanced budgets was evident in a new law that banned fiscal deficits.

It was B.C.’s third balanced-budget statute – Social Credit (in 1991) and the NDP (in 2000) had introduced their own versions, with both subsequently repealed by their successors – and was just as unsuccessful in outlawing deficits as its predecessors.

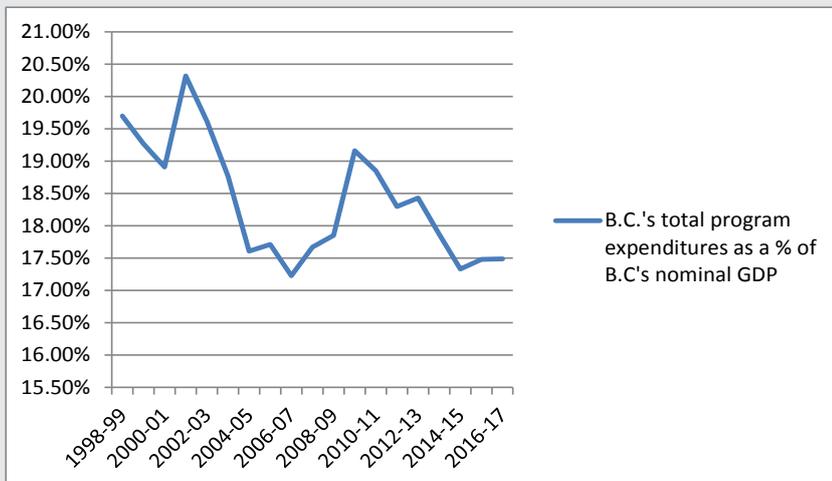
The BC Liberal record of surpluses and deficits over their 16-year tenure in office, after all, was nine of the former and seven of the latter.

(Twice, in 2009 and in 2011, the balanced-budget law was amended by the BC Liberals to “temporarily suspend the prohibition against deficit budgets ....”)

British Columbia’s debt, moreover – which is a function of both operating deficits and capital expenditures – doubled from \$33.8 billion to \$65.9 billion.

*continued on page 2*

### Successive BC Liberal governments made concerted efforts to reduce spending



SOURCE - .Fiscal Reference Tables, 2017, and the B.C. Data Catalogue

Still, the BC Liberals made a concerted effort to rein-in public expenditures. As Collins made clear in his 2002 Budget Speech: “We respect taxpayers. ... That’s why we’re making government more efficient, and doing the hard work needed to get spending under control.”

How to calculate the extent to which provincial spending was diminished by the BC Liberals during their 16 years in power?

One way is to measure total “program expenditures” – provincial outlays minus interest charges on the public debt – as a proportion of B.C.’s nominal gross domestic product.

Over the three final years of NDP government in the late 1990s – from fiscal 1998/99 to 2000/01 – program expenditures averaged 19.3 per cent of the province’s GDP.<sup>1</sup>

After spiking briefly to 20.3 per cent in fiscal 2001/02 – as British Columbia transitioned from a NDP administration to a BC Liberal government – provincial spending went into a manifest downturn.

By 2006/07, Victoria’s spending had fallen to 17.2 per cent of GDP, likely the lowest level since the 1970s.

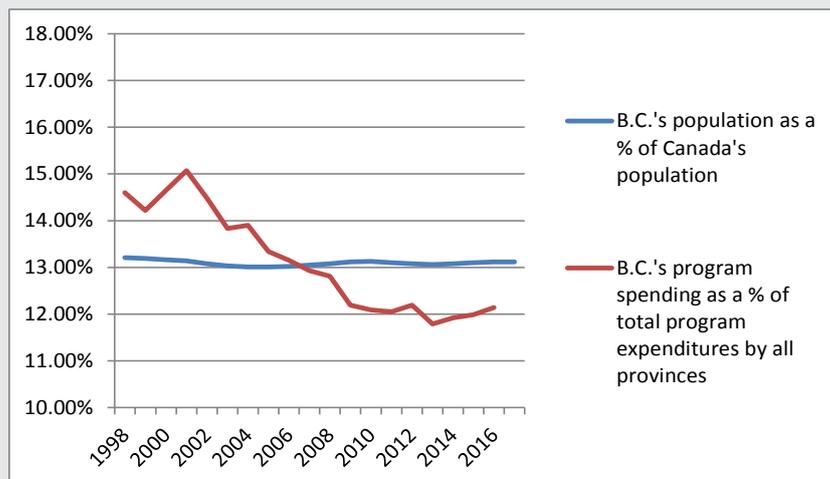
The global financial crisis that began in 2007 also resulted in a brief rise in government expenditures as a proportion of the provincial economy.

Largely that was the result of B.C.’s nominal GDP plunging in 2009 by a painful 4.0 per cent – from \$202.4 billion to \$196.2 billion – but also because the BC Liberals for a time boosted spending by an annual average of more than five per cent.

Yet, after rising to 19.2 per cent of GDP in 2009/10, expenditures steadily fell to 17.3 per cent in 2014/15 and remained near that level until the BC Liberals were defeated in the legislature in the summer of 2017.

A second way to look at the weakening of government spending under the BC Liberals is to compare our province’s program expenditures

## B.C.’s share of provincial program outlays fell below our share of Canada’s population



SOURCE - *Fiscal Reference Tables, 2017, and Statistics Canada*

to the total recorded by all other Canadian provinces.

During the two-decade span between 1998 and 2017, British Columbia’s population grew from slightly less than 4.0 million to just over 4.8 million. Through that same period, Canada’s population rose from about 30.2 million to 36.7 million.

Generally, B.C.’s share of the national population since the 1990s has remained at a near-constant 13.1 per cent.

It would be reasonable to assume that B.C.’s share of the combined total of all province’s program expenditures would be approximately the same, about 13.1 per cent.

Yet, although British Columbia’s program spending rose from almost \$23.3 billion in fiscal 1998/99 to just over \$46.1 billion in 2016/17 – nearly doubling – comparable outlays by all of the provinces combined soared over the same period from \$159.5 billion to about \$380.0 billion.

As a share of the nation-wide total, B.C.’s program outlays plunged from about 14.5 per cent – averaged over a three-year period in the late 1990s – to an average of 12.0 per cent during the BC Liberals’ last three years in power.

So, in the event that John Horgan’s NDP government reverses B.C.’s

weakened program spending, how much might provincial outlays rise over the next several years?

Consider that the province’s nominal GDP in 2017 is forecast – by the Ministry of Finance – to hit \$276.2 billion. Should program spending in the next year or so rise by a single percentage point – to about 18.3 per cent – Victoria’s outlays would expand each year (on top of inflationary growth) by at least \$1.7 billion.

A two per cent increase would mean an annual jump of about \$3.5 billion.

Or, should B.C. lift its share of Canada’s provincial-program spending to where it equals our population – from 12.0 per cent to about 13.1 per cent – it would mean an annual hike (again in addition to inflation) by at least \$4.8 billion.

These are mere guesstimates, of course. Much will be learned when Finance minister Carole James introduces the New Democrats’ three-year Budget and Fiscal Plan on February 20.

1. The source for calculations of program spending by B.C. and all of Canada’s provinces is from the *Fiscal Reference Tables, 2017*, prepared by the federal government’s Department of Finance. Calculations of the Province of British Columbia’s nominal GDP are from the provincial government’s B.C. Data Catalogue.