

Response From the Progress Board

Over the past year, the Progress Board has worked closely with the Centre for the Study of Living Standards (CSLS) to get a better understanding of productivity performance in British Columbia. To date, we have received two reports from the Centre – an overview report on productivity and, more recently, “Investment in British Columbia: Current Realities and the Way Forward.” The Progress Board endorses the analysis and recommendations in the CSLS report. As with previous advisory work, the Board’s goal is to deepen understanding of problematic indicators and provide advice to government on how to improve British Columbia’s performance.

Much is being written about the current and future state of the global economy, often profoundly conflicting. While the Progress Board does not wish to add to this debate, it is obviously relevant to note that this report on productivity, initiated a year ago in a very different economic climate, comes at a time when global business investment has slowed and even stopped. While projections are being regularly adjusted and are lower now than even six months ago, economic growth is expected to be above the national average in British Columbia, fuelled in part by development of natural gas, and construction in the run-up to the 2010 Olympics. The Board believes the province is uniquely positioned to take advantage of current economic realities and position itself well for an inevitable economic upturn.

The government of British Columbia has recorded healthy surpluses in the last four fiscal years. These surpluses, in addition to ensuring a continued decrease in the weight of the debt/GDP ratio (about 14 percent in 2007-2008, the lowest of any jurisdiction in Canada except Alberta), have allowed for substantial increases in spending for health, education and infrastructure, including the \$14 billion investment for public transit that has been hailed as the largest public-transit announcement in BC history. This focus on infrastructure spending is increasingly important, as our recommendations below suggest.

The government in British Columbia has also consistently focused on a lower-tax agenda, again a practice that will position the province well during this time of economic change. Budget 2008 provided more than \$400 million in tax cuts and \$428 million in new investments, and the Premier recently outlined ten key measures in an economic plan whose focus is to support families and improve productivity during this time of global economic slowdown. In many cases, the Board’s recommendations for improved productivity support and build on commitments already made in this province.

Recommendations

Having considered the analysis and recommendations provided by the CSLS, the Progress Board has developed a set of recommendations to assist in attracting the investment that is required to further unlock British Columbia's potential. There are four categories – tax policy, infrastructure, trade, and regulation.

TAX POLICY

As the government in British Columbia has demonstrated, tax policy offers a fruitful field for reforms that encourage investment. In fact, the provincial government has taken advantage of many of the measures available to boost productivity. The Board generally endorses the recommendations included in the CSLS report, and specifically recommends the following:

- The most profound area for improvement to productivity, but also the most difficult to achieve, is in replacing the Provincial Sales Tax with a value-added tax, preferably harmonized with the Goods and Service Tax administered by the federal government. Such a change would significantly lower the marginal effective tax rate on investment and reduce distortions across sectors. Harmonization would face considerable challenges, not the least of which is public opposition as a result of a shift of the burden from businesses to consumers. As the CSLS has pointed out, however, there are policy tools available to offset the disproportionate impact on consumers.

The current treatment of the Provincial Sales Tax is a particular disincentive to invest in British Columbia. Evidence from the Atlantic provinces, which harmonized their sales taxes with the federal Goods and Services Tax, suggests that British Columbia could experience a 12.1 percent increase in trend M&E investment as a result of adopting a value-added tax. These results imply that adopting a value-added tax could result in M&E investment as a share of GDP in BC of 6.8 percent in 2007 (as opposed to 6.1 percent), thus closing 70 percent of the M&E investment intensity gap between BC and the national average (7.1 percent). The potential public opposition to this measure should not be underestimated, however, and there could be a protracted adjustment period.

- A long-term, broad-based Investment Tax Credit (ITC) could be used to lower the cost of investing in British Columbia. However, it is not the optimal response to BC's investment challenges, and is recommended only in the absence of PST harmonization. We do not recommend the introduction of a short-term or targeted ITC as a way to sustainably increase investment in BC. This is not to say that such ITCs are not useful, but they should be seen as a fiscal tool to stimulate aggregate demand and support targeted industries rather than as a policy to support efficient economy-wide investment levels.

INFRASTRUCTURE

The government of British Columbia has consistently made infrastructure spending a key priority, including in the Premier's recently-announced economic plan that committed to accelerated public investments in capital infrastructure projects. The Board supports this approach and, in past advisory reports, has identified several key areas for investment.

The Board concurs with the CSLS that abundant, high-quality infrastructure reduces the costs and risks of doing business, and thus increases the returns to investment. Canada as a whole has been under-investing in infrastructure by international standards, and so while British Columbia has historically done well compared to other Canadian provinces in terms of public infrastructure investment, it is in this relatively constrained context.

The Board supports the government's renewed focus on infrastructure as one means to weather the economic downturn. The Board further recommends a broad view of infrastructure that includes increased government resources to support education and training. In this way, the Board is confident the province can be well-positioned to take full advantage of improving economic conditions as they develop.

The Government of British Columbia should continue to apply rigorous cost-benefit analysis to each proposed project to determine the desirability of additional investment. Quantitative analysis of the job creation potential of each project should be the focus. Continued use of innovative procurement and financing tools, for example through public-private partnerships is also recommended.

The Board also continues to endorse the following infrastructure proposals:

TRANSPORTATION:

- In its past advisory report on transportation, the Board laid out a comprehensive plan for the province. Many of those recommendations have been addressed. The Board continues to support upgrades to the Trans-Canada Highway in the Rockies, specifically Phase 4 of the upgrade.
- Continued support for mass transportation is also recommended.

POWER:

- The Board supports competitive and comprehensive proposals for a variety of electricity supply projects, from small run of the river projects to Site C on the Peace River.

- Development of Northern BC as a major trading hub for natural gas, including work on a trilateral economic arrangement between British Columbia, Yukon and Alaska to explore the potential transportation of Alaskan natural gas through the Yukon and British Columbia and efforts to market Northern BC as the best choice for the terminus of the anticipated Alaska and McKenzie Valley pipelines.
- Electrification of the Highway 37 corridor from Meziadin Junction to Dease Lake which is currently serviced by diesel power. The Board welcomes the recent steps announced to bring reliable electrical service to the area.

TRADE

International and interprovincial trade affects productivity indirectly. By facilitating competitive pressure and lowering barriers to investment, trade can act as a strong engine for productivity growth. British Columbia's international export levels as a share of GDP are below the Canadian average. Yet, British Columbia enjoys a unique position in the Canadian federation by being the province most likely to develop and benefit from strong trade links with the rapidly expanding Asia-Pacific region, and by serving as Canada's gateway to the Asia-Pacific region.

The government in British Columbia has made a priority of reducing interprovincial trade barriers. British Columbia and Alberta have been leaders in reducing barriers to interprovincial trade and migration with the development of a framework agreement between the two provinces in 2006 (Trade, Investment and Labour Mobility Agreement or TILMA), and the Premier of British Columbia has led discussions to expand this agreement to other provinces.

The Board supports TILMA and all efforts to expand this agreement across all provinces.

REGULATION

The Government of British Columbia has made progress reforming regulations that discouraged investment. But analysis of the BC mining industry, for example, shows that other provinces continue to be ahead of British Columbia in creating a regulatory environment that encourages investment. Product market regulation, in particular, can have an especially harmful impact on investment in information and communications technologies, an area where BC has a serious investment problem.

Another serious impediment to investment in British Columbia is the federal Fisheries Act. Although beyond the direct control of the provincial government, the requirements of the federal Fisheries Act can pose onerous and overwhelming challenges to development in this province.

We recommend that the Government of British Columbia continue to build on recent success in improving the clarity, efficiency, and predictability of BC's regulatory environment. Specifically, the Board recommends that the government of British Columbia:

- Request that the Federal government adopt changes to the Fisheries Act and its application that support achievement of environmental and fish habitat objectives while eliminating unnecessary expense and delay for small and low risk projects.
- Continue harmonizing regulation between provinces and US states, with the federal government, and even internationally.
- Build on the success of the Straightforward BC initiative and its quarterly progress reports by targeting not just the number of regulations, but also by improving quantification and reporting of the costs of regulation in BC and by adopting an outcome-based rather than a prescriptive approach. While acknowledging the cost of gathering such information, we feel that over the long-term better information will lead to better decisions and a more attractive investment climate.

Conclusion

The Progress Board's 2008 Annual Benchmark Report demonstrates British Columbia's consistent excellent performance on debt and tax rate, where the province places second only to Alberta. These measures point to the economic capacity of the province to weather the economic downturn. The Board has considered the current economic climate from the point of view of measures that can be taken to position the province well to take the fullest advantage of a global economic recovery.