FAILED POLICIES

SHIFTING RESPONSIBILITY TO AVERAGE FAMILIES

PART 2: MONEY FOR NOTHING

The BC Liberals promised that billions of dollars in corporate tax cuts would stimulate a boom in capital investment. It didn't happen.

UNITED WE STAND
British Columbia Federation of Labour

MONEY FOR NOTHING

EXECUTIVE SUMMARY

Gordon Campbell, Christy Clark and the BC Liberals began to cut corporate and business taxes almost immediately after taking power in 2001. Their stated objective was to significantly boost capital investment in British Columbia.

"Today I'm pleased to announce a new series of tax reductions designed to increase investment," explained Gary Collins, BC Liberal Finance Minister in his maiden Budget Speech on July 30, 2001. "... We must address the tax issues responsible for driving investment and business away."

Collins added, "Tax cuts will allow businesses to once again create jobs, compete and attract investment. ... They send a message here at home and around the world that BC is back and ready to lead again."

Between 2001 and 2011, as estimated by the B.C. Federation of Labour, the cumulative cost of BC Liberal cuts just to corporate-income taxes added up to $7.7 billion to $8.5 billion.

The BC Liberals also have abolished or drastically slashed a variety of other taxes paid by businesses — in the former category, the corporation capital tax; in the latter, fuel, luxury automobile, sales, school-purpose property and other taxes.

Those additional measures push the cumulative cost of BC Liberal tax cuts for businesses over the period 2001 and 2010 to well above $12.0 billion.

As well, the Harmonized Sales Tax (HST) — which took effect on July 1, 2010 — annually shifts an additional $2.0 billion away from businesses, and onto individual British Columbian consumers.

Corporations today pay about $3.5 billion less -- each year -- than they did before the BC Liberals formed government in 2001.

Despite the enormous cost to the province of the BC Liberals' corporate tax cuts, their promise of a dramatic increase in capital investment has not been fulfilled.

The growth of total capital expenditures in British Columbia, when measured as a proportion of the provincial economy, largely mirrors that of Canada as a whole over the last decade, confirmation that BC Liberal policies have had little or no impact on business investment.

Almost all of the increase in capital outlays in British Columbia between 2000 and 2010 was in the categories of mining, oil and gas extraction, and residential housing. Those increases were attributable to two factors unrelated to the BC Liberals or their corporate tax cuts — booming global commodity prices and historically low interest (mortgage) rates.

In the vital "machinery and equipment" category, capital expenditures remained relatively static over the last decade, growing from $9.0 billion in 2000, to $10.3 billion in 2010.

Worse, when measured as a proportion of the provincial economy, capital investment in machinery and equipment fell from 6.9 percent of GDP, to a mere 5.2 percent between 2001 and 2010.

Shockingly, the decline in capital investment in machinery and equipment took place even as the Canadian dollar strengthened from $0.65 US in May 2001, to $1.03 US in May 2011. A strong Canadian dollar makes the purchase of foreign-made machinery and equipment more affordable, yet BC companies refused to increase their outlays.

Ten long years after Gordon Campbell, Christy Clark and the BC Liberals first embarked on their corporate tax-cutting strategy, promising that the loss of billions of dollars to the provincial treasury would stimulate capital investment, it is painfully evident that they have failed.

The dismal BC Liberal record on capital investment clearly illustrates yet another policy failure.

01. INTRODUCTION

Attracting new investment to British Columbia was the reason offered a decade ago when, bare weeks after winning the 2001 general election, Gordon Campbell, Christy Clark and the BC Liberals began an unprecedented onslaught against the taxes paid by corporations and wealthy individuals.

By the end of 2010, corporate tax cuts introduced by the BC Liberal government added up to more than $1.5 billion annually.

The Harmonized Sales Tax (HST) will further reduce the yearly taxes paid by corporations by $2.0 billion, and that burden has been shifted to families and individuals.

Today, a decade after the BC Liberals took power, empirical data conclusively proves the failure of their tax-cutting policies.

The most important measure of capital investment, in the category of machinery and equipment, actually has declined over the past decade. Indeed, BC has seen no improvement in the investment in machinery and equipment since 2001, despite the transfer of billions of dollars in lost tax revenues from the provincial treasury to corporate boardrooms.

This is a shocking policy failure, insofar as the Canadian dollar has appreciated significantly against the American dollar since the turn of the century. In May 2001, when the BC Liberals won election to government, the Canadian dollar was valued at $0.65 US; by May 2011, the loonie had soared to $1.03 US.

Historically, and in accordance with economic theory, a stronger currency enables Canadian businesses to increase their acquisition of foreign-made machinery and equipment. This clearly has not occurred in British Columbia over the last decade.

Worryingly, as a proportion of the provincial economy, capital expenditures on machinery and equipment have dropped precipitously.

Whereas BC's gross domestic product (GDP) expanded by 51.1 percent between 2001 and 2010 -- or 5.7 percent annually -- capital investment in machinery and equipment increased by a mere 14.7 percent -- just 1.6 percent annually.

In 2001, outlays on machinery and equipment represented 6.9 percent of GDP. That number was down to 6.5 percent in 2008, and it then plunged even further, to 5.5 percent in 2009, and a stunningly-weak 5.2 percent in 2010.

Overall, capital outlays in sectors other than the booming mining, oil and gas sectors, and over-heated residential housing market, have shown negligible improvement over the last decade.

These findings are especially relevant today as British Columbians participate in a province-wide referendum on the HST. Unveiled by the BC Liberals shortly after the 2009 general election, the new consumer-based tax shifts an estimated $2.0 billion annually away from corporations and onto the backs of ordinary British Columbians.

Again, the reason offered in support of the HST by Christy Clark's BC Liberals is that it will stimulate capital investment.

In light of the failure of corporate tax cuts to enhance capital investment in our province, British Columbians clearly have good reason to be wary of the most-recent claims by the BC Liberals as to the alleged benefits of corporate tax cuts.

02. BC LIBERAL TAX CUTS WERE SUPPOSED TO STIMULATE CAPITAL INVESTMENT

Corporate taxes since 2001 have been slashed by Gordon Campbell, Christy Clark and the BC Liberal government by more than $1.5 billion annually.

In addition, the Harmonized Sales Tax each year shifts a further $2.0 billion away from corporations, and onto BC families and individuals.

The BC Liberals' corporate tax-cutting onslaught began with their first Budget, on July 30, 2001.

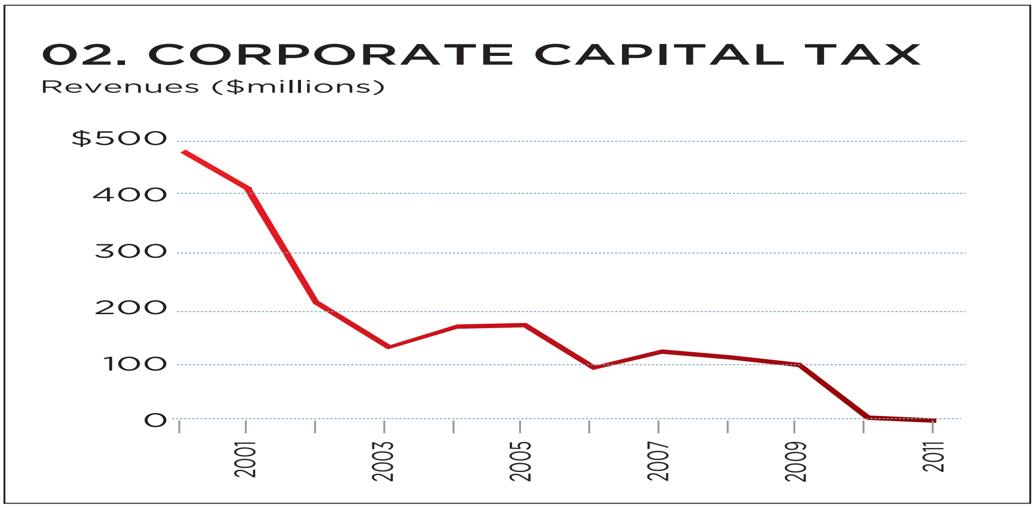
"If we don't do something now, over time British Columbia will wither away and end up being a have-not province," claimed Gary Collins, the BC Liberal Finance Minister, in his maiden Budget Speech.

He quickly abolished the corporation capital tax for non-financial institutions (at a full-year cost of $273 million), reduced the general corporation income tax rate from 16.5 percent to 13.5 percent (at a cost of $200 million annually), and introduced a new sales-tax exemption for production machinery and equipment (an annual loss of $160 million).

Collins explained that corporate savings from eliminating the provincial sales tax on production machinery and equipment would "allow them [BC businesses] to put that money back into investment ...."

Carole Taylor made her maiden Budget Speech in the Legislative Assembly on September 14, 2005.

(Collins had resigned as Minister of Finance and MLA on December 14, 2004.



The government's decision to abolish the corporation capital tax for non-financial institutions, moreover, was intended to "encourage new investment, especially from overseas ...."

The rookie BC Liberal Finance Minister concluded: "This move will ... leverage significant new investments in our province from within British Columbia and around the world."

Collins continued to give significant tax breaks to corporations over his next three Budgets, at an additional, cumulative cost to the provincial treasury of $90 million annually.

He was succeeded as Finance Minister by Colin Hansen, who introduced a Budget for 2005/06 but the legislature was dissolved by the BC Liberals before the Spending Estimates could be debated and passed. Taylor was named to the Finance post following the 2005 general election, and in September she brought in new 2005/06 Estimates.)

"We are lowering the general corporate income tax rate from 13.5 percent to 12 percent," Taylor told the legislature in her inaugural address. "So in this Budget Update we are taking it down one-and-a-half percent, but I will remind you that is four-and-a-half points lower than when we formed government in 2001."

Combined with a measure that raised the threshold at which small businesses paid tax on their profits, Taylor's first-round of cuts cost the provincial treasury $153 million annually.

Like Collins before her, Taylor continued cutting corporate taxes long after her opening salvo. On February 19, 2008, she rose in the legislature to introduce her fourth Budget and said: "Today we are announcing further reductions in both our corporate and small business income tax rates."

The general corporate income tax rate was to be lowered from 12 percent to 11 percent, she said, adding: "Over the next three years, we expect it to fall to 10 percent."

Taylor also declared that the government was "reducing taxes for small businesses. They are the cornerstone of BC's economy ...."

The tax-rate for small businesses was cut from 4.5 percent to 3.5 percent by Taylor, and she vowed that it would fall to 2.5 percent by 2011.

In 2008 Taylor made history when she declared that BC's long-standing corporation capital tax would be abolished entirely.

Whereas Collins earlier had eliminated the corporation capital tax on non-financial institutions, Taylor now removed it from big banks, insurance companies and trusts.

"The existing corporation **Capital Tax Act** has hindered financial institution investment and growth in BC," the Finance Minister declared. (Later, when asked in the legislature to provide empirical evidence to buttress that assertion, she declined.)

According to Taylor's plan, the long-standing capital tax would be phased-out over a three-year period. However, it was to be replaced by a new minimum tax on the country's biggest banks, "to ensure that large financial institutions continue to face a base level of taxation in this province."

Almost four years to the day after Collins had quit politics, Taylor -- on December 19, 2008 -- resigned as Finance Minister and MLA. (Months later she accepted an appointment to the Board of Directors of the Toronto-Dominion Bank Financial Group.)

Her predecessor as Minister of Finance, Colin Hansen, now became her successor.

Hansen unveiled the Budget for 2009/10 on February 17, 2009 -- three months before a scheduled provincial general election -- and it contained a spate of new corporate tax reductions.

The Budget confirmed a new tax credit for industrial property owners (earlier announced by the government in November 2008), under which, Hansen said, corporations would save "more than $115 million over three years."

Now, he said, that new property tax credit would be boosted from 50 percent to 60 percent, so as to let "sawmills, pulp mills, mines and other industrial employers" keep an extra $11 million each and every year.

The pre-election Budget also re-affirmed the BC Liberals' pledge to further cut the corporation income tax to 10 percent by 2011, and Hansen boasted that reductions to the small business income tax would save companies "more than $120 million over three years."

And there was even more lolly in store for the BC Liberals' corporate supporters, with the government vowing to remove expiry dates for the film tax credit under the **Income Tax Act,** expand eligibility for companies to the Film Incentive BC tax grant, and extend the mineral flow through share tax credit.

Notes to Hansen's pre-election Budget for 2009/10 also reiterated the BC Liberals' plan to "Phase out [the] corporation capital tax and replace it with a new financial institutions minimum tax."

Three months after the election, in a September 1, 2009 Budget Update, that statement was repeated word-for-word.

Six months later, however, in the Budget and Fiscal Plan for 2010/11 - 2012/13, a much-different sentence appeared: "Repeal the financial institutions minimum tax."

Shockingly, the minimum tax once promised by Carole Taylor -- "to ensure that large financial institutions continue to face a base level of taxation in this province" -- was gone.

Introduced in the early 1970s, the corporation capital tax generated significant revenues for the province for more than three decades.

In 2000/01, the fiscal year before the BC Liberals won election to government, the capital levy produced $459 million, and a year later, in 2001/02, $395 million.

Those revenues plunged once the newly-elected BC Liberal government exempted non-financial institutions from paying the tax. Still, over the eight-year period from 2002/03 to 2009/10, the corporation capital levy yielded an average of $132 million per year -- with the bulk of that amount paid by Canada's largest banks.

Now the BC Liberals had gone even further than proposed by Carole Taylor -- the capital tax on banks was abolished entirely. Tens of million of dollars that each year used to make their way to the provincial treasury, now remained in the vaults of the nation's most-profitable corporations.

The news media paid scant attention to the historic abolition of British Columbia's corporation capital tax, as that story was overshadowed by an even bigger taxation issue -- and a broken election promise.

In the spring of 2009, in the weeks leading up to BC's 39th provincial general election, the BC Liberal party received questionnaires from two prominent business organizations -- the Greater Vancouver Home Builders' Association, and the BC Restaurant and Foodservices Association. Those business groups specifically wanted to know if the BC Liberal government intended to introduce a harmonized federal-provincial sales tax.

"A harmonized GST is not something that is contemplated in the BC Liberal platform," was the party's official response to both business associations.

Yet, on July 23, 2009 -- just two months after British Columbians had gone to the polls -- the re-elected BC Liberals made a stunning announcement. "Harmonized Sales Tax to boost investment, job creation," declared the headline on a government news release.

Ignoring their election commitment to not introduce a harmonized sales tax (HST), the BC Liberals now admitted that they intended to merge British Columbia's provincial sales tax (PST) with the federal government's goods and services tax (GST).

Together, those levies would form a new HST, which, in the words of the government news release, would annually "remove over $2 billion in costs for BC businesses."

Later, in his September 1, 2009 Budget Update, Finance Minister Hansen provided additional details on the windfall HST savings to be enjoyed by various corporate sectors.

The construction industry alone, he said, would save $880 million -- annually, year after year.

"I want to be clear," Hansen told the legislature. "... the HST will provide a significant boost to employers — the people who create jobs and stimulate investment and generate the revenues we need for public services."

TABLE 1: EXPECTED HST SAVINGS BY INDUSTRY SECTOR

SECTOR	SAVINGS ($MILLIONS)
Construction	$880
Transportation	210
Manufacturing	140
Forestry	140
Mining, Oil & Gas	80
Sub-Total	*1,450*
Administrative Savings	150
Sub-Total	*1,600*
Other Savings	400
Total Yearly HST Savings for Busines	**$2,000**

SOURCES: September Update, Budget and Fiscal Plan, 2009/10 - 2011/12, news release Backgrounder: "Harmonized Sales Tax (BC HST)"

03. CAPITAL INVESTMENT FACTORS

Capital investment appears at first blush to have increased in British Columbia since the BC Liberals won election to government in 2001.

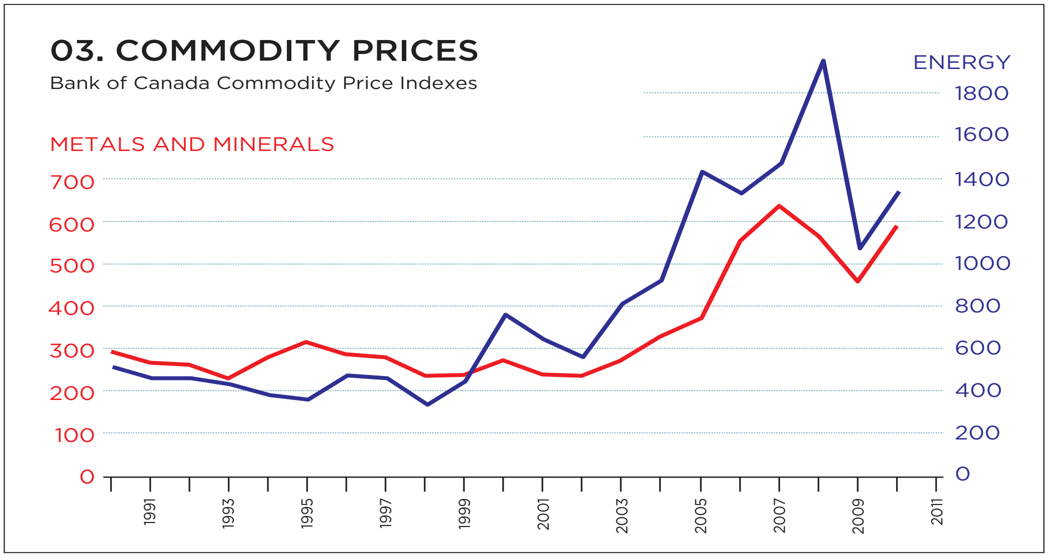
However, a closer examination of the empirical data shows that BC Liberal policies — and especially their massive tax-giveaways to the corporate sector — have done little or nothing to effect business investment.

In 2001, total capital expenditures in British Columbia added up to $23.4 billion — equal to 17.5 percent of the province's GDP. Seven years later, in 2008, capital investment in BC peaked at $46.9 billion, or 23.7 percent of the provincial economy.

The global economic recession hit BC in 2009, and capital investment and GDP both recorded year-over-year declines. The former dipped to $39.0 billion, and the latter to $191.0 billion. Still, as a proportion of the economy, capital investment remained at fairly robust 20.4 percent.

BC's economy improved in 2010, with provincial GDP rising to $201.8 billion. Capital investment also recovered, but at $44.5 billion — 22.0 percent of GDP — failed to regain its 2008 heights.

The growth of capital expenditures in British Columbia over the last decade largely mirrored that of Canada as a whole. Between 2001 and 2007 -- before the global economic recession -- capital outlays in



BC rose from 17.5 percent to 22.3 percent of provincial GDP. Across the nation, meanwhile, investment grew from 18.0 percent to 21.5 percent.

The bulk of the expansion in both jurisdictions is explained by fast-rising global commodity prices. In 2001, the Bank of Canada commodity price index stood at 289.64; by 2007, that number had nearly doubled, to 565.33.

As well, much of the growth in capital investment in Canada and British Columbia was in residential housing. That development was the result of historically-low mortgage and interest rates — which, over the course of the last decade, stimulated a housing-boom in many countries in the western, industrialized, world.

Across Canada between 2001 and 2007, capital expenditures grew by a healthy 64.7 percent, but outlays in the housing sector expanded by a whopping 104.4 percent.

The situation was even more dramatic in British Columbia, where capital expenditures over the same period of time increased by 82.2 percent, and new housing investment skyrocketed by a stunning 154.4 percent.

Canada felt the full force of the global recession in 2008, but while capital expenditures dipped across the country, they remained robust in British Columbia. That latter result, according to Statistics Canada, was due to ongoing investment in the oil and gas sector.

Interestingly, the situation was reversed in 2009, as capital investment rebounded nationally, but fell noticeably in the pacific province.

By 2010, both Canada and BC were experiencing positive economic growth, and each jurisdiction enjoyed an expansion of GDP and an increase in capital investment.

In BC, capital expenditures rose to just above 22.0 percent of the provincial economy, although at $44.5 billion they remained below their historic peak. Across Canada, meanwhile, investment hit 21.5 percent of national GDP, and recorded an all-time high at $349.3 billion.

It is evident that the upward trajectory of capital expenditures in British Columbia over the last decade is primarily due to two factors: skyrocketing global commodity prices, and historically-low mortgage rates. The former prompted massive outlays in the mining, and oil and gas sectors, while the latter kicked off a flood of investment into residential housing.

Neither factor was unique to British Columbia, nor due to policies implemented by the BC Liberal government.

Indeed, the fact that capital investment in BC since 2001 so closely matched that of Canada as a whole, refutes BC Liberals' claims as to the efficacy of their never-ending corporate tax-cutting.

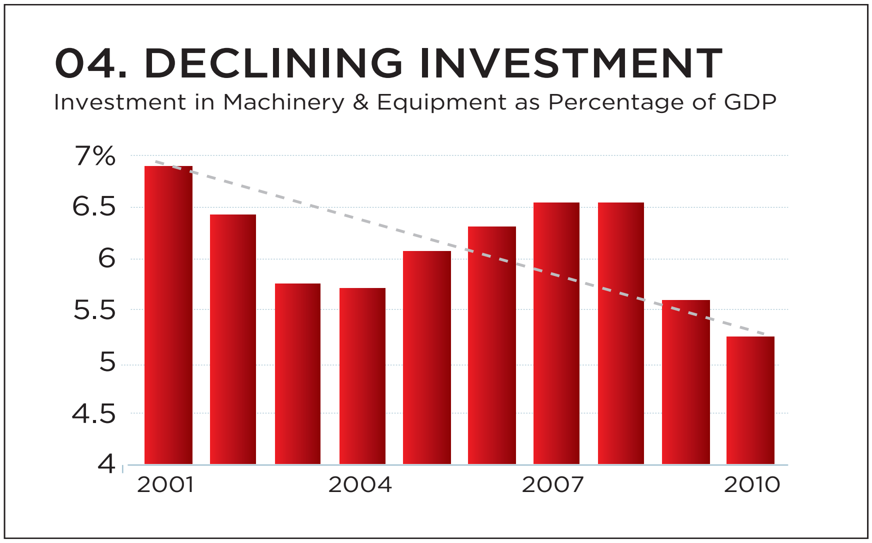
04. DECLINING INVESTMENT IN MACHINERY AND EQUIPMENT

The real failure of the BC Liberals' tax-cutting policies over the last decade is the decline in investment in machinery and equipment.

Billions of dollars — between $7.7 and $8.5 billion in foregone corporate income tax revenues, and at least $12.0 billion in total — were denied to the provincial treasury between 2001 and 2010, all in the vain hope of encouraging large corporations and small businesses to invest in new means of production.

It did not happen.

When the BC Liberals took power in 2001, capital expenditures on new machinery and equipment added up to almost $9.3 billion. That was equal to 6.9 percent of the province's GDP.



By 2007, investment in machinery and equipment had increased to $12.4 billion — but that represented just 6.5 percent of BC's economy. One year later, capital spending grew to nearly $12.9 billion, but remained static at as a proportion of GDP.

Since then, capital outlays on machinery and equipment have declined both in real terms and as a share of the province's economy.

In 2009, at the depth of the global economic downturn, capital investment in machinery and equipment (to $10.5 billion) and GDP (to $191,006) both fell. As a proportion of GDP, capital investment on machinery and equipment plunged to just 5.5 percent.

In 2010, when GDP was estimated at $201.8 billion, and intended capital expenditures for machinery and equipment were pegged at $10.5 billion, the latter number was an anemic 5.2 percent of the former.

05. CONCLUSION

Attracting new investment to British Columbia was the reason offered a decade ago when, weeks after winning the 2001 general election, the BC Liberals began a never-before-seen onslaught against the taxes paid by corporations and wealthy individuals.

Today, all available empirical evidence proves that those tax-cutting policies have failed.

The most important measure of capital investment, for machinery and equipment, actually declined over the past decade, from almost seven percent of BC's GDP, to an embarrassing 5.2 percent.

Meanwhile, global economic factors, not tax policy, prompted the only increases of capital in mining, oil and gas, and residential housing.

It is manifestly evident that BC Liberal taxation policies failed in their oft-repeated goal of encouraging capital investment in vital sectors of the provincial economy.

Billions upon billions of dollars in corporate tax-giveaways have been lost to the provincial treasury since 2001, with the result that vital public services and programs either have been eliminated or starved of funds.

Of the many and myriad failed policies enacted by the BC Liberals over the last decade, their inability to stimulate capital investment in our province ranks as one of the most egregious.

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NOTES

APPENDIX 1: CAPITAL INVESTMENT BY INDUSTRY IN BRITISH COLUMBIA

($MILLIONS)	ACTUAL 2001	ACTUAL 2002	ACTUAL 2003	ACTUAL 2004	ACTUAL 2005
Housing	$5,700.8	$6,754.0	$8,006.4	$10,040.4	$10,993.1
Mining, quarrying and oil well industries	2,925.8	2,299.4	3,309.3	3,978.6	5,026.9
Public administration	2,109.7	2,158.6	2,017.6	2,386.8	2,697.0
Utilities	943.6	1,084.6	1,375.8	1,374.8	1,329.5
Transportation and warehousing	2,062.5	2,142.6	1,429.6	1,359.5	1,877.6
Real estate, rental and leasing	1,524.6	1,661.4	1,572.1	1,557.6	1,681.3
Education services	610.4	660.8	726.2	871.6	1,020.7
Health services	552.3	558.1	612.3	711.0	993.9
Information and cultural industries	1,465.1	1,087.3	764.1	947.5	828.2
Retail trade	774.1	731.8	822.5	1,065.6	1,011.2
Manufacturing	1,303.6	1,098.3	1,176.4	1,466.9	1,656.7
Finance and insurance	1,529.7	1,333.5	1,295.5	1,292.0	1,455.2
Construction	248.3	280.3	306.9	355.6	391.9
Accommodation and food services	239.0	396.3	431.0	467.7	543.0
Wholesale trade	339.7	369.0	415.5	392.5	480.9
Professional, scientific and technical	315.2	348.6	349.4	362.8	297.3
Agriculture, forestry, fishing and hunting	336.1	383.8	395.6	444.5	414.6
Other services	161.4	176.5	170.4	207.4	217.9
Arts, entertainment and recreation	126.1	98.3	144.1	216.6	191.3
Admin, waste and remediation services	115.8	75.9	99.0	107.7	113.2
Management of companies and enterprises	30.5	32.4	14.4	7.6	32.9
TOTAL	**$23,414.3**	**$23,731.6**	**$25,434.1**	**$29,664.7**	**$33,254.2**

Construction	**$14,152.5**	**$14,866.5**	**$17,128.4**	**$20,741.9**	**$23,038.8**
Machinery and equipment	**9,261.8**	**8,865.1**	**8,305.8**	**8,922.8**	**10,215.4**
TOTAL	**$23,414.3**	**$23,731.6**	**$25,434.1**	**$29,664.7**	**$33,254.2**

APPENDIX 1: CAPITAL INVESTMENT BY INDUSTRY IN BRITISH COLUMBIA *(CON'T)*

($MILLIONS)	ACTUAL 2006	ACTUAL 2007	ACTUAL 2008	ACTUAL 2009	ACTUAL 2010
Housing	$13,298.9	$14,504.5	$15,591.1	$11,926.3	$13,357.4
Mining, quarrying and oil well industries	6,411.9	5,849.1	6,775.1	5,024.3	9,032.0
Public administration	3,086.2	3,361.9	3,678.8	3,450.9	3,982.3
Utilities	1,551.7	2,033.2	2,570.6	3,283.2	3,011.4
Transportation and warehousing	2,882.2	3,474.2	3,487.1	2,619.9	2,184.3
Real estate, rental and leasing	2,036.7	1,818.1	2,430.1	1,973.4	2,175.7
Education services	1,179.0	1,384.7	1,243.5	1,241.3	1,402.6
Health services	1,199.6	1,044.0	1,349.2	1,171.4	1,286.2
Information and cultural industries	1,015.7	824.6	1,199.8	1,486.0	1,243.5
Retail trade	1,124.3	1,508.6	1,617.3	1,297.8	1,197.1
Manufacturing	1,636.7	1,502.2	1,455.4	1,147.6	1,179.2
Finance and insurance	1,589.2	1,710.8	1,401.8	947.2	990.7
Construction	482.3	777.4	916.3	665.0	711.3
Accommodation and food services	579.7	712.4	829.3	828.3	587.7
Wholesale trade	465.3	470.8	527.6	428.5	549.3
Professional, scientific and technical	296.4`	408.8	402.7	344.8	403.3
Agriculture, forestry, fishing and hunting	368.3	418.9	420.6	330.2	326.2
Other services	155.6	197.7	246.3	203.2	320.8
Arts, entertainment and recreation	248.3	410.5	498.2	351.4	305.2
Admin, waste and remediation services	277.4	237.3	252.1	205.5	192.4
Management of companies and enterprises	26.9	19.2	42.9	74.8	31.8
TOTAL	**$39,912.2**	**$42,669.6**	**$46,935.8**	**$39,001.0**	**$44,470.3**

Construction	**$28,440.7**	**$30,303.7**	**$34,071.8**	**$28,565.1**	**$33,930.4**
Machinery and equipment	**11,471.5**	**12,365.9**	**12,864.0**	**10,435.9**	**10,539.9**
TOTAL	**$39,912.2**	**$42,669.6**	**$46,935.8**	**$39,001.0**	**$44,470.3**

NOTES

B.C. FEDERATION OF LABOUR
200 - 5118 Joyce Street
Vancouver, BC V5R 4H1
604.430.1421