

# Canada: business "flabbergasted" by British Columbia government's tax cut

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On its first day full day in office, British Columbia's new right-wing government announced cuts to personal income taxes far beyond anything promised in its election manifesto. The cuts, which are heavily weighted in favor of the upper middle class and the rich, will cause a large government revenue shortfall that will be used to legitimize future social spending cuts. They are also meant to underline the determination of the newly elected Liberal government to make good on its pledge to institute major policy changes during "90 days of decision."

"Today's announcement," declared Liberal Finance Minister Gary Collins, "puts the rest of the country and the rest of the world on notice. British Columbia is competitive again. We are open for business."

During the election campaign, the BC Liberals promised to make the rate of taxation on the first \$60,000 in income the lowest in the country by the end of their first term in office.

Under the scheme they unveiled June 6, all personal income tax rates are to be reduced by 25 percent by next January 1. The cuts are to be implemented in three stages, the first stage of which has been made retroactive to the beginning of this year. Not only will these cuts give BC the country's lowest taxation rate on the two lowest taxation brackets, they reduce the tax rate on incomes over \$85,000 from the highest in the country to the second lowest.

While the Liberals are manipulating statistics to claim that in percentage terms their tax cuts are of greatest benefit to those with low incomes, the cuts are heavily skewed in favor of the well-to-do. British Columbians making \$20,000 a year will see their taxes drop by about \$236 in 2002, as compared to \$1,947 for those earning \$80,000, and \$7,800 for those with incomes of \$200,000.

Moreover, the Liberals' tax cuts will make the tax system considerably less progressive.

The tax rate in the lowest tax bracket will drop from 8.4 percent to 6.05 percent in 2002—a drop of 2.35 percentage points. The highest bracket, meanwhile, will fall from 19.7 percent to 14.7 percent—a decline of five percentage points, more than twice as large. Thus the well-to-do are not just getting a bigger tax cut in real dollar terms, but even when measured as a percentage of their total income.

According to Jock Finlayson, vice-president of the Business Council of BC, the province's most powerful business lobby group, the scope and speed of the Liberal tax cuts came as a "pleasant surprise." He told the *Globe and Mail*, "When the press release first came over our fax machine, I thought it was a joke. This is one of the biggest tax cuts in Canadian history ... I was flabbergasted."

The BC tax cuts have been welcomed by the right across Canada for their potential to trigger a tax-cut bidding war, with provinces seeking to lure investment by competing as to which can offer the lowest tax rates. Such a "war" will mean increased fiscal pressure for cuts in state expenditure on social and public services, especially if the economy plunges into recession. BC Premier Gordon Campbell "has sent a message to other premiers..." exalted a *National Post* editorial. "Gentlemen re-start your tax-cutting engines." Ontario Finance Minister and Deputy Premier Jim Flaherty hailed the BC announcement as "brilliant."

Campbell has dismissed concerns that the tax cuts will drive the provincial budget into a deficit, although when in opposition he railed against the New Democratic Party (NDP) for deficit spending. Campbell claims the cuts will generate so much economic activity that the shortfall caused by the tax cuts will be more

than offset by the resulting increased government revenue. But when pressed, he reiterates the Liberals' pledge to eliminate any budget deficit within three years.

During the election campaign, the Liberals shed crocodile tears over the deterioration in public health care. Declining real wages and ever-increasing workloads have caused large numbers of nurses and other health care workers to leave their chosen profession or move to the US. But Finance Minister Collins has said the incoming government will not offer the province's nurses a penny more than did the previous NDP regime and threatened the nurses with strike-breaking legislation if they do not end an overtime ban.

According to Collins, the nurses' overtime ban is putting patients' health and lives at risk, which only goes to prove the nurses' point that the province's health care system is chronically understaffed. Asked about the nurses' overwhelming rejection of the last government wage offer, Collins declared, "I can be pretty hard-line too."

The new government is also under pressure from the corporate media to force an end to a 10-week-old strike by Vancouver transit workers. The workers are resisting attempts to force them to accept greater "work-rule flexibility," including part-time drivers—changes deemed as a necessary by management to prepare the way for privatization. In its lead editorial yesterday, BC's largest daily, the *Vancouver Sun*, urged the Liberals to legislate an end to the strike and even to goad the transit workers into defying the law.

"The government ... can expect a fair degree of confrontation ... as it faces several tough negotiations with its own employees as well as a fight over promised labor code changes that threaten union sinecures. So it's no big deal if the union balks at being legislated back to work and the fireworks start a little early."

One of the most important changes the Liberals have promised to implement during the next three months is to make education an "essential service," which would effectively strip public school teachers and school support staff of the right to strike.

The BC Liberals, despite their name, are political allies of the Canadian Alliance and the Tory governments in Ontario and Alberta. Their road to

power was paved by the social-democratic NDP and the trade union bureaucracy. During a decade of NDP rule, the social democrats policed capitalist austerity, imposing steep social spending cuts, breaking strikes and competing with the right in championing law and order.

Recognizing that the Liberals' right-wing agenda will provoke great popular opposition, much of the capitalist media have counseled the government to amend parliamentary rules and grant the NDP official opposition status in the legislature. That the Liberals have spurned this advice is indicative of their intention to use their massive parliamentary majority—they hold 77 of the legislature's 79 seats—to try to intimidate all opposition and press ahead with their big business agenda at full throttle.



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