

BULLETIN

Does BC really have a debt problem?

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by MARC LEE

The recent provincial budget was, for many commentators, a real dog. After all, \$890 million is an awfully big number for a late-1990s provincial deficit. But there is good reason to step back and put the numbers in their proper context. Despite all of the barking, the bite is not really that bad.

Though it may sound surprising, even with this year's large deficit, BC is still in relatively good fiscal shape. Economists generally assess the overall debt level not in straight dollar terms, but in relation to the size of the economy. Like a household or a business, the bigger you are, the more debt you can hold.

This year will see a rise in BC's debt-to-GDP ratio to 24 percent, but this is still the third-lowest of all of the provinces. The federal government's debt-to-GDP is 65 per cent, almost three times as large. Among the provinces, the recent Quebec budget predicts a debt-to-GDP ratio of just under 50 percent, while Ontario, after years of deep cuts, has a ratio of 30 per cent. Quebec may have a debt problem; BC has a way to go before we are anywhere close.

What matters most, for any government, is the ability to pay off the interest incurred on the debt. In the coming year, BC will pay 8.6 cents per dollar of revenue in interest payments. Only Alberta, Manitoba and BC have debt service costs in this ballpark. The other seven provinces pay at least 13 cents per revenue dollar, with Ontario at 17.7 cents and Nova Scotia at a whopping 19.1 cents.

Commentators are right to be concerned about future build-up of debt. Large increases in public debt ultimately lead to restrictions on the ability of governments to pay for programs like health care and education.

But BC is nowhere near a "debt wall." Predictably, the provinces' credit rating was downgraded, but the evidence suggests that this will only marginally increase the cost of borrowing.

Clearly, government cannot run large deficits year-in and year-out. This would not be sensible and would indeed lead us into severe debt problems. But for BC, now is the time to run a deficit, not a balanced budget that would exacerbate the existing economic downturn.

The best time to attack the overall debt is when the economy is growing. During an expansion, governments face increasing tax revenues and lower demand on expenditures. The last opportunity to do so came at a time of deep federal cuts to provincial transfer payments. BC, unlike other provinces, chose to absorb the cuts to maintain funding for health and education.

At the start of 1999, BC's economy is not expanding, largely due to factors beyond our control: slumping Asian demand for our exports and depressed international commodity prices. When times are tough, it is simply good public policy to stimulate demand in the economy through fiscal measures.

Another consideration is what sources are driving the deficit. The biggest chunk of new spending comes in health care, an increase of \$615 million.

Few would argue that this money is not needed. Opposition critics have chastised the government over health care issues, like waiting lists for surgeries. This year's budget targets money specifically for this purpose.

Another area is \$45 million in new education spending. This is simply a good investment with a large payback. Estimates of the economic return for completing additional schooling (through higher incomes to individuals, and hence, larger tax revenues to government) range from 15 to 30 per cent ... not a bad return when the government can borrow at five per cent.

The budget also placed an additional \$100 million into a contingency reserve fund to ensure that fiscal targets will be met. Prudence is in vogue, but it does add to estimates of the bottom line. With this cushion, the final deficit numbers may even come in at less than estimated.

These are all political choices. Many commentators coveted the prize of tax cuts for big business and the wealthy in this year's budget. This choice would have provided a weaker fiscal stimulus, would also have led to a deficit outcome, and would have increased inequality.

Increasing spending for health, education and capital projects at a time of economic downturn is a better choice. The province needs it and can afford it. The critics should stop their barking.

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