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The End of Spending Restraint in British Columbia

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Summary

- This bulletin analyzes fiscal developments in British Columbia since the election of John Horgan's NDP government in 2017 to assess the extent to which fiscal governance in the province has been characterized by either change or continuity from the policy approach of its various predecessors since the turn of the 21st century.

- From the turn of the 21st century until recently, provincial governance in British Columbia has been characterized by spending restraint compared to most other provinces. This spending restraint contributed to positive fiscal outcomes.

- Starting in fiscal year 2017/18 and coinciding with the election of John Horgan's New Democratic government, the pace of operating spending growth has accelerated.

- During the restraint era (2000-2017), real per-person spending grew at a compound annual rate of 0.5 percent. Since the start of 2017/18, the compound rate of real per-person spending growth has increased to 4.7 percent.

- British Columbia's net debt to GDP fell from 18.4 percent in 1999/00 to 14.4 percent in 2016/17. In 2022/23, British Columbia forecasts its net debt-to-GDP ratio will increase to 15.6 percent.

- Canadian history has many examples of governments that have changed, but in which fiscal policy has not—it has maintained its continuity. There are also many examples of fiscal policy undergoing significant reorientation following changes in government. The election of the Horgan government is clearly an example of the latter.

Introduction

Changes of government in Canada often bring major changes in fiscal policy orientation. For example, during the 1990s in Ontario the election of Mike Harris's Progressive Conservative Party marked the start of a marked shift in policy orientation from its predecessor NDP government led by Bob Rae (Clemens et al., 2018). Other times, changes in government do not lead to major shifts in fiscal policy. Also in Ontario, Doug Ford's Progressive Conservative Party has pursued a remarkably similar approach to fiscal policy as its immediate Liberal predecessors (Eisen, 2021).

This bulletin analyzes fiscal developments in British Columbia since the election of John Horgan's NDP government in 2017 to assess the extent to which fiscal governance in the province has been characterized by either change or continuity from the general fiscal policy approach of its various predecessors since the turn of the 21st century.

We consider the trajectory of operating spending growth and the accumulation of provincial debt before and after the Horgan government's elevation to power. We show that since 2017 there has been an acceleration in operating spending growth and an acceleration in the rate of debt accumulation. We conclude that the change in government in 2017/18 should be recognized as an inflection point in the province's fiscal history and that this change in government is one that has been characterized by fiscal policy change rather than continuity.

British Columbia's era of fiscal restraint: 2000-2017

From the turn of the 21st century until recently, provincial governance in British Columbia has been characterized by spending restraint compared to most other provinces. This restraint contributed to positive fiscal outcomes. Provincial finances weathered the storm of the 2008/09 recession relatively well and the province's net debt relative to the size of the economy shrank substantially.

Spending restraint in BC

Figure 1 the compares the trajectory of per-person program spending (all operating spending except for debt service payments) in British Columbia compared to neighbouring Alberta and the rest of the country (ROC)[1] from 2000 to 2017. (All numbers are inflation adjusted).

In fiscal year 2000, British Columbia's inflation-adjusted per-person program spending was $8,808. This was 8.2 percent higher than Alberta's and 9.2 percent more than in the rest of the country.

Over the course of nearly the next two decades, British Columbia took a much more restrained approach to spending growth than did Alberta and the rest of the country taken together. Figure 2 shows that from 1999/2000 until 2016/2017, real per-person spending in British Columbia increased by 8.4 percent. In Alberta, real per-person spending over this same period increased by 66.1 percent. In aggregate, the remaining provincial and territorial governments increased real per-person spending by 35.0 percent.

As a result of these divergent spending trajectories, by 2003/04 the spending levels of both Alberta and the other provinces and territories combined quickly overtook the level of spending in British Columbia. Figure 1 shows that a

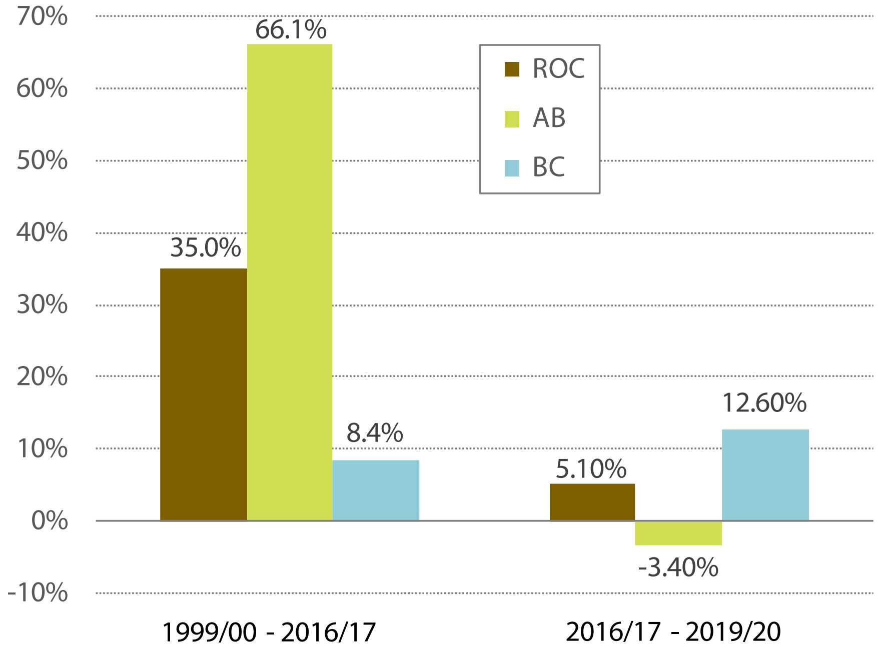
[1] ROC refers to the aggregate for all the provincial and territorial governments excluding BC and Alberta.

Figure 1: Real Per Capita Program Spending (in 2019 $)

Note: ROC is the sum of provincial and territorial governments less BC and Alberta.

Sources: Finances of the Nation (2022); Statistics Canada, Table 17-10-0009-01; Statistics Canada, Table 18-10-0004-01.

Figure 2: Growth in Real Per-Capita Program Spending, 1999/00 to 2016/17 (in 2019 $)



Note: ROC is the sum of provincial and territorial governments less BC and Alberta.

Sources: Finances of the Nation (2022); Statistics Canada, Table 17-10-0009-01; Statistics Canada, Table 18-10-0004-01.

large gap had emerged by fiscal year 2016/17 and that spending in British Columbia was much lower than in Alberta and ROC. By this time, real per capita spending in Alberta was 41.6 percent higher than British Columbia. For the rest of the provinces and territories taken together, this gap was 14.1 percent.

These data show that British Columbia exercised much greater restraint with respect to spending growth than Alberta or the rest of the provincial and territorial levels of government taken as a whole during the province's era of fiscal restraint. As a result, British Columbia flipped from having significantly higher spending than its peers in 1999/00 to having significantly lower spending in 2016/17.

Fiscal outcomes during British Columbia's era of restraint compared to Alberta

British Columbia's restraint with respect to operating spending from 2000 to 2017 contributed to different fiscal outcomes than what occurred in neighbouring Alberta.

At the outset of BC's era of fiscal restraint the province had a primary surplus (the operating budget balance not including debt service payments) of 1.2 percent of GDP. Alberta's primary surplus that year was 3.5 percent of GDP. British Columbia's restraint combined with rapid spending growth in Alberta led to a reversal in the fiscal positions of the two provinces over the subsequent 17 years. From 2000 to 2017, British Columbia had a primary surplus for 14 of those years and a primary deficit[2] in just 4. Alberta ran 6 primary deficits. All four of British Columbia's primary deficits can be attributed entirely or almost entirely to the financial crisis and recession of 2008/09. This means that absent a large global shock, British Columbia would have been in a primary surplus throughout the entire restraint period.

By the end of the period there was a transformation in the relative position of the fiscal balance in BC and Alberta. British Columbia's primary surplus in 2016/17 stood at 2.0 percent of GDP. Alberta had a primary deficit of 3.4 percent of GDP.

Alberta's more frequent and larger primary operating deficits compared to BC led to different trajectories in the two provinces' net debt positions.[3] In 1999/2000 British Columbia's net debt-to-GDP ratio stood at 18.4 percent. In 2016/17 the province's debt-to-GDP ratio had fallen to 14.4 percent. In 1999/00 Alberta had little net debt, at 1.7 percent of GDP.

Alberta switched to a net asset position in 2000/01 and grew its assets to a peak of 13.9 percent in 2006/07. By 2016/17 however, Alberta's net assets had eroded and it switched to a net debt position of 2.9 percent of GDP. While BC had improved its net asset position by 4.1 percentage points, Alberta's deteriorated by 1.2 percentage points. The net asset position of the rest of the provinces combined deteriorated by 2.1 percentage points.

This section has shown British Columbia exercised significantly greater fiscal restraint than either its neighbour Alberta or the country's fiscal and territorial governments taken as a whole. This contributed to British Columbia's debt-to-GDP ratio improving at the same time as Alberta deteriorated on this measure of fiscal well-being.

[2] The primary fiscal balance (deficit or surplus) refers to the operating budget balance excluding debt interest payments.

[3] Net financial assets represent liabilities held by a province less its financial assets.

The end of spending restraint in BC: 2017/18 to the present

In recent years, however, there has been a significant change of direction in BC's approach to spending. Starting in fiscal year 2017/18, coinciding with the election of John Horgan's New Democratic government, the pace of operating spending growth has accelerated. Combined with increased capital spending, this has led to a significant increase in provincial government debt.

We now turn to comparing British Columbia's performance on spending and debt since 2017/18 to its achievements in these areas during the long period of spending restraint between 2000 and 2017.

From 1999/00 to 2016/17, real per capita spending in BC increased by $741, an increase of 8.4 percent. In the final year—prior to the Horgan government's election—real per-capita spending stood at $9,549. In 2021/22, the most recent year of data available, British Columbia spent (after an adjustment for emergency COVID spending)[4] $12,035 per person. This represents an increase of $2,486 per person (in 2019 $), an increase of 26.0 percent since the final year of the restraint era. In addition to the fact that this figure adjusts for emergency spending, the government's most recent budget shows no plan to reduce spending in the years ahead, which further confirms that the large increase should not be viewed as a temporary COVID-related spike that will soon be reversed.

These data show that over a five-year period the Horgan government has increased spending by about three times as much as that which occurred during the 17-year period of spending restraint from fiscal year 2000 to 2017. The scale of this change can be seen more clearly by annualizing these figures. During the era of restraint, real per capita spending in BC increased at an average annual rate of $44. From 2017/18 to 2021/22, real per capita spending increased to $497 per year. During the restraint era, spending grew at a compound annual rate of 0.5 percent. Since the start of 2017/18, the compound rate of real per-person spending growth increased to 4.7 percent.

This change in the pace of spending growth in British Columbia has combined with increased capital spending to alter the provincial government debt trajectory.[5] From 1999/00 to 2016/17 real net debt per person in the province decreased by $138 per year. From 2016/17 to 2022/23 the government forecasts real net debt per person will increase by an average of $212 per year. If we remove 2020/21, the year with the largest COVID-related spending, debt growth is essentially flat over the period at $2 per person per year.

As described above, British Columbia's net debt-to-GDP fell from 18.4 percent in 1999/00 to 14.4 percent in 2016/17. Since then, the di-

[4] In some instances is difficult to precisely differentiate between emergency COVID-related spending and "normal" spending that would have occurred even in the absence of the pandemic and related recession. Different sources use different accounting methods. We have relied on the public accounts to identify COVID-related one-time spending, which takes a more expansive approach to identifying COVID spending than, for instance, BC's 2022 budget. Our estimates of the increase in regular non-COVID expenditures since 2017/18 should therefore be interpreted as conservative.

[5] British Columbia experienced a small increase in its debt due to accounting changes in 2018/19 when a share of BC Hydro deferral accounts was booked on the government's balance sheet. This relatively small accounting change ($1 billion) does not materially influence the results presented in this paper.

rection of the province's net asset movement has reversed. In 2022/23, British Columbia forecasts its net debt-to-GDP ratio will increase to 15.6 percent, representing an increase of 1.3 percentage points in 6 years. The government's last budget forecasts continued debt growth in the years ahead. However, given developments since its publication it is difficult to assess the likely extent of debt growth over the next two years.

Whereas the structure of provincial budgets has made it comparatively straightforward to adjust spending comparisons between the two eras to account for emergency COVID-related spending, the comparison of debt accumulation is more difficult. Some of the increase in the debt accumulation in British Columbia from 2017/18 to 2022/23 is undoubtedly linked to the COVID-19 pandemic and related fiscal pressures. However, like other provinces, BC received substantial federal support to help offset cost pressures related to the pandemic.

Here again, a comparison to other large jurisdictions is useful. Alberta accumulated much more debt than did BC during this era, though the province was already on a rapid trajectory of debt accumulation pre-COVID driven largely by high spending and low resource royalties. In this case a comparison to Ontario and Quebec is more instructive. From 2016/17 to 2022/23, Ontario projects that its debt-to-GDP ratio will decrease by 1.3 percentage points. Meanwhile, Quebec's debt-to-GDP ratio has been falling and is projected to decline by 12.0 percentage points over the same period.

Ontario and Quebec were subject to many of the same fiscal pressures stemming from the COVID-19 pandemic and yet did not experience an increase in net debt comparable to that which occurred in British Columbia. (In fact, in Quebec's case, there was no net debt increase at all).

Conclusion

There are many examples in Canadian history of governments changing, but fiscal policy remaining consistent and not changing. Conversely, there are also many examples of significant fiscal policy reorientations following changes in government.

This bulletin has shown that the change of government in British Columbia in 2017/18 following the election of the Horgan government is clearly an example of the latter. During the era of spending restraint from 2000 to 2017, real per-person operating program spending growth increased at an average rate of 0.5 percent annually. Since 2017/18, the rate of annual spending growth has increased to 4.7 percent annually. This increase in the rate of spending growth has led to an acceleration in the province's accumulation of debt. The province's debt-to-GDP ratio fell by 4.1 percentage points during the era of restraint. This improvement has been offset by an increase in the debt-to-GDP ratio of 1.3 percentage points to 2022/23.

Since the change of government in 2017/18, the pace of spending growth and debt accumulation in British Columbia has been on a markedly different trajectory than during the long period of comparative spending restraint that preceded the turn of the 21st century.

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