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Politics and Performance: **British Columbia's Economic and Fiscal Experience** under the NDP and BC Liberals 1991-2013

Tsur Somerville*

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- * Real Estate Foundation Professorship of Real Estate Finance, Sauder School of Business, University of British Columbia, 2053 Main Mall, Vancouver, BC, V6T 1Z2, Canada.
Tel: (604) 822-8343, Fax: (604) 822-8477.
Email: tsur.somerville@sauder.ubc.ca

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Introduction

The two main political parties in the 2013 British Columbia provincial election have each spent considerable time, energy, and money in an attempt to convince voters that they can be trusted to guide responsibly the provincial economy. At the same time, they have attempted to persuade voters that the other party will be wasteful or ignore the values British Columbians hold dear. The purpose of this brief monograph is to examine the performance of both the BC economy and the fiscal record for the provincial budget and debt under the NDP (1991-2001) and the BC Liberals (2001-2013).

It is important to note how we define performance. We are not looking at the absolute levels of BC provincial debt, budget performance, or employment growth. Instead, the definition of performance is of that relative to the performance of other provinces during the same period. So one party might have run deficits on average while the other party ran surpluses, but if the former were small compared to the deficits run at the same time by other provinces, and the latter were small compared to surpluses achieved at the same time in other provinces, then we would say that the party that ran deficits actually had a better fiscal performance.

Findings Summary

- **Relative fiscal management moderately better under the NDP than the BC Liberals.** On average, the BC government's fiscal performance was modestly better under the NDP than under the BC Liberals, when compared with the performance of other provinces. On this relative, rather than absolute, basis, BC's ratio of net debt to GDP and the ratio of government program expenses to GDP were lower under the NDP than under the BC Liberals. The NDP averaged deficits, the BC Liberals surpluses, but in comparison to the performance in other provinces at the same time, the NDP managed the budget better.
- **Which NDP matters.** The Harcourt government was dramatically more fiscally responsible than the subsequent Glen Clark, Miller, and Dosanjh governments, and better controlled the provincial debt and expenditures compared to GDP than the have the BC Liberals. In turn the BC Liberals outperformed the Glen Clark, Miller, and Dosanjh NDP governments.
- **Higher relative growth in median income under BC Liberals.** Compared to growth rates in other provinces, real median income grew faster under the BC Liberals than under the NDP.
- **Employment growth under NDP driven by high relative growth in public sector employment growth.** In relative and absolute terms public sector employment growth in BC under the NDP was much higher compared with that in other provinces. In contrast, there has been relatively larger growth in private sector employment under the BC Liberals. In aggregate, employment growth in BC under both the NDP and the BC Liberals relative to other provinces was fairly similar.

Methodology

Most of what determines short run economic performance is out of the hands of provincial governments. They are at the mercy of world commodity prices, Bank of Canada policies on interest rates, the strength or weakness of the Canadian dollar, and the economic health of Canada's trading partners. A simple comparison of average performance can be extremely misleading, as even an incompetent provincial government can appear to generate impressive economic and fiscal outcomes when conditions in the global economy match up well for the province.

To try to address the effect of broader conditions, this analysis is based on the performance of the British Columbia economy and provincial government's fiscal management when compared with the outcomes in other provinces over the same time periods. We present the difference between BC's performance and that of Alberta and Ontario individually, and then all of Canada excluding BC. Better means better compared with others, not negative or positive in any absolute sense. So running deficits may be better management if other provinces are running extremely large deficits at the same time.

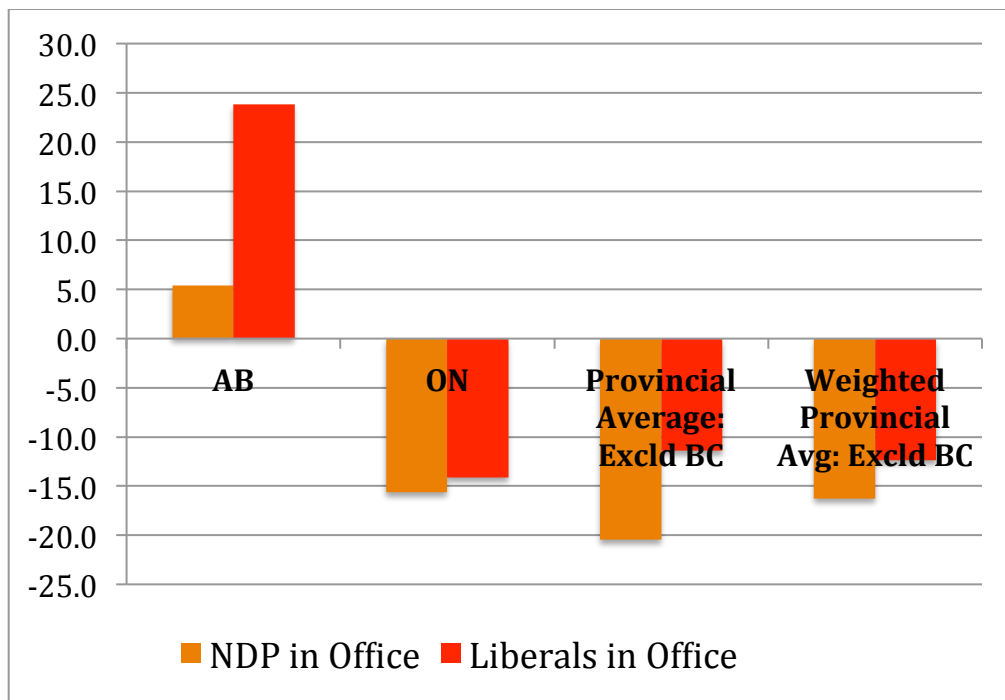
For the NDP, employment growth is calculated as the average rate of growth in the various employment measures between November 1991 and June 2001. The fiscal period are government budgets from 1991-92 through 2000-01; for the BC Liberals, June 2001 through January 2013 and then 2001-02 through 2012-13 respectively.

An important caveat is that the effect of provincial government decisions and policies on economic outcomes and fiscal performance does not coincide precisely with term in office. We correlate the data during a party's time in office with that political party, recognizing that this at best an imperfect assessment of performance. This analysis is of correlations only. There is no model or detailed analysis that attempts to identify causes or allocate shares to different contributing factors.

Findings – Government Fiscal Performance

Figure 1 analyzes the net provincial debt under the NDP and BC liberals as a percent of provincial GDP. Larger positive values indicate that the average debt to GDP ratio was higher relative to the comparison group. So under both the NDP and the BC Liberals the ratio of provincial debt to GDP was higher than it was Alberta, and lower than the same ratio in Ontario and the average Canadian province, both unweighted and weighted by provincial population.¹ These relative net debt to GDP ratios were lower under the NDP than under the BC Liberals (see Appendix Table A1 for the annual figures) indicating better relative performance by the NDP than the BC Liberals at limiting the size of the provincial debt.

**Figure 1: Provincial Net Debt as Percent of GDP
British Columbia Compared to Other Provinces
Difference Between BC and Comparison Group**



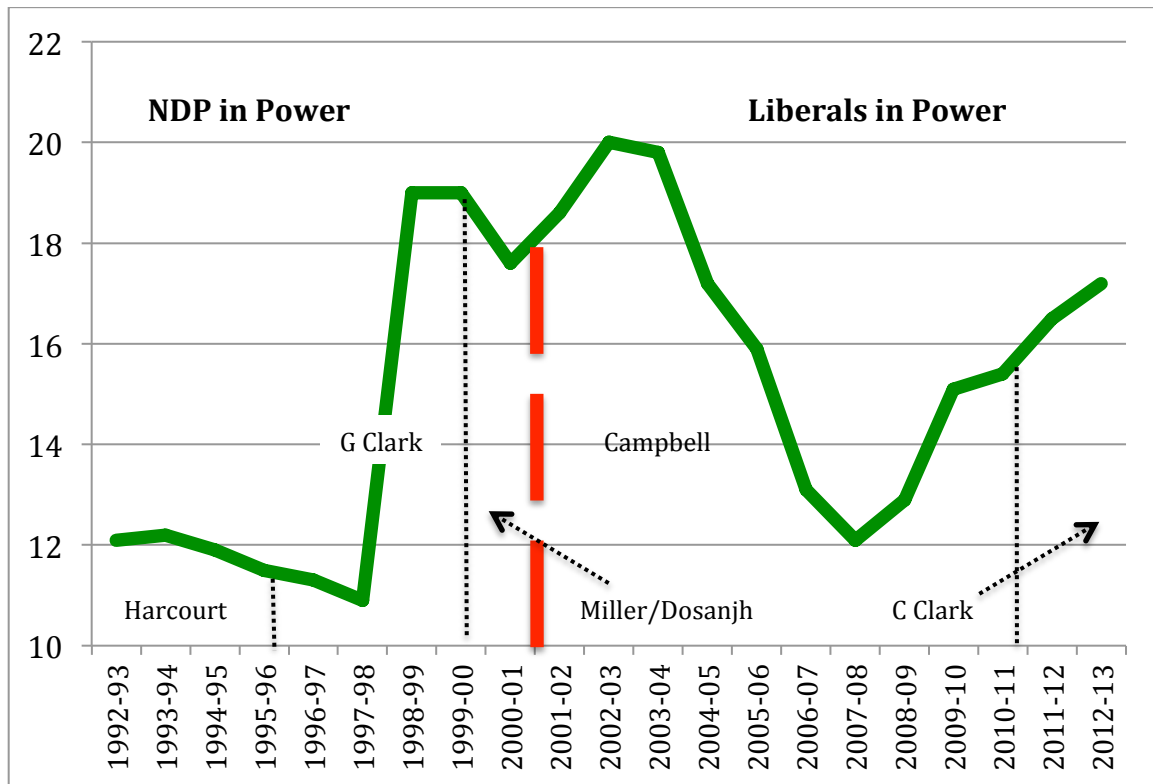
Notes: Weighting is by 2011 provincial population

Source: Calculations Using RBC Economics Research: Provincial Fiscal Tables,
http://www.rbc.com/economics/market/pdf/prov_fiscal.pdf

¹ Unweighted treats all provinces the same in constructing an average. Weighted becomes much more a function of Ontario and Quebec numbers.

The ratio of provincial net debt to GDP is not constant under either party. Figure 2 charts out British Columbia's net provincial debt relative to provincial GDP by fiscal year. Under the NDP, this ratio fell in the Harcourt administration and rose dramatically under Glen Clark. Under the BC Liberals, the ratio of debt to GDP fell under the early years, but has rising since world financial crisis in 2008. The lower Harcourt numbers really stand out, as does the rapid increase in provincial debt to GDP under Glen Clark, and the subsequent fall in the same in the first two Campbell administrations.

Figure 2: British Columbia Net Provincial Debt as Percent of GDP

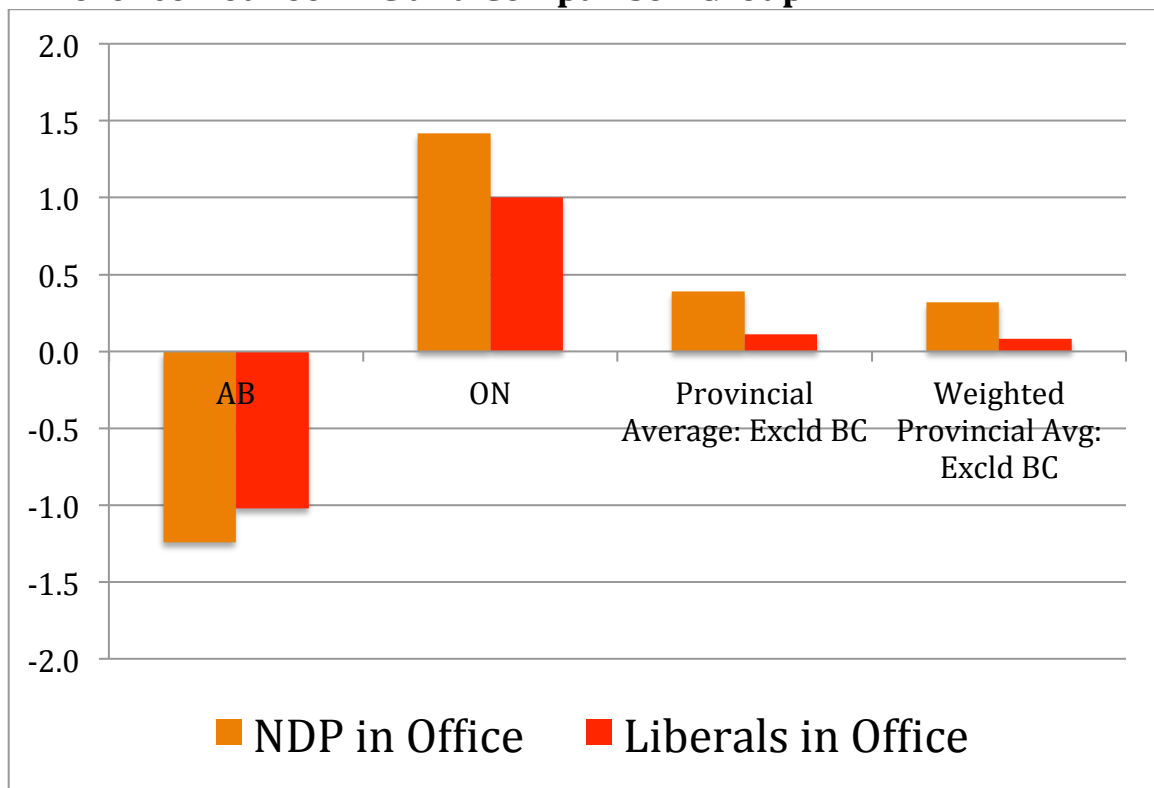


Source: Calculations Using RBC Economics Research: Provincial Fiscal Tables, http://www.rbc.com/economics/market/pdf/prov_fiscal.pdf

Figure 3 compares the annual provincial budget numbers in BC with those of the comparison group of Alberta, Ontario, and the average among the provinces. The presentation in Figure 3 is the difference between average provincial surpluses or

debt and not the actual value – the values themselves by year can be found in Appendix Table A2. Here larger positive numbers indicate better fiscal management, budgets more in surplus. Under both parties, the BC budget was less in surplus/ more in deficit compared with the provincial budgets in Alberta. And with a larger surplus or a lower deficit, than the provincial budgets in Ontario or the average Canadian province. As with the case of debt, fiscal balance was more positive under the NDP on average than under the BC Liberals, when compared with performances of all of the comparison provincial groups.

**Figure 3: Provincial Surplus/(Deficit) as Percent of GDP
British Columbia Compared to Other Provinces
Difference Between BC and Comparison Group**



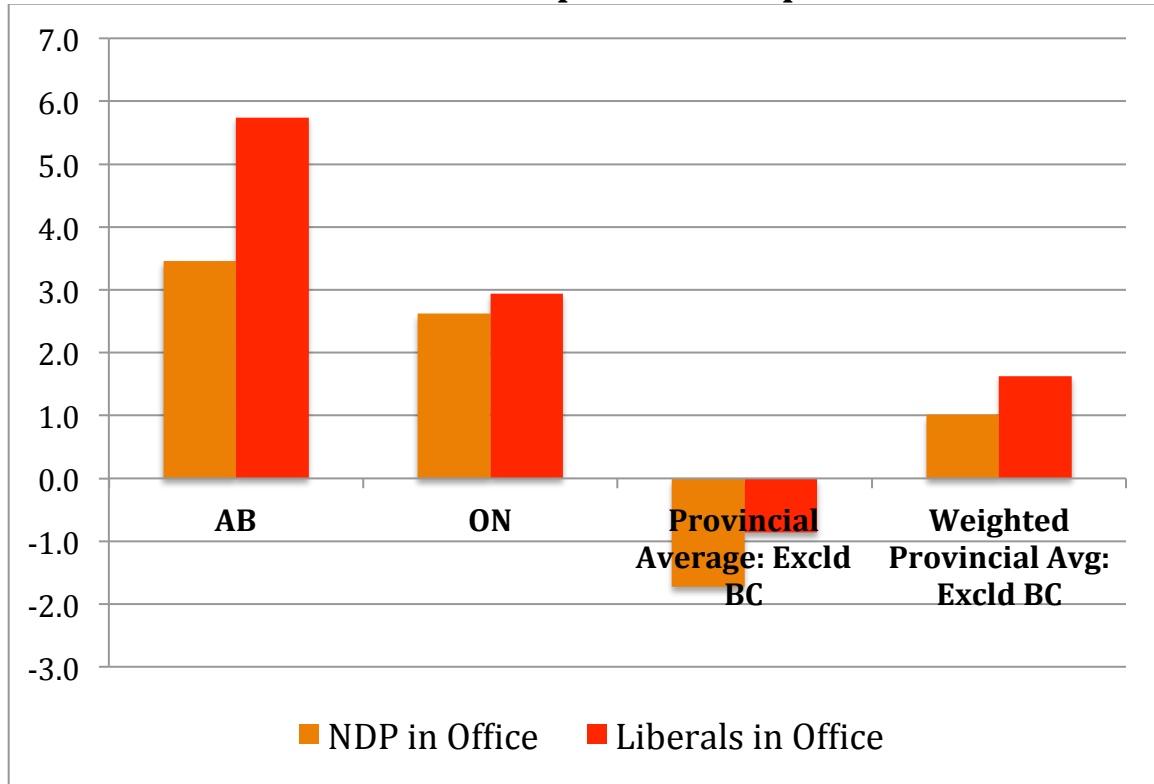
Notes: Weighting is by 2011 provincial population
Source: Calculations Using RBC Economics Research: Provincial Fiscal Tables,
http://www.rbc.com/economics/market/pdf/prov_fiscal.pdf

The final category for fiscal performance is government program expense as a percent of GDP. While budget surpluses or deficits depend on both revenues and expenses, provincial governments have more immediate control on expenses than revenues, which are subject to the economy for sales and incomes taxes and commodity prices for royalty revenue.

Figure 4 compares the provincial program expense to GDP ratios in the same manner as above. While in absolute terms (see Appendix table A3) government program expense as a percent of GDP was higher under the NDP than the BC Liberals, the BC Liberals spent more as a percent of provincial GDP than did the NDP relative to the spending patterns of the comparison provincial groups. BC provincial government program expenses relative to GDP were higher than those in Alberta and Ontario, and compared to the provincial average it depends on whether one adjusts for the high spending, smaller maritime provinces or not. In all cases these relative measures show greater comparative expenditure by the BC Liberals than by the NDP, a finding consistent with the other measures of fiscal responsibility

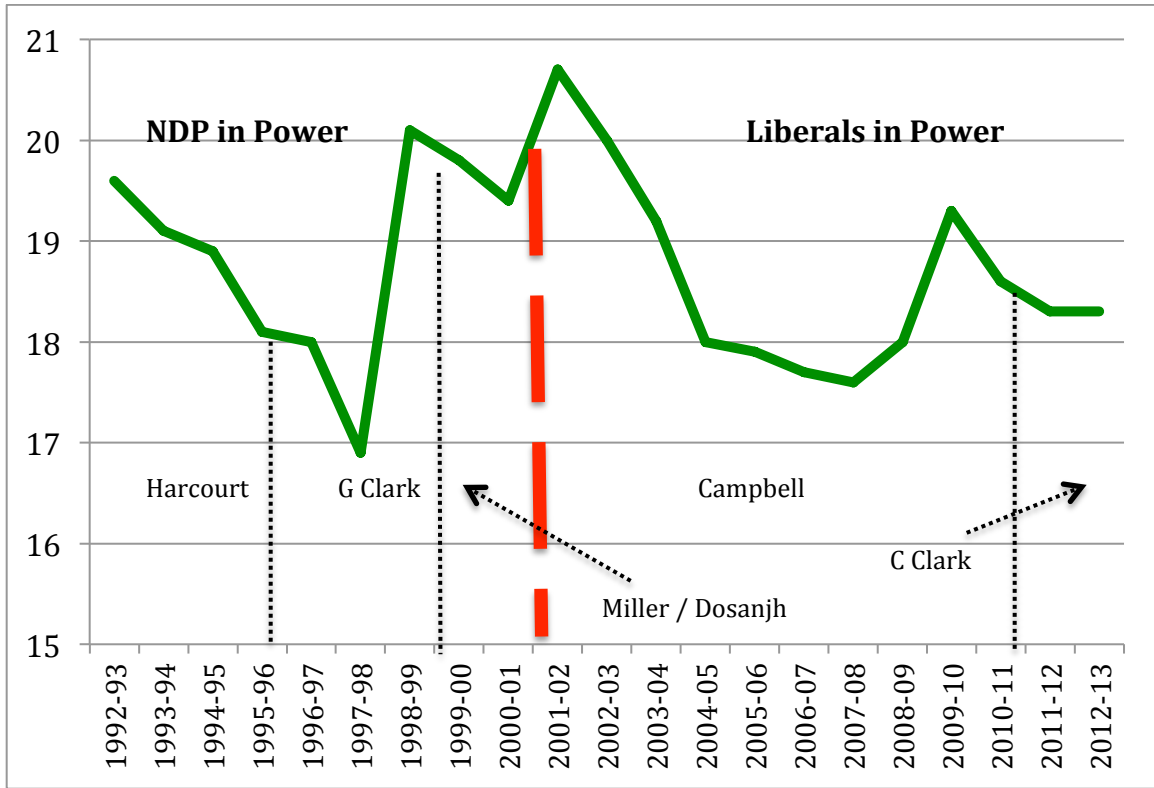
As with the net debt to GDP ratio, we also present the time series in British Columbia's government program expense to GDP ratio. Under the NDP, this ratio fell during the Harcourt administration and rose under the subsequent Glen Clark, Dan Miller, and Ujjal Dosanjh NDP governments. For the BC Liberals it fell until the world financial crisis, when it rose and has remained higher since.

**Figure 4: Provincial Govt Program Expense as Percent of GDP
British Columbia Compared to Other Provinces
Difference Between BC and Comparison Group**



Notes: Weighting is by 2011 provincial population
 Source: Calculations Using RBC Economics Research: Provincial Fiscal Tables,
http://www.rbc.com/economics/market/pdf/prov_fiscal.pdf

Figure 5: Provincial Govt Program Expense as Percent of GDP



Source: Calculations Using RBC Economics Research: Provincial Fiscal Tables, http://www.rbc.com/economics/market/pdf/prov_fiscal.pdf

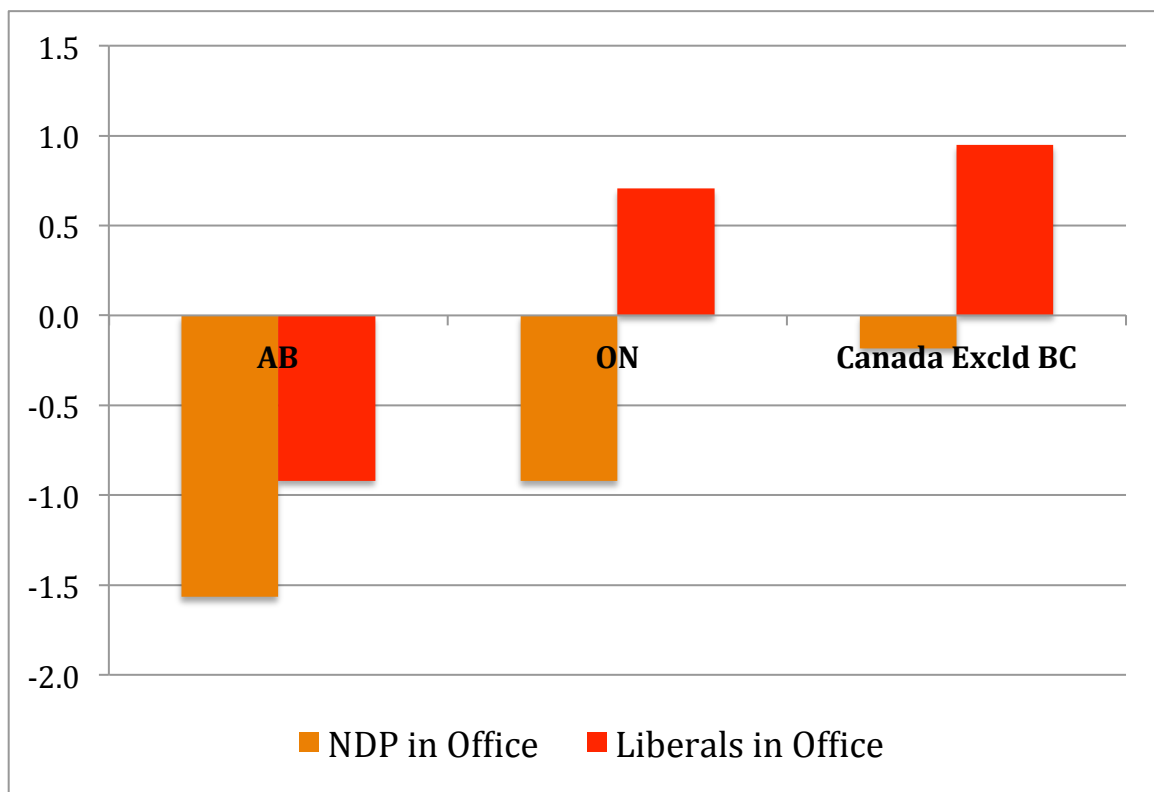
Findings – Provincial Economic Performance

In this section we compare British Columbia’s economic performance with that of other provinces for growth in incomes and employment. The comparison is to Alberta, Ontario, and then Canada excluding BC. Positive values indicate higher annual growth rates in either real median income or employment in BC relative to the growth rates in the same measures in the comparison groups over the same time periods..

Figure 6 compares growth in the real provincial median income in BC compared to the growth in Alberta, Ontario, and Canada (excluding BC). Under the BC Liberals, real median income growth in BC grew faster relative to other provinces than it did

under the NDP. Under the NDP real median income in BC grew slower than it did in Alberta, Ontario, and the rest of Canada. Real median incomes in Alberta grew faster than in BC while the BC Liberals were in power as well, but compared to both Ontario and Canada as a whole, real median income growth was higher in BC under the BC Liberals.

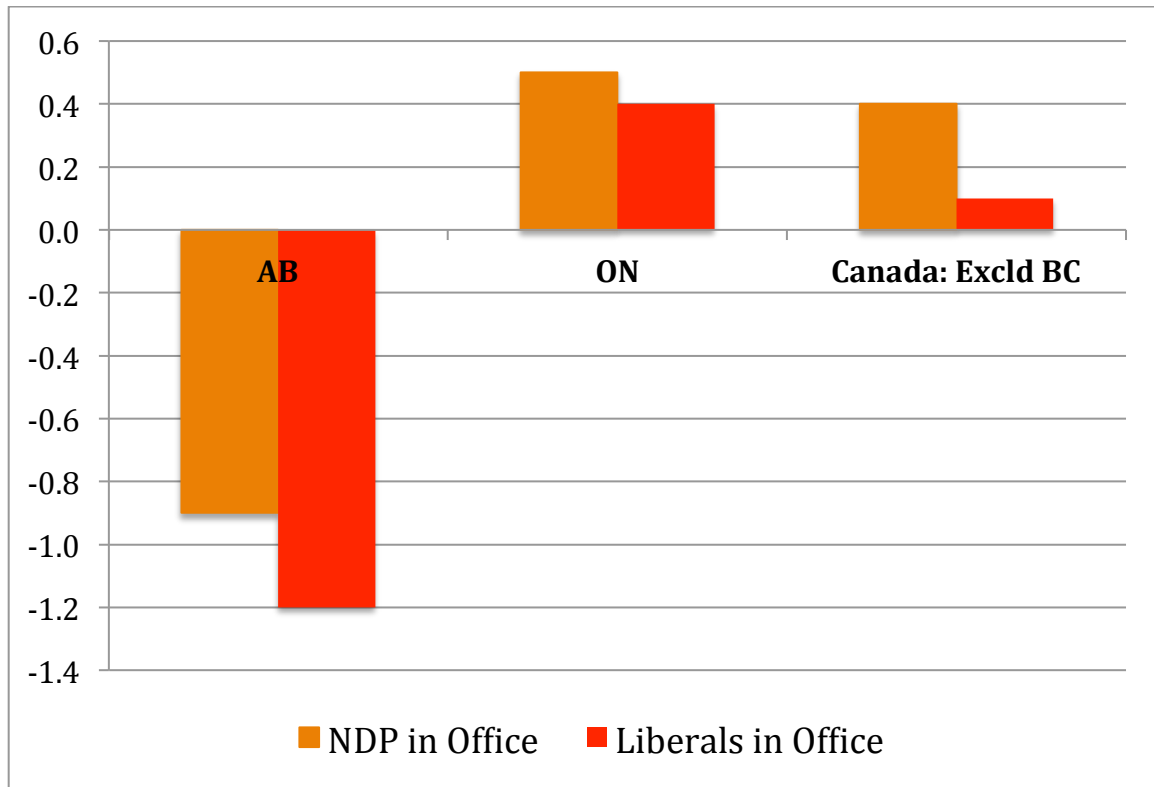
Figure 6: Annual Growth in Real Median Income British Columbia Compared to Other Provinces Difference Between BC and Comparison Values



Source: Calculations Using Statistics Canada data, Cansim Table 2020404

Total employment growth was fairly similar under both NDP and BC Liberal governments: slower than in Alberta, and faster than in Ontario and Canada as a whole. The relative employment growth, BC growth minus growth in the comparison provincial group, was higher under the NDP than under the BC Liberals. These relative growth rates are presented below in Figure 7.

**Figure 7: Annual Growth in Total Employment
British Columbia Compared to Other Provinces
Pct Point Difference Between BC and Comparison Values**



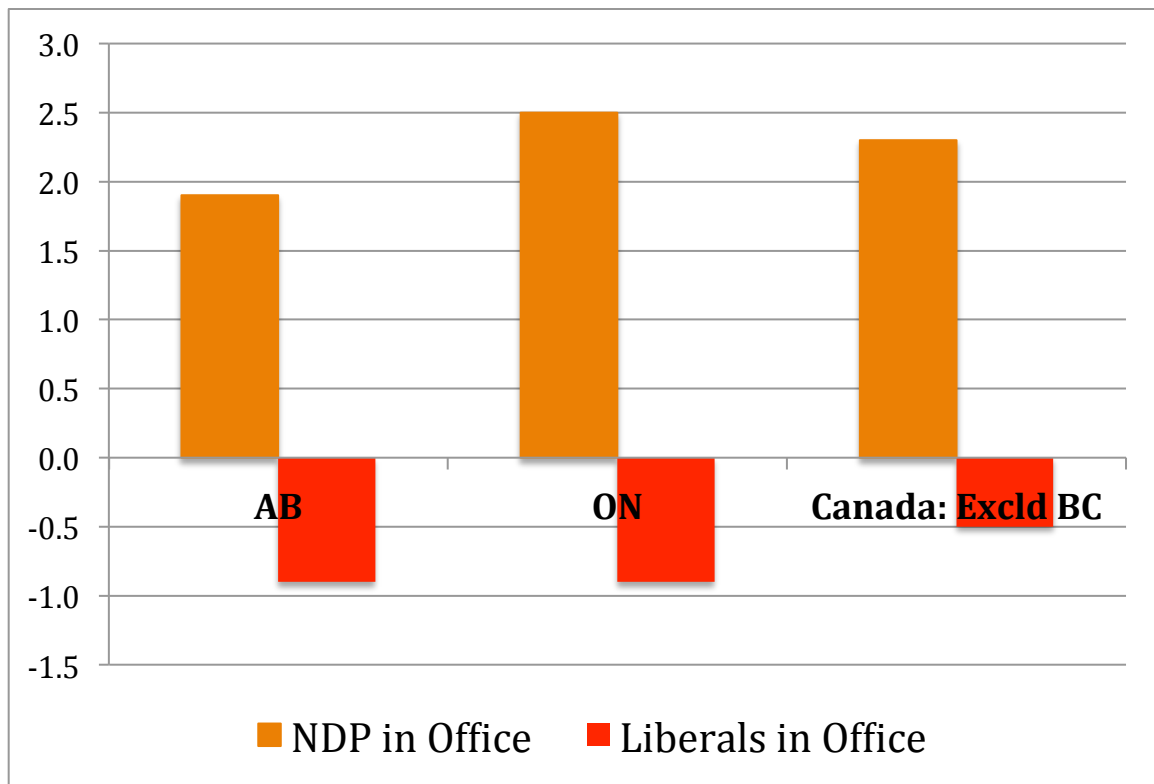
Source: Calculations using Statistics Canada data, Cansim Table 2020404

While the overall rates of employment growth are similar, the patterns of growth are not. Figure 8 shows the relative rates of employment growth in public sector employment. Public sector is defined as those sectors where employment is overwhelmingly dependent on public expenditures: public administration, health care, social services, and education. Figure 9 displays the rates for “core” private sector employment. “Core” is those categories less likely to be affected by government expenditures, either directly as in construction, or indirectly as in retail trade. While government stimulus spending will affect employment in all categories these are less directly linked to immediate government expenditures than others

and are available for the entire analysis period. These groups comprise one quarter to one third of all private sector employment.

On an absolute and relative basis public sector employment was dramatically higher under the NDP than under the BC Liberals. The difference between the NDP and the BC Liberals in the growth rate in these areas is on the order of three percentage points. Public sector employment growth under the NDP was higher by nearly two percentage points than under any of the comparison groups, while under the Liberals, the annual growth in public sector was 0.5 to 1.0 percentage points lower than in Alberta, Ontario, or Canada as a whole.

Figure 8: Annual Growth in Estimated Public Sector Employment British Columbia Compared to Other Provinces Difference Between BC and Comparison Values

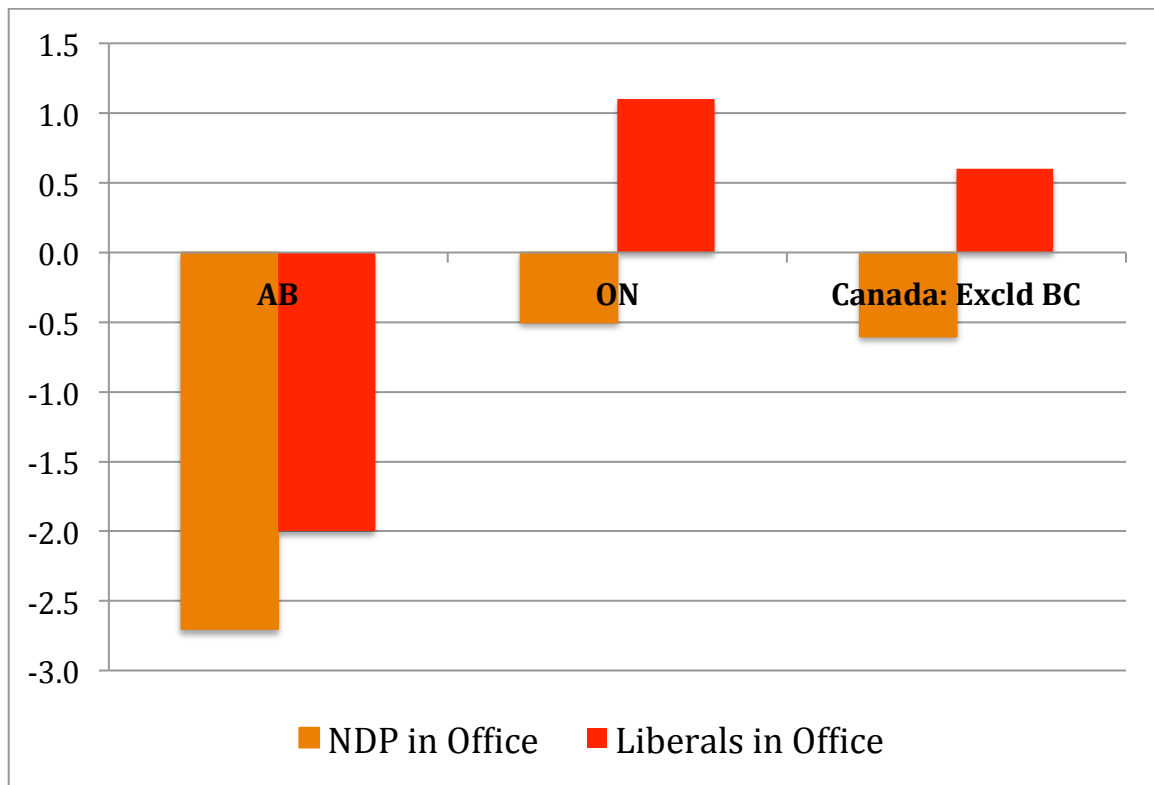


Notes: Public sector employment is comprised of employment in public administration, health care and social assistance, and educational services.

Source: Calculations using Statistics Canada data, Cansim Table 2020404

The annual rate of growth in private sector employment in the select sectors was higher under the BC Liberals than under the NDP, when compared to growth rates in Alberta, Ontario and Canada as a whole. While growth rates in Alberta were higher in absolute terms, the relative better performance under the BC Liberals was a consistent finding, with the difference at between 0.75 and 1.5 percentage points. In absolute terms the growth rate under the BC Liberals was higher than growth in Ontario and Canada as a whole. During BC's NDP government years the growth rate in this core private employment was lower in BC than in Ontario or Canada as a whole

**Figure 9: Annual Growth in Core Private Employment
British Columbia Compared to Other Provinces
Pct Point Difference Between BC and Comparison Values**



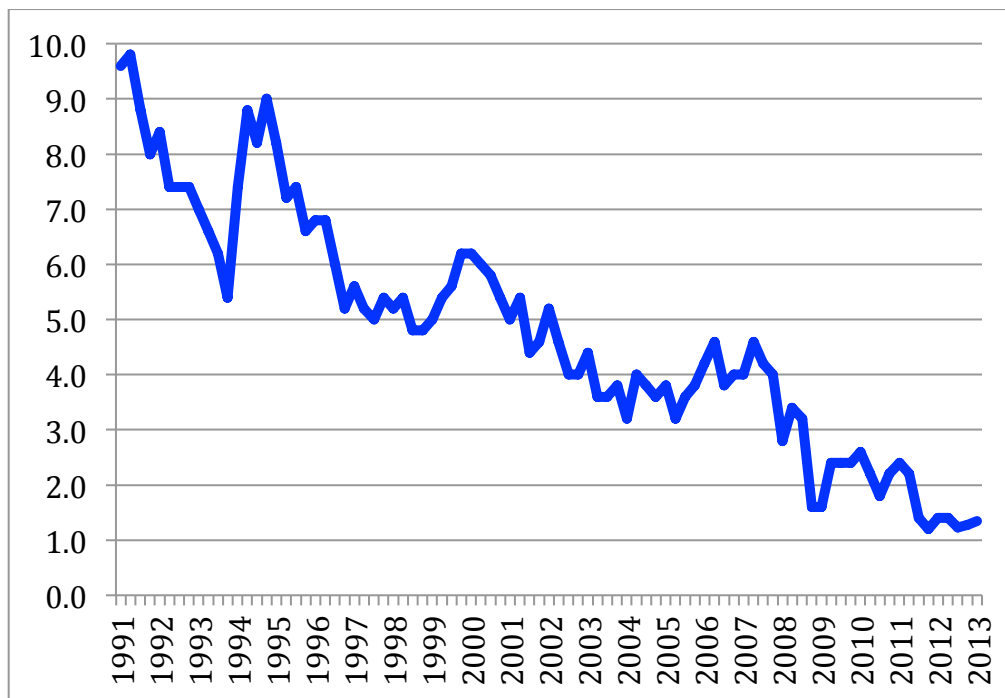
Notes: Core private employment is comprised of employment in forestry, mining, quarrying, and oil and gas extraction, manufacturing, transportation and warehousing, and professional, scientific and technical services.

Source: Calculations using Statistics Canada data, Cansim Table 2020404

In concluding this comparison it is important to note the differences in the economic contexts under which the NDP and Liberal governments operated. While the approach used here of comparing the difference between BC outcomes and those in other provinces addresses part of this context, it does not do so perfectly. World economic events do not affect all provinces equally. For instance, rising commodity prices and a strengthening Canadian dollar are of a greater benefit to western Canadian commodity producers than they are to central Canadian manufacturers.

Figures 10 and 11 provide some insight to the larger economic conditions over the period of analysis. Figure 10 presents the time series for Canadian government bond yields. The NDP ruled during a period of substantially higher interest rates than did the BC Liberals. Real interest rates show the same falling pattern.

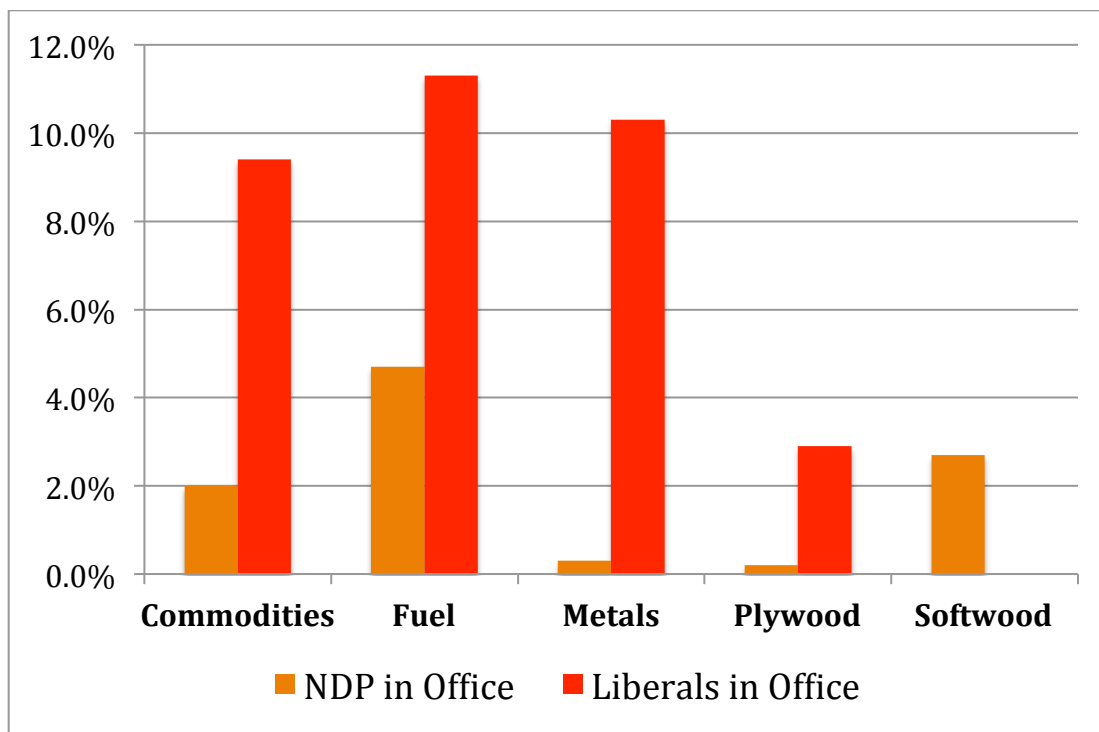
Figure 10: Canadian Interest Rates: Yield 3 to 5 Year Government Bond



Source: Bank of Canada

Figure 11 shows the growth rates for different commodities for the years when the NDP formed British Columbia's government and the years when the BC Liberals formed the same. These are based on \$US prices and are not converted into \$C values. They values are for a basket of all commodities, fuel (coal, gas, oil, etc.), metals and minerals, and then index values for plywood and for softwood lumber. For a natural resource economy based province, the BC liberals formed the province's government under a much more favourable economic environment, one that saw much higher growth in commodity prices, except for softwood lumber, when compared with the price pattern in the years that the NDP formed the BC government.

**Figure 11: Annual Growth in World Commodity Prices
Nominal \$US Vales for Indexes**



Source: International Monetary Fund, posted on <http://www.indexmundi.com>

Appendix Table A1 – Ratio Provincial Government Net Debt to GDP

Budget Year	B.C.	ALTA	ONT	Provincial Average - Excl'd BC	Weighted Provincial Average Excl'd BC
1981-82	-3.1	-15.5	10.5	10.7	8.8
1982-83	-0.9	-13.1	12.2	12.8	10.8
1983-84	1.2	-12.4	13	14.1	11.9
1984-85	3.2	-11.6	13.2	15.6	13.1
1985-86	4.8	-9.5	15.3	17.7	15.3
1986-87	6.6	-2	15.1	19.2	16.6
1987-88	6	2.5	14.7	20.1	17.0
1988-89	5.1	5.6	13.8	19.5	16.6
1989-90	7.3	8.8	12.7	19.8	16.6
1990-91	8	7.8	13.6	20.4	17.3
1991-92	10.8	10.9	17.4	23.9	20.7
1992-93	12.1	15.8	21.6	29.1	24.9
1993-94	12.2	16.5	27.5	35.4	29.1
1994-95	11.9	14.4	29.2	36.1	30.0
1995-96	11.5	12.6	30.9	35.3	30.5
1996-97	11.3	8.8	32.2	34.5	30.8
1997-98	10.9	5.6	31.4	36.2	33.3
1998-99	19	4.5	30.4	35.8	32.3
1999-00	19	1.8	32.9	35.1	32.2
2000-01	17.6	-3	30.1	32.0	29.1
2001-02	18.6	-3.3	29.1	32.1	28.9
2002-03	20	-4.5	27.8	31.7	27.9
2003-04	19.8	-6.2	28.2	31.3	27.6
2004-05	17.2	-8	27.3	29.7	26.4
2005-06	15.9	-10.4	28.4	27.7	26.4
2006-07	13.1	-12.7	27.4	26.7	26.8
2007-08	12.1	-12.2	26.2	23.8	25.0
2008-09	12.9	-9.1	28.1	23.1	26.4
2009-10	15.1	-9.7	32.6	25.7	30.0
2010-11	15.4	-6.8	34.3	25.9	31.2
2011-12	16.5	-5.6	36	26.0	32.1
2012-13	17.2	-3.5	37.7	27.3	33.7
NDP in Office	13.9	8.6	29.6	34.4	30.2
Liberals in Office	16.2	-7.7	30.3	27.6	28.5

Notes: Weighting is by 2011 provincial population
Source: BC Economics Research: Provincial Fiscal Tables,
http://www.rbc.com/economics/market/pdf/prov_fiscal.pdf

Appendix Table A2 – Ratio Provincial Budget Surplus (Deficit) to GDP

Budget Year	B.C.	ALTA	ONT	Provincial Average - Excl'd BC	Weighted Provincial Average Excl'd BC
1981-82	-0.3	4	-1.4	-1.3	-1.3
1982-83	-2.8	-1.4	-2.3	-2.9	-2.5
1983-84	-2	0.2	-2	-2.3	-2.0
1984-85	-1.6	2	-1.5	-2.1	-1.9
1985-86	-1.6	-1.1	-1.4	-2.4	-2.1
1986-87	-1.1	-7	-1.3	-3.4	-2.7
1987-88	0.1	-2.3	-1.1	-2.0	-1.6
1988-89	1.3	-3.1	-0.6	-1.4	-1.2
1989-90	0.7	-3.1	0	-1.2	-0.9
1990-91	-0.8	-2.5	-1.1	-1.8	-1.6
1991-92	-2.9	-3.6	-3.9	-2.8	-3.4
1992-93	-1.7	-4.4	-4.3	-3.2	-3.8
1993-94	-1	-1.7	-3.8	-2.4	-3.0
1994-95	-0.2	1.1	-3.3	-1.2	-2.4
1995-96	-0.3	1.3	-2.7	-0.6	-1.7
1996-97	-0.7	2.5	-2	-0.1	-1.0
1997-98	-0.1	2.5	-1.1	-0.1	-0.5
1998-99	-0.8	1	-0.5	-0.3	-0.2
1999-00	0	2.4	0.2	-0.4	0.3
2000-01	0.9	4.5	0.4	0.4	0.8
2001-02	-0.8	0.7	0.1	-0.2	0.1
2002-03	-1.9	1.4	0	-0.5	0.0
2003-04	-0.9	2.4	-1.1	-1.0	-0.4
2004-05	1.7	2.7	-0.3	0.3	0.2
2005-06	1.7	3.9	0.1	0.9	0.7
2006-07	2.1	3.6	0.4	0.9	0.8
2007-08	1.4	1.8	0.1	1.2	0.5
2008-09	0	-0.3	-1.1	1.1	-0.3
2009-10	-0.9	-0.4	-3.2	-1.0	-1.8
2010-11	-0.1	-1.3	-2.2	-0.5	-1.4
2011-12	-0.8	0	-2	-0.5	-1.2
2012-13	-0.5	-1.3	-1.8	-1.0	-1.2
NDP in Office	-0.4	1.0	-1.9	-0.9	-1.0
Liberals in Office	0.1	1.1	-0.9	0.0	0.0

Notes: Weighting is by 2011 provincial population
Source: BC Economics Research: Provincial Fiscal Tables,
http://www.rbc.com/economics/market/pdf/prov_fiscal.pdf

Appendix Table A3 – Ratio Provincial Program Expenses to GDP

Budget Year	B.C.	ALTA	ONT	Provincial Average - Excl'd BC	Weighted Provincial Average Excl'd BC
1981-82	16.3	16.2	13.6	22.4	17.9
1982-83	19.2	20.6	14.7	23.7	19.2
1983-84	19.4	20	14.2	22.9	18.8
1984-85	19.1	19	13.6	22.3	18.2
1985-86	18.3	20.8	13.5	22.6	18.3
1986-87	18.1	23	13.7	22.5	18.2
1987-88	16.8	21.1	13.5	22.2	17.8
1988-89	16.3	20.5	13.5	21.9	17.4
1989-90	16.9	20.5	13.4	21.9	17.3
1990-91	18.3	20.1	14.9	22.6	18.3
1991-92	20.2	20.6	16.8	23.1	19.6
1992-93	19.6	21.6	17.1	23.3	20.0
1993-94	19.1	18.6	18.9	22.3	20.1
1994-95	18.9	15.3	18.1	21.4	19.1
1995-96	18.1	13.8	17.7	20.4	18.3
1996-97	18	12.9	16.7	19.8	17.4
1997-98	16.9	12.9	15.8	19.6	16.5
1998-99	20.1	13.4	14.8	19.7	16.4
1999-00	19.8	14	14.5	19.5	16.0
2000-01	19.4	12.4	13.5	18.3	15.2
2001-02	20.7	13.3	13.6	18.8	15.5
2002-03	20	13.3	13.6	18.5	15.4
2003-04	19.2	12.6	14.3	19.2	15.9
2004-05	18	12.6	14.8	18.9	16.0
2005-06	17.9	12.2	15.2	19.0	16.2
2006-07	17.7	12.3	15.3	19.0	16.3
2007-08	17.6	12.8	15.7	18.9	16.4
2008-09	18	12.4	15.8	19.2	16.5
2009-10	19.3	14.8	18	21.5	18.4
2010-11	18.6	14	17.8	20.9	18.1
2011-12	18.3	12	17.2	20.2	17.4
2012-13	18.3	12.4	17	19.8	17.2
NDP in Office	19.0	15.6	16.4	20.7	18.0
Liberals in Office	18.6	12.9	15.7	19.5	17.0

Notes: Weighting is by 2011 provincial population
Source: BC Economics Research: Provincial Fiscal Tables,
http://www.rbc.com/economics/market/pdf/prov_fiscal.pdf

Appendix Table A4 – Real Median Income

Year	Canada Excluding BC	Canada	BC	AB	ON
1986	52000	52100	52500	53400	58600
1987	52400	52000	49200	52400	59900
1988	53000	53000	52900	54400	61200
1989	54600	54600	54500	55300	62300
1990	52100	52100	51800	53900	59900
1991	49200	49200	49400	51000	55000
1992	49000	49100	49900	48300	55700
1993	47800	48000	49500	51000	53900
1994	48300	48400	49000	51600	54200
1995	48000	48200	49500	50500	53800
1996	47500	47500	47600	50300	53100
1997	47300	47300	47300	52800	53000
1998	48800	48700	48300	52200	54900
1999	50400	50200	48600	54300	57600
2000	51300	50900	48000	55900	59000
2001	52700	52100	48500	58500	59200
2002	52200	51800	49100	58300	58800
2003	52300	51800	48300	57100	59500
2004	52700	52400	50600	59300	59200
2005	53400	53100	51400	61000	60400
2006	54700	54500	53400	65800	60700
2007	55800	55700	54900	68500	61300
2008	56200	56500	58300	71100	62000
2009	55600	55400	53800	69700	60200
2010	55800	55400	52800	69100	60500

Source: Statistics Canada, Cansim Table 2020404