

CONSTRUCTION MONITOR

The BC CONSTRUCTION MONITOR is an ICBA publication providing ahead-of-the-curve information and statistics on the BC construction industry and issues relevant to it.

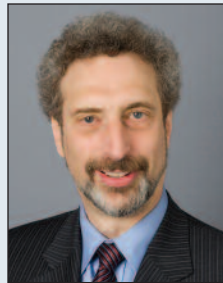
The Monitor draws on analyses and outlooks from various sources, and provides current and substantive insight. This quarterly publication is intended for industry executives, government decision makers, journalists and other opinion leaders.

We welcome your feedback and story suggestions at info@icba.ca.

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It's time to shift focus on size-of-government



Philip Hochstein

Public spending, particularly on well-selected infrastructure projects, needs to be part of the effort to get the economy firing on all cylinders again. But at the same time, we can't afford to become complacent about the state of public finances or to lose sight of the benefits of smaller government. It's become accepted wisdom in recent years

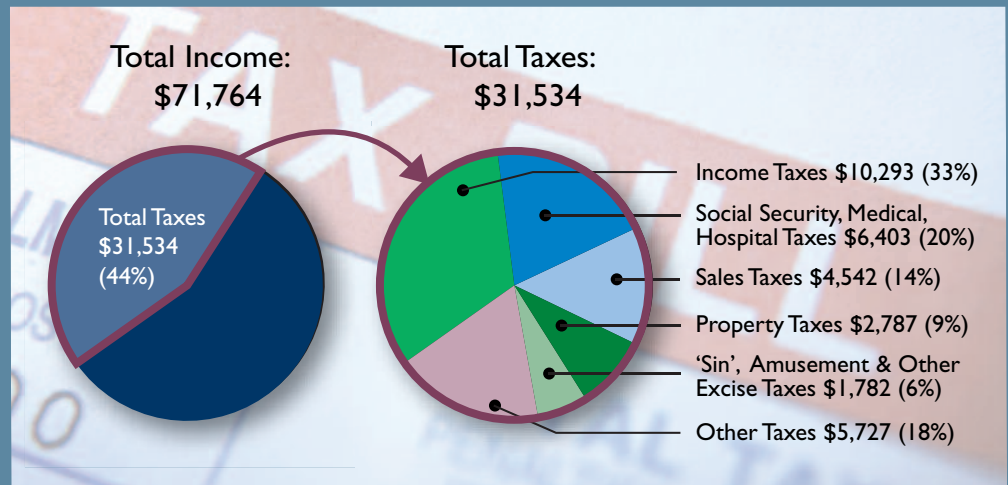
that government needs to live within its means, and that its overall size should be constrained. But this consensus is looking shaky at the moment, and that should be cause for alarm. Smaller governments collect fewer taxes and leave more money in the hands of individuals and families. And that means fewer of the disincentives and distortions that limit economic growth, and that no tax system can completely avoid.

Furthermore, smaller government doesn't

See **Big Government** p. 2

Footing the Bill: The Tax Burden

AVERAGE CANADIAN FAMILY'S TAX BILL (2008)



Source: Fraser Institute

Ultimately, it falls to individual Canadians to foot the bill for the size of government they choose. By 2008, the upward climb in government spending had resulted in a total tax bill for an average Canadian family that consumed close to half of its income. That family was therefore paying more of its income to government in the form of taxes than it was spending on food, clothing and housing.

Big Government Continued from p. 1

have to mean going without services or getting lower quality ones. Municipally, and particularly in regions like Greater Vancouver and Victoria, measures as simple as shared service delivery – involving anything from garbage collection to IT support – could produce big savings. Contracting out services, potentially to a mix of private companies and community agencies, also typically reduces costs and often improves service quality.

Many US municipalities are taking bold measures of this type. Chicago, for example, recently granted a long-term lease on its downtown parking meters – shedding responsibility for operations and upgrades and generating \$1.15 billion in revenue for the city in the process. And a number of recently incorporated municipalities in Georgia have used private contractors for almost all non-safety-related services right since their inception.

We'd be well-served if governments of all types in Canada were equally open to re-examining the services they perform and the money they spend – especially since we weren't as disciplined as we should have been in reining in government spending in the good times, back before the economy took its dramatic turn for the worst.

Sure, deficits were eliminated and yes, that required some difficult decisions. But government hasn't exactly been gutted. Recent assessments of federal and provincial program spending across the country, and municipal operating spending in BC, show a very consistent pattern: With a small number of municipal exceptions, all governments have ramped up recent spending faster than population growth and inflation justifies.

One cost-management challenge governments face is high public-sector salaries within these heavily unionized workplaces. An analysis of the most recent census data by the Canadian

Federation of Independent Business found that public sector employees are paid eight to 17 per cent more than people doing comparable work in the private sector – with the premium exceeding 30 per cent when non-wage benefits and shorter work weeks are factored in.

But the issue is much bigger than just wage parity or the costs of particular government services, because big is definitely not necessarily better where the size of government is concerned. Research shows that government spending beyond a certain level – and the taxation to support it – slow growth and otherwise harm the health of the economy.

Government has grown much more in Canada than in the US in recent decades, and this likely contributed to the fact that Americans came to earn so much more than us. Studies of US states find clear correlations between size of government and outcomes like employment and income. International research has also refuted the notion that bigger governments necessarily produce better conditions for citizens.

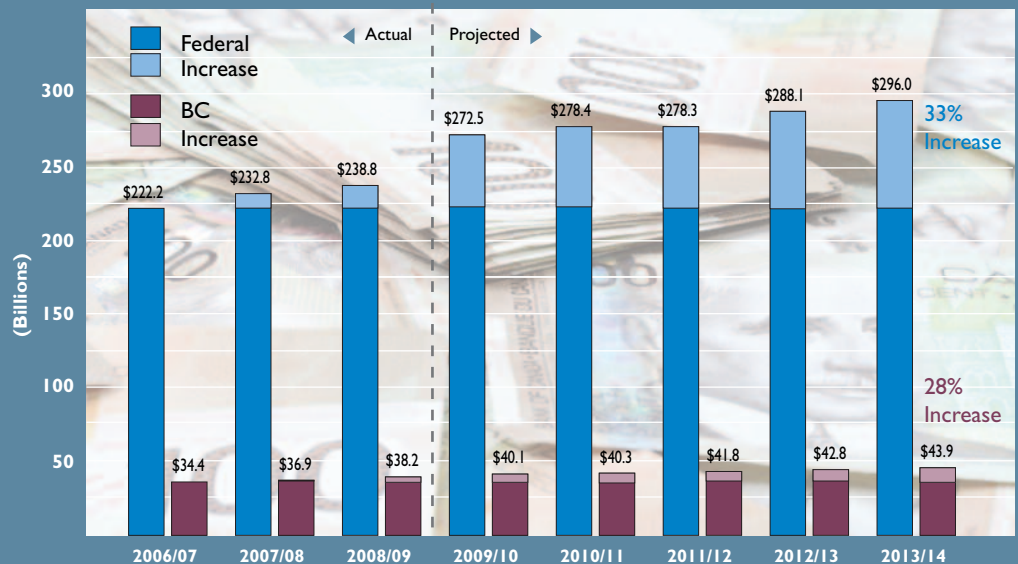
In light of such findings, it's troubling that our federal and provincial governments are both forecasting large-scale spending increases and deficits over the next several years. This will likely deepen the already painful tax bite on Canadians, and take a bigger toll on the health of the economy.

We need to not only restore the consensus that governments must live within their means, but also act on it more fully. And we shouldn't view spending discipline as a short-term necessity, just until the deficit is tamed or the next election approaches. A sustained effort to shrink government will help grow the economy and make us all better off, and it should be a top public policy goal going forward.

Government is Getting Bigger Still

Government spending has continued to ramp up in the last few years, and further increases are planned over the next several years. While this is driven in part by economic-stimulus measures – many of which have a very strong rationale – the deficit outlook strongly suggests a need for much greater discipline on overall spending.

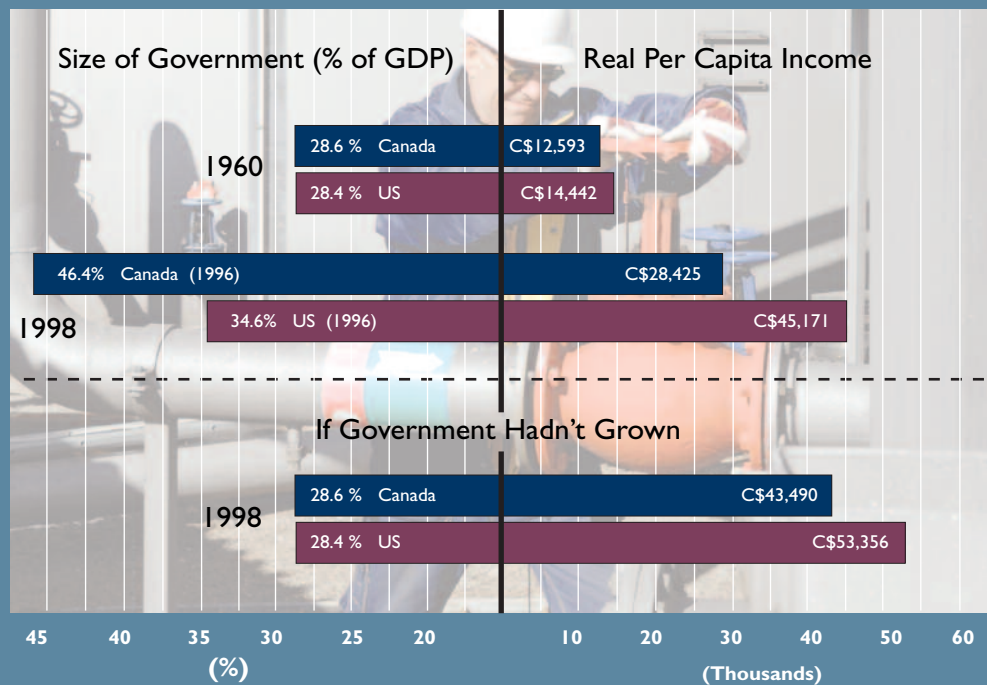
TOTAL GOVERNMENT SPENDING (BILLIONS)



Big Isn't Better

Back in 1960, the total size of government (spending by all three levels) in Canada and the US was about the same. Government grew in both countries over the next two-and-a-half decades – but it grew much more here, and what was a moderate income gap became much larger. Based on broad analysis of the impact of government size on economic growth, researchers have estimated how much more income each Canadian and American would have had if government had remained at its 1960s size.

THE GROWTH WE DIDN'T GET

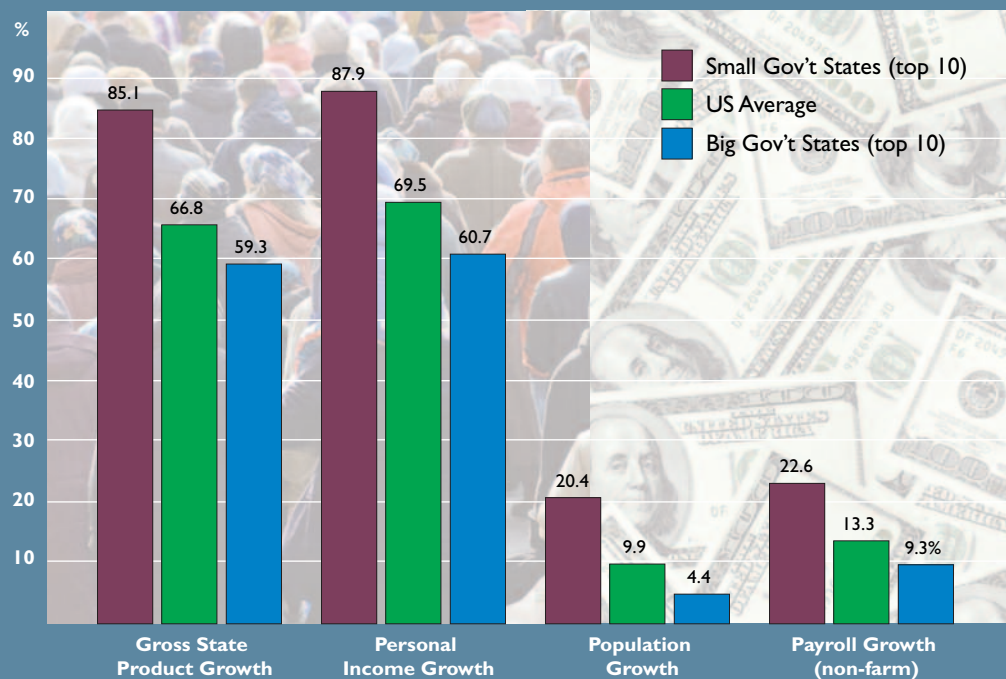


Source: Montreal Economic Institute

“A sustained effort to shrink government will help grow the economy and make us all better off.”

Bigger governments don't necessarily look after their citizens better. Research on the part of an association of legislators ranks US states on a range of policy factors, most having to do with taxation and size of government. Smaller government states – the ones that rank highest on this competitiveness index – typically outperform on a number of key indicators of economic vibrancy and individual well-being.

BIG VS. SMALL GOVERNMENT STATES: 10-YEAR ECONOMIC PERFORMANCE*



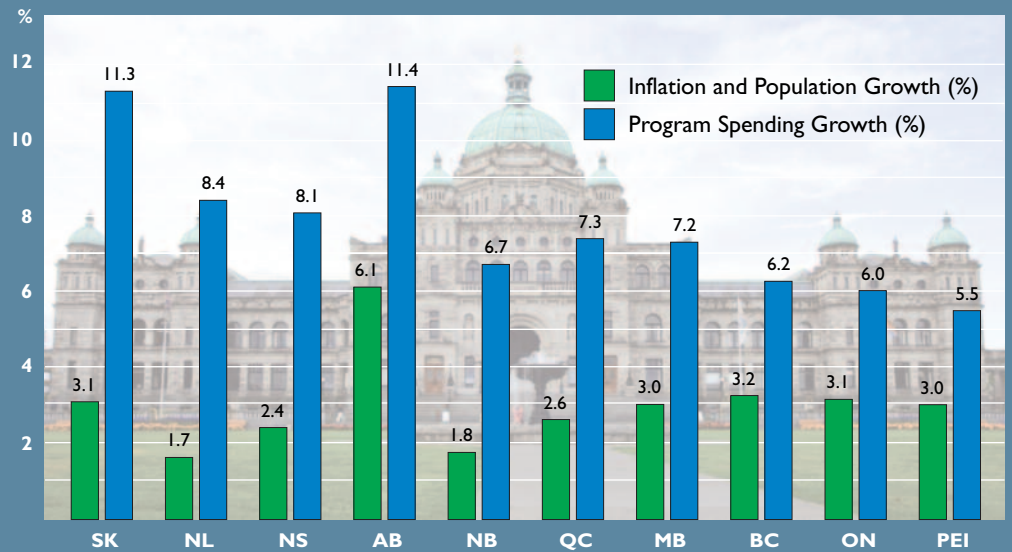
Source: ALEC-Laffer State Economic Competitiveness Index

*1997 - 2007

Government Has Been Growing...

Politicians of all stripes like to portray themselves as responsible managers of public money, and until recently it seemed we had turned the corner on deficit spending. But in the last five years – a period largely pre-dating the economic downturn and the stimulus spending in response – every provincial government had annual average increases in program spending that were more than was needed to keep pace with inflation and population growth.

EXCESS PROVINCIAL SPENDING (Annual Average*)



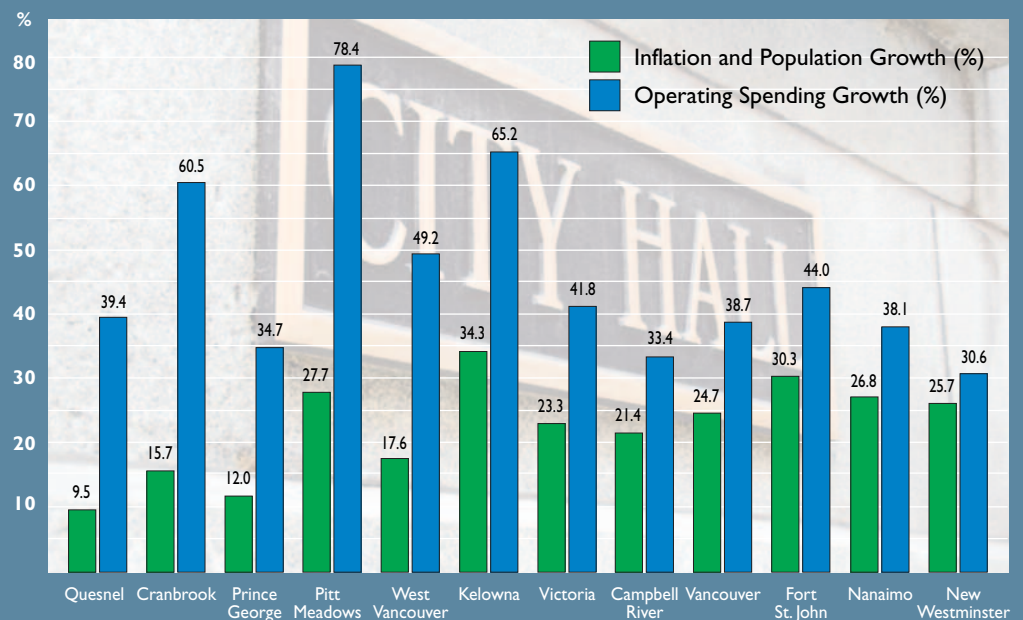
Source: Fraser Institute

*2004/05 - 2008/09

... From Parliament Hill to City Hall

Local governments are not to be outdone on spending growth. This graph shows the often large gaps between how much operating spending should have increased, to keep up with inflation and population growth earlier this decade, with how much it actually increased by on the part of a sample of BC municipalities. Fewer than three per cent of British Columbians live in a municipality that kept spending growth within the level of inflation and population growth in this period.

EXCESS MUNICIPAL SPENDING (2000-2007)



Source: Canadian Federation of Independent Business



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