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NEWS STORY

Recession in U.S. could help B.C., analyst says

Optimism contrasts with report's gloomy economic picture of province

Michael Kane

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British Columbia took an economic beating in the '90s and faces fresh financial problems as the North American economy teeters on the brink of recession in 2001, according to the latest edition of the BC Check-Up, released today.

At the same time the province's finances can be turned around and may even be helped by tougher times elsewhere, says chartered accountant Glenn Mair, one of the contributors to the report, which is produced each year by chartered accountants to monitor B.C.'s standing as a place to live, work and invest.

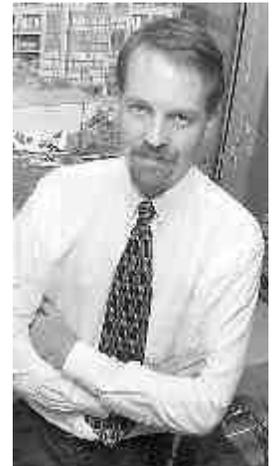
Companies that would pay any price for staff and locations during the high-tech boom are now focused on the costs of doing business, he says. That favours Canada, which has lower labour costs compared to the U.S., and British Columbia in particular, because it is a desirable place to live.

"U.S. companies are now receptive to messages about lower cost of business and quality of life, and certainly it would be hard to find a place like this to work elsewhere," said Australian-born Mair, a principal of Vancouver's MMK Consulting, a firm that advises cities on competitiveness issues.

Mair suggests the Liberal government's recent tax cuts make it less likely that companies already doing business here will want to leave.

Joe Lindgren, the American-born president of Vancouver's Lincor Enterprises, commercial painting contractors, says he was seriously considering moving back to the U.S. during the dying days of the NDP government. He had opportunities in both Arizona and Florida.

However, instead of shutting down his operation, which employs up to 35 people during peak periods, he bought a new warehouse-office in south Vancouver when it was clear that the Liberals would form the next government.



Chartered accountant and competitiveness consultant Glenn Mair of Vancouver's MMK Consulting.

"I don't want to sound like a cheerleader for the Liberals," he says. "I am not a member but I am supportive of their policies and their attitudes and their direction in general."

"Let's face it, one of the primary roles of government is to create a situation where not just the leaders but everybody believes that tomorrow will be better than today. We didn't have that before for a variety of reasons."

"Obviously the events of Sept. 11 are going to put a damper on a lot of things but at least we are moving in a positive direction as opposed to the other direction altogether."

Mair says Canada's cost advantages will become of increasing interest to business investors as the economy cools.

"That's why, so far, the slowdown in Canada has been a lot softer than in the U.S.," he said. Mair's comments contrast with the overall findings of BC Check-Up 2001, which shows British Columbia has trailed the national average and the other "have" provinces of Alberta and Ontario in key economic and social indicators since 1992.

In fact, by the end of the last decade, Alberta had surpassed B.C. as Canada's third largest economy, despite having one million fewer people. Some commentators were speculating that B.C. was headed toward the status of a "have-not" province.

One key finding of the BC Check-Up is that B.C. was the only one of the three "have" provinces to show a decline in real personal disposable income between 1992 and 2000. While Alberta and Ontario saw their disposable incomes rise by eight per cent and 2.6 per cent respectively, B.C. residents experienced a 1.6-per-cent decline.

This finding helps to underscore why the new B.C. government felt compelled to cut personal tax rates in June, say the chartered accountants who produce the annual Check-Up.

While many factors contribute to the quality of life in a province, today's report on B.C. as a place to invest notes B.C. suffered a net loss of people to other provinces, primarily to Alberta and Ontario, for three years from 1998 to 2000 -- a situation not equalled in the preceding 40 years.

"While B.C.'s unemployment rate reached a 13-year low in 2000, the reality is that the unemployment rate had more to do with slowing population growth, than with job creation," the report states.

The report shows that B.C.'s investment climate has been lagging behind Alberta's and Ontario's since the mid-1990s.

Often referred to as the "dismal decade," the 1990s left B.C. in last place in Canada in GDP per capita growth, and the poor investment climate resulted in a net loss of 469 corporate charters between 1994 and 1999 as businesses moved head offices to other provinces. The exodus doesn't mean each company ceased to do business in B.C. but it does indicate a loss of investment.

Mair says there are countless examples of North American jurisdictions turning themselves around over the past 30 years, ranging from oil-rich Newfoundland, now boasting the highest growth in gross domestic product in Canada, to New York and California, which have become meccas for returning businesses after cutting high taxes and red tape.

"The tax cuts and tax easings introduced by the Liberal government are certainly part of the solution," Mair said. "But a big factor influencing business investment is the overall government attitude toward business and the friendliness of the business climate, and that's certainly somewhere where we have seen B.C. suffer badly in recent years with red tape and regulation and over-regulation."

The report cautions that B.C. will shortly face additional competition for investment as a result of business tax cuts in Alberta and Ontario. While the B.C. government reduced the general corporate income tax rate to 13.5 per cent, both Alberta and Ontario are reducing their rate to just eight per cent by 2004 and 2005 respectively.

Even with an improving investment climate in B.C., Russ Wilson, a tax specialist with Johnsen Archer chartered accountants, says it will be difficult for the province to keep up with Alberta and Ontario because their governments built financial strength in the 1990s while the North American economy was booming.

"The big problem is that we are now competitive with other jurisdictions for investment dollars but there are so few investment dollars around compared to previous years because of the economic slowdown."

The Institute of Chartered Accountants of B.C. will base its fall budget submissions to the provincial government on the B.C. Check-Up, which is posted on the Internet at www.bccheckup.com. Reports on living and working in B.C. will be released over the next two weeks.

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