The referendum on the harmonized sales tax and the provincial sales tax/federal goods and services tax system presents an important choice for British Columbians. As the ballots arrive, we think it is important as economists to speak out on how we view the debate.

We are united in the belief that switching back to the old PST/GST system is the wrong way to address important social and economic problems.

It is well known that value added taxes (like the HST) are superior to retail sales taxes (like the old PST). Because the PST taxed some inputs at every stage of production, the cascade of compounding taxes led to higher tax rates on investment. The HST, in contrast, taxes only final products at a clear and transparent rate. This is why 140 countries in the world use value-added taxes like the HST, and only a few jurisdictions in Canada and the United States still use taxes like the PST.

Economists know that removing a penalty to investment will produce more investment in capital goods like equipment, machinery and buildings. These investments support growth in jobs and wages. Removing barriers like the PST from the tax system is best for the long-run prosperity of B.C.

Many economists are also concerned about the fairness of outcomes. The new HST credit, by providing $230 per year for each family member in low-income families, helps improve the fairness of the HST. By exempting basic food and rent, the HST's burden on lower income households is again lightened.

We believe the HST represents a step forward for our tax system and economy. We urge you to consider this when you fill in your ballots.
Jock Finlayson is executive vice president of policy at the Business Council of British Columbia. Kevin Milligan is associate professor of economics at the University of British Columbia. They submitted this letter with the support of 89 more economists from the academic and private sectors.