



Curbing public largesse to corporations in times of economic restraint

Larry Haiven

Finance Minister Graham Steele is asking Nova Scotians to pull in our belts to help the government overcome the deficit and pay down the debt. It is only fair therefore, that corporations who have been the recipients of government largesse be expected to go on a diet as well. Government gifts to corporations come in two main forms: tax expenditures and outright subsidies.

Tax expenditures are essentially revenue the government didn't collect. "Tax" because they are tax credits or tax write-offs. "Expenditures" because, in reality, the government is spending money. The government allows some people or some companies to not pay all the taxes they owe. But it has exactly the same effect of delivering a gift or a subsidy. It reduces the amount of revenue the government collects and therefore the amount available for other expenditures.

Tax expenditures, like any expenditure or tax, are not bad in and of themselves. Some of them are given to individuals in the form of reductions in personal income tax such as the Volunteer Firefighter credit, the Equity Tax Credit, and the Poverty Reduction Credit.

Even corporate tax expenditures aren't bad in intent. They can promote policies that are good for the province's people and its economic development. For example, the government gives tax credits for filmmakers, digital media entrepreneurs, and for research and development.

But because the corporate tax expenditures and their destination are not in the provincial budget, neither the public at large, nor the members of the legislature (nor even members of the cabinet) can effectively and systematically question either the expenditures or the results.

Surely we should be able to hold the government to account for what amounted to \$153 million dollars of foregone revenue in the 2010-11 fiscal year?

We applaud the government for taking the first step and publishing a list of tax expenditures as it did in a document accompanying last year's budget. But, there is a need for more transparency and thus accountability regarding these expenditures and thus call on the government to:

- Include corporate tax expenditures in the budget proper, and not as income foregone, but rather as expenditures.
- List the recipients of corporate tax expenditures.

The second main avenue of largesse to corporations is direct subsidies given out by Nova Scotia Business Inc. Rather than include most business subsidies within the government itself, Nova Scotia makes an "off-budget" expenditure to the crown corporation.

The government gives NSBI approximately \$27 million dollars a year, much of which is used for payroll rebates to companies.

The payroll rebate is a return (usually between 5%-10%) on a company's gross payroll taxes with the amount depending on promises of employment of Nova Scotians. The rebates generally last about five years.

If the government is going to use business subsidies, those subsidies should be subject to strict public policy criteria. The following are a few:

- The subsidies must be fully transparent; there should be a list of all subsidies showing how much money was given, how long it was given for, the duration of the grant and the conditions under which it was given.
- They should be given directly by the government and not by arms-length organizations like NSBI. Politicians are accountable to the voters while the majority of business people on the board of NSBI have both general and specific conflicts of interest.
- There must be a full debate about business subsidy policy. We should be asking what are the goals of business subsidies – and what kind of economic development we want.
- We need clear policy and performance criteria, to show long term benefits to the province, and the creation of good jobs not just jobs.
- There must be close monitoring for fulfillment of performance criteria.
- There must be serious penalties for non-compliance with performance criteria, up to and including seizure of assets. An example would

be where the Grand Falls, Newfoundland paper mill closed throwing over 500 out of work without severance. The Danny Williams government seized the company's timber and water rights and expropriated a hydro-electric dam & power station.

- Finally, the province should wherever possible take an equity position in selected investments, rather than just paying out money.

Economic Development Minister Percy Paris said that the Nova Scotia government was taking a serious look at rebates following the closure last year of yet another call centre. We trust that the government will make good on that promise.

Given that Nova Scotians are being asked to depend less on government amid these budget woes, we believe that business should do its part. Of the approximately \$180 million dollars of government largesse in both these schemes, the Nova Scotia Alternative Budget Working Group proposes that business forego one quarter, or \$45 million.

Larry Haiven is professor in the Department of Management, Sobey School of Business, Saint Mary's University and research associate of the Canadian Centre for Policy Alternatives-Nova Scotia and is a member of its NS Alternative Budget Working Group.

Log on to our website and you can download the NS Alternative Budget free and sign up for our e-newsletter ccpans@policyalternatives.ca or keep up to date on twitter CCPANS.



CANADIAN CENTRE
for POLICY ALTERNATIVES
NOVA SCOTIA OFFICE
www.policyalternatives.ca

tel:902-477-1252 or 1-800-920-7770
fax:902-484-6344

These fast facts can be reproduced as an oped or opinion piece without obtaining further permission, provided they are not edited and full credit is given to both the author and the source, CCPA-NS.