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NOVA SCOTIA

Alternative  
Provincial Budget

2002-2003

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**Cho!ces-Nova Scotia**  
**CCPA-NS**

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NOVA SCOTIA

# Alternative Provincial Budget

2002-2003

*The views expressed in the Nova Scotia Alternative Budget do not necessarily represent the views of the publisher, the Nova Scotia Office of the Canadian Centre for Policy Alternatives (CCPA-NS).*

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## ALTERNATIVE BUDGETS:

- ~ Provide a means by which the people of Nova Scotia can have input into significant public policy decisions to ensure that the interests of the majority and those with less influence in our society are being served;
- ~ Develop a consensus approach to budget-making among progressive organizations and individuals and provide a process for building links between various communities (e.g., labour, environment, aboriginal peoples);
- ~ Are documents that can be used to provide the public with choices and alternatives to those provided by the current government;
- ~ Help to mobilize and educate members of the public on an economic policy agenda that promotes the interests of working people and the less affluent in society.

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# Cho!ces-Nova Scotia Principles

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**Cho!ces-Nova Scotia** is a social justice coalition of community and labour organizations committed to the following principles:

## CREATING EMPLOYMENT

- ~ That a commitment to full employment should underlie economic policy. Fostering the creation of jobs and the avoidance of job loss should be the number one economic concern of government, and reducing youth unemployment should be given special priority

## IMPLEMENTING FAIR TAXES

- ~ That there should be a more equitable distribution of income and wealth in Nova Scotia and Canada through a fairer tax system and greater policy attention to the eradication of poverty

## MAINTAINING PUBLIC SERVICES

- ~ That public services including health, education, social services and other social programs play a crucial role in our society and need to be enhanced and accessible

## ENABLING HUMAN RIGHTS/EQUITY

- ~ That there should be economic equality between women and men and equal treatment of all individuals and families including same sex and non-traditional families
- ~ That the policies advocated for Nova Scotians shall not exploit or take advantage of those outside of our province or country

## ENSURING WORKER'S RIGHTS

- ~ That the rights of all workers, within the collective bargaining and other statutory frameworks pertinent to employment, must be extended and strengthened in the private, public and voluntary sector

## PROTECTING THE ENVIRONMENT

- ~ That greater priority must be given nationally and internationally to safeguarding and improving the environment

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The Nova Scotia  
Alternative Budget 2002-2003  
has been prepared by **Cho!ces-NS**  
in collaboration with the Nova  
Scotia office of the  
**Canadian Centre for Policy  
Alternatives.**

The **Alternative Provincial Budget** can be downloaded at:  
[www.policyalternatives.ca/ns](http://www.policyalternatives.ca/ns)

# Highlights

**N**ova Scotia needs a realistic long-term strategy that deals with its fiscal problems while addressing the province's short-term and long-term social and economic development. The provincial government's strategy to deal with financial problems is by now well known to Nova Scotians: cut programs and services.

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**Nova Scotia does not spend too much on programs and services, in fact, it spends too little.**

- Nova Scotia spends less per capita than other provinces on programs and services.
- Even when debt servicing costs are added to expenditures Nova Scotia still spends less per capita than the other Atlantic provinces.
- Cutting expenditures has a devastating impact on already under-funded programs and services, undermining Nova Scotia's social and economic development.
- Cutting programs and services disproportionately imposes the burden of getting the province's house in order on the most vulnerable Nova Scotians: low-income households, the ill and the province's youth.

**Nova Scotia Generates less own source revenue than other provinces.**

If the province had generated the same amount as a portion of GDP as the other Atlantic provinces over the past decade our debt would be \$1.6 billion (13%) less than it is currently. Our debt servicing costs would be \$130 million less than we currently pay. The cause of Nova Scotia's fiscal problems is not that the province's expenditures are too high; rather, the cause is that Nova Scotia generates insufficient revenue. Rather than provide tax cuts for 2003-2004, as stated by the Tories' fiscal plan, the province needs to generate additional revenue.

## **THE APB FISCAL PLAN**

The APB fiscal plan takes a balanced approach. It addresses the fiscal problems while increasing overdue social and infrastructure investments.

### **STEP 1:**

Raise own source revenues as a portion of GDP to bring them more in line with other Atlantic provinces, and increase social and infrastructure investments. Revenue should be increased based on ability to pay — progressive income and corporate taxes.

**STEP 2:** Balance the budget by 2004-05.

### **STEP 3:**

Allocate the surpluses after 2004-05 according to the following priorities:

- Reinvest in programs and services;
- Eliminate regressive taxes such as revenue from gambling and the consumption taxes such as the HST;
- Pay down the province's debt.

*The APB, based on consultations with community groups and labour organizations, presents priority areas for social investment in the Departments of Education, Community Services, Health, Economic Development and Environment and Labour.*

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# Introduction

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This is the third alternative budget document jointly published by **Cho!ces Nova Scotia** and the **Canadian Centre for Policy Alternatives** Nova Scotia office. It is also the third time **Cho!ces-NS** is confronted by a government intent on cutting programs and services. As the Tories approach the end of their mandate they appear desperate to stick to their fiscal plan even if it makes little economic sense to do so. Balancing the budget by attempting to “close the gap on \$220 million” in a single year during a period of slow economic growth will do more harm than good. But the government is pushing forward with its political agenda — a balanced budget in 2002-2003 and a tax cut next year — apparently regardless of the costs.

Nova Scotia has a serious fiscal problem. However, the government’s approach to solving the fiscal problem through cutting programs and services and increasing user fees, places the burden of solving these problems on the Nova Scotians least able to shoulder it — households with low incomes, the ill and youth.

Dr. John Hamm should know that treating Nova Scotia’s fiscal malady is like any long-term medical problem. The Hippocratic Oath counsels physicians: “First, do no harm.” The prudent doctor administers a course of treatment judiciously, over a period of time

with due regard to the long-term health of the patient. Because the very medication that can cure the patient over time is, if taken all at once, a poison. This is especially the case for patients who are young, old or ill.

In this year’s Alternative Provincial Budget (APB) we present a plan that could balance the province’s budget by 2004, while providing for needed social and infrastructure investments. The APB is more tempered and less damaging than the government’s plan. Our plan is not based on the false assumption that the problem is excessive expenditures. Rather, our plan is based on a root cause of our fiscal problems, inadequate revenue. We propose to balance the budget as the economy improves, not in a time of economic downturn.

The province needs to take a balanced approach in its fiscal affairs, an approach that addresses Nova Scotia’s short-term challenges while supporting long-term social and economic development. Imposing the burden of solving our financial problems on the backs of vulnerable Nova Scotians is not part of such an approach — solving our financial problems must also be socially and economically just.

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## The Context: Neo-liberalism

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Canada has, over the past two decades, been undergoing fundamental social and economic restructuring. This restructuring is driven by a neo-liberal policy framework promoted by big business interest groups, such as Business Council on National Issues (BCNI), and the wealthy. The framework subordinates government policy to free-market principles, and emphasizes privatization, government downsizing, debt reduction, tax cuts, deregulation, a scaling back of social programs and subsuming the labour market to private corporate interests.

Neo-liberalism results in a fundamental reorientation of government. The values of the free market — individualism and the maximization of corporate profit — shape public policy. Citizens with rights and entitlements are being reduced to individual consumers whose ability to influence and shape their communities is dependent on their wealth. Opportunities for the expression of community or collective interests are being decreased with devastating long-term consequences.

### THE RESULTS OF NEO-LIBERAL RESTRUCTURING

The past decade has served to demonstrate the impact of increasingly subsuming public policy to the free market. Social programs and government services have been cut. The labour market has been transformed to one based on higher unemployment rates, the fragmentation of work resulting in less secure and full-time jobs, lower rates of income assistance and reduced employment insurance benefits. Low and middle incomes have stagnated or fallen. Corporate and individual taxes have been cut,

benefiting corporations and the wealthy, and undermining the ability of governments to redistribute income to low-income Canadians. Studies by the Centre for Social Justice and Statistics Canada show that across Canada the gap between the rich and poor is increasing in both income and overall wealth.<sup>1</sup> According to a recent study by GPI Atlantic:

“In 1990 the richest 20% of Nova Scotian households had an average disposable income 6.2 times greater than the poorest 20%. By 1998, the income of the rich was 8.5 times greater. The richest 20% of Nova Scotian households have 42% of the total annual disposable income in the province up from 39.2% in 1990. The poorest 20% have just 4.9% of the income, down from 6.4% in 1990”.<sup>2</sup>

The economic restructuring clearly does not effect all income groups in Canada and Nova Scotia equally. On the one hand we have decreased services, wages and well-being for the middle- and low-income households, and on the other hand increased prosperity for the wealthy. Increasingly regressive taxation has moved the costs of supporting social programs from high income Canadians and the corporate sector to low- and middle-income households — from those who have the greatest ability to contribute to those less able to.

This is not a development strategy chosen by the people of Nova Scotia and Canada. If we had been asked a decade ago if this was our preferred path of social and economic development, few Canadians would have agreed. How did we end up here?



## RESTRUCTURING JUSTIFIED BY THE "FISCAL CRISIS"

Throughout the 1990s provincial and federal governments wasted no time in telling Canadians that we were in the midst of a fiscal crisis. Government revenue was consistently underestimated, thereby portraying a worse fiscal situation than was actually the case. Where the threat of a fiscal crisis proved insufficient we were told that economic globalization dictated public policy: in the context of globalization, Canada had no choice but to get its "fiscal house in order." The perceived fiscal crisis became the justification for cutting programs and government services, accepting a higher rate of unemployment and a decreased role of government in the economy.

But governments have been less than forthright about who pays the price in the implementation of overall policy initiatives over the past decade. In the 1990s Canadian citizens were told that we all needed to go through some tough times to get our "fiscal house in order."

But rather than engage in debates on policy options, governments have used the guise of a fiscal crisis to impose unpopular and unjust public policies. Governments, we were told, had no option but to cut programs, services and workers.

The resolution of this crisis was supposed to lead to greater benefits for all Canadians, but in fact most Canadians are worse off. The rewards for shouldering the burden of fiscal restraint during the 1990s are fewer secure well-paying jobs, desperately under-funded government programs and services, and tax cuts that disproportionately benefit wealthy households and corporations while undermining government's ability to provide the services citizens need. Governments have, under the smoke screen of fighting the deficit, been imposing a set of policies that are changing the fundamental values of our province, country and society as a whole.

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# Nova Scotia Alternative Provincial Budget 2002-2003

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**Cho!ces-Nova Scotia** rejects the values of neo-liberalism and the means through which governments are choosing to restructure the economy and society. There are better alternatives — alternatives that respect the values that have shaped our communities and our social programs. Social and political decisions cannot be left to the market. Our interests are best pursued through a strong democratic state that is open and accountable to all Canadians.

Government budgets are political documents, in which governments implement their political agenda and present their vision of the province's future. They put forth the government's plan for the province's social and economic development and present the choices the government has made. Budgets are also catalysts for debate over public policy and social and economic development. They are lightning rods in the social and economic struggle over who pays and who benefits from overall government policies. Open public debate about budgets and the allocation of government resources, legislative and financial, is essential to a well functioning democracy.

The Alternative Budget presents an approach that recognizes the fiscal realities of Nova Scotia while promoting the interests of all Nova Scotians in a socially and economically just manner.

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## Putting the Province's Finances in Perspective

In what has become a pre-spring ritual, Nova Scotians are again being threatened with cuts to programs and services. The province, we are told, can no longer afford the "Cadillac" public services that we have come to expect.<sup>3</sup> The solution, according to the provincial government, is simple enough: cut expenditures. According to the Department of Finance "departments other than health, education and community services have been asked to cut their budgets by as much as 10 percent to help balance the upcoming [2002-2003] budget."<sup>4</sup>

The government's justification for cuts, which in previous budgets focused on the size of the deficit, has moved to the provincial debt. The government is currently downplaying the tax cuts set, according to their fiscal plan, for 2003-04. It is politically difficult to claim that the province's finances are so dire that cuts to expenditures are required while at the same time planning cuts to revenues through tax cuts. But with the end of their term of office in sight the Tories are intent on balancing the budget this year in preparation for an election year budget. The government's pre-budget publicity suggests that the surplus derived from

a balanced budget will focus on paying down the debt and providing tax cuts, rather than increasing investments in programs, services and infrastructure.

An accurate assessment of the province's finances shows that balancing the budget in this fiscal year is unnecessary and the continuing focus on cutting expenses is unjustified. The APB provides a realistic assessment of the province's fiscal situation and options.

## DEFICITS

Much has been made of the size of the province's deficit. It is claimed by the provincial government that the annual deficits are evidence of a fiscal crisis. The province's fiscal policy, Nova Scotians are told, must focus on balancing the budget regardless of the immediate and long-term costs. Nova Scotia has not balanced a budget in decades. Since 1980 deficits have varied in size from a low of \$116 million to \$773 million in 1999. The size of the 1999 deficit is misleading as \$370 million of the \$773 million deficit is due to a one time accounting change and a write off of financial liabilities relating to SYSCO. Deficits in the past 20 years have averaged \$340 million per year. The deficit for 2000-01 was \$268 million and the provincial government is forecasting that the deficit for 2001-02 will be \$98 million. Given the experience of the recent past, the \$98 million is relatively low and manageable. The fiscal challenge for Nova Scotia is not that the province has a deficit, nor is it the size of the current deficit.

## NOVA SCOTIA'S DEBT

More important to understanding Nova Scotia's financial situation is recognition of the size of the province's debt relative to the size of our economy. The cumulative impact of deficits averaging \$340 million has been an increase in the province's debt to more than \$11,470 million as of March 2001. The debt has more than doubled over the past decade. The provincial government has made much, in its recent media campaign, of the size of the debt per person. Such numbers tell us little about the province's ability to carry the debt load. A more useful approach is to examine the debt relative to Nova Scotia's economy.

A conventional measure of an economy's ability to carry a debt is to relate the debt load to the Gross Domestic Product (GDP) of the province. The debt to GDP ratio provides an indicator of the province's capacity to carry and repay the debt. The debt to GDP ratio for Nova Scotia is high at about 47%. It is the highest of any province. This level of debt is contributing to the province's fiscal problems. As the debt increases, the debt servicing costs also tend to rise, depending on the interests rates at the time. Too large a debt also leaves the province vulnerable to interest rate fluctuations.

## Debt and Deficits

In his pronouncements of late, provincial finance minister Neil Leblanc seems to claim that the budgetary deficit is the major cause of our fiscal ills and that immediate slashing of the deficit is essential to our future prosperity.

This debt/deficit hysteria is old news. In other parts of Canada it was used in the 1990s to justify massive cuts in needed programs and services. Those program and service cuts disproportionately hurt the poor, the ill, the disadvantaged.

The cuts were so severe that balanced budgets soon became budgetary surpluses. Did governments then use surpluses to restore lost programs? No, in most cases they first applied the surpluses to cutting taxes, especially progressive taxes. Who gained most from such tax cuts? The wealthy.

In some cases, as in Ontario and British Columbia, provincial governments were in such a hurry to cut taxes they did not wait for surpluses but actually instituted increased deficits and debt to do so. Then they used the ensuing "crisis" to justify slashing programs and services. In hindsight it is obvious that the debt/deficit hysteria resulted in a transfer of income and wealth from the poor to the rich. The statistics certainly confirm the result.

But what about debt? Notwithstanding the rhetoric, isn't it a bad thing? Debt is neither good nor bad. It is sometimes necessary. Indeed it is often crucial to future economic prosperity. Nobody would seriously suggest that an entrepreneur wishing to expand a business NOT go to the banks or the securities market to raise money that is not their own! Few would seriously suggest that students forego borrowing money for their education when they are young and wait until they are much older when they can pay for it up front. Few would seriously suggest that mortgages are a bad idea for people wanting to buy a home!

There are two key questions in incurring debt. First, what is it for? If the debt is incurred to provide for

basic necessities such as housing or for the purpose of improving one's ability to generate income, debt is acceptable. The second key question is: can one carry the debt? That depends on the size of one's income. A \$200,000 mortgage is quite responsible for someone earning \$100,000 a year and quite the opposite for someone earning \$30,000. One may even have to increase the value of a mortgage if one's family expands or if one needs to keep the house in good repair.

The most important figure is not the absolute size of the mortgage but the ratio of the carrying cost to our income. The carrying charges on a \$200,000 mortgage may take more than a quarter of the monthly after-tax income of a person making \$100,000 a year. But as long as we are earning enough to carry the mortgage, we consider it a necessary expense. If we wish to lower our mortgage, the most prudent way to do so is to pay it down whenever we have extra income.

The province's debt is like a mortgage. We did not incur it for frivolities, but rather to build and maintain the province — our schools, hospitals, roads and some emergency assistance to those in need. One would be hard-pressed to argue that the provincial "house" is too luxurious. As our population's needs increased and as parts wore out, we added to and improved the province — or should have done so. Indeed, in recent years our governments have been guilty of being penny-wise and pound-foolish. They have foregone investments needed to secure our future.

If we do feel the ratio of carrying-cost-to-income ratio is too high, the answer is not to let the plumbing system corrode or allow dangerous wiring to threaten our lives or, more drastically, to tear up the floorboards of the house. We need to increase our income slowly but surely and pay down the mortgage to the point where it is once again manageable.

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# Are Expenditures the Cause of Nova Scotia's Fiscal Problems?

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**W**hile it is generally agreed that Nova Scotia's debt is high relative to the provincial economy, the causes of the fiscal problem and how to resolve it are more contentious. If we are to resolve the fiscal problems we need to develop policies that get at the root cause of the problems, while continuing to support social and economic development.

## EXPENDITURES

The government is clear about what it thinks is the cause of Nova Scotia's fiscal problems. The province is, they claim, in the midst of a fiscal crisis because the province has been providing overly luxurious "Cadillac" services. Let's have a closer look at this claim. It is suggested that

Nova Scotia's expenditures on programs have increased beyond our ability to support them. The numbers suggest otherwise. Expenditures as a portion of GDP have decreased over the past 16 years (see Table 1).

Given the government's claims that Nova Scotia has overly luxurious services, one would expect that Nova Scotia spends more per capita than other provinces on programs. Not so — not only does Nova Scotia not spend more on programs and services, it spends less than all other provinces except Ontario. Over the past decade Nova Scotia has consistently spent the least or the second least of all provinces in per capita spending on programs and services.\*

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**TABLE 1:**  
Program Expenditure as % of GDP

	Expenditure (million)	GDP (million)	Expenditure as % of GDP
1985-86	\$2,664	\$12,442	21.4%
1990-91	3,676	17,053	21.6%
1995-96	3,904	19,359	20.2%
1999-00	4,627	22,982	20.1%
2000-01	4,549	24,061	18.9%

Sources: Federal Fiscal Reference Tables, 2002 and Statistics Canada Table 384-002

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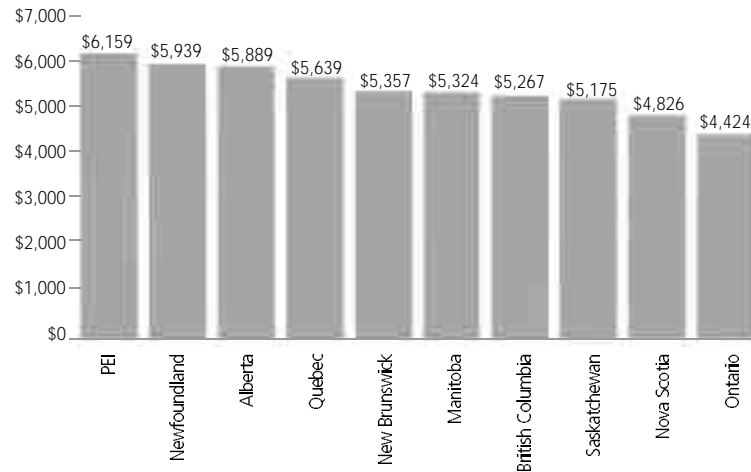
\*The accuracy of comparing provincial expenditures is limited by the differences between provinces as to which level of government — local or provincial — provides a particular service. We have confirmed the accuracy of our findings through a review of Statistics Canada consolidations of local and provincial expenses (Financial Management System Basis). Since 1992-1993 Nova Scotia's local and provincial governments have spent the least or second least on a per capita basis of all provinces on programs and services.

In 2000 Nova Scotia spent 7% less per capita on programs than the average per capita expenditures of other Canadian provinces (see Figure 1).

Nova Scotia's debt is high and we would therefore expect that the combination of program spending and debt servicing costs would be higher than other provinces. Perhaps herein lies the basis for the province's argument. But again the facts do not support the province's case. When debt servicing costs are added to the program expenditures Nova Scotia, as compared to other provinces, spends around the average per person on total expenditures (see footnote previous page). More revealing is that it spends less than all other Atlantic provinces.

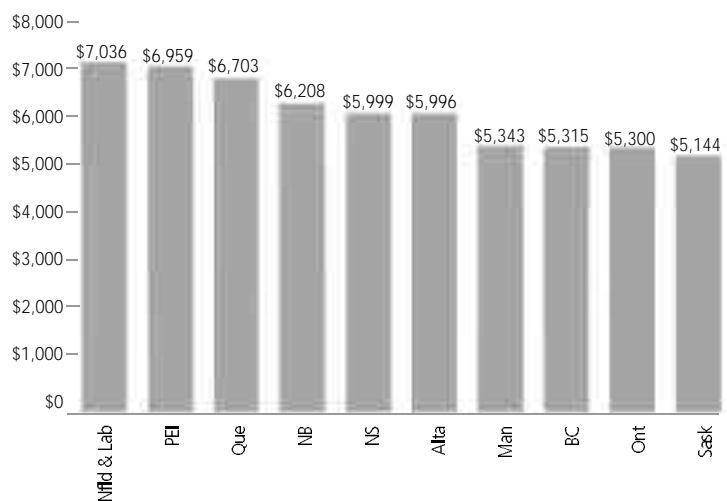
The numbers do not support the government's claims that Nova Scotia over-spends on programs and services. In fact, we spend too little, especially when compared to other provinces in Atlantic Canada. The provincial government's focus on cutting has more to do with its political agenda than sound economics and an accurate assessment of the causes of the Nova Scotia's financial woes.

Figure 1  
Provincial Total Program Spending per Person, 2000-2001



Sources: Federal Department of Finance, Fiscal Reference Tables and Statistics Canada Statistics Canada, CANSIM II, Table 051-0001

Figure 2  
Total Program & Debt Servicing Costs per Person, 2000-2001



Source: Finance Canada Fiscal Reference Tables and Statistics Canada, CANSIM II, table 051-0001 Tables

## FULL COST ACCOUNTING: THE GENUINE PROGRESS INDEX (GPI)

The APB relies on conventional accounting mechanisms. But governments cannot, by definition, make fiscally responsible budget allocations in the framework of conventional accounting mechanisms that ignore vital social and environmental assets. For example, reliance on tobacco taxes and VLT/casino revenues may appear to boost the revenue side of the budget equation without accounting for the long-term health care and social service costs that will result from smoking-related illnesses or gambling addiction. Similarly, budgets that do not account for the value of volunteer work, for natural resource depletion, or for how income is distributed, will send misleading and distorted messages on the province's fiscal health. For example, government may cut social assistance payments to single mothers in an apparent effort to save money and reduce the deficit. But higher rates of poverty can be very costly in the long run. For example, low-income women have a 62% higher rate of hospitalization under the age of 40 and a 92% higher rate of hospitalization over the age of 40 than women with adequate incomes. Hospitalization is the single largest health care expenditure. Actions that appear to save money but deepen poverty can therefore produce higher long-term health care costs. Likewise, justice costs are highly correlated with unemployment and poor educational attainment. Full cost accounting mechanisms, like that used in the Genuine Progress Index can assist governments in accounting for a more complete range of social, economic, and environmental vari-

ables in budget allocations; and thus allow for a more accurate assessment of the true benefits and costs of any budget decision. By accounting for 22 social, economic, and environmental variables and elucidating their interconnection, the GPI can provide a useful tool for governments to assess the full, long-term consequences of their budget decisions.

### THE GENUINE PROGRESS INDEX (GPI)

"The Genuine Progress Index is based on the fundamental understanding that social, economic and environmental realities are inextricably linked. Although we conventionally measure prosperity by material gain, the GPI recognizes that true long-term prosperity and well being are ultimately dependent on the protection and strengthening of our social and environmental assets. If these deteriorate, we are not living "sustainably" and we leave a poorer world to our children."

"The Genuine Progress Index also recognizes that any index of progress is value-based and must answer the question "progress towards what?" The use of the Gross Domestic Product as a measure of progress is also value-based, and assumes that "more" is always "better."

By contrast, the GPI adopts a set of broader consensus values in which "less" may sometimes be "better," as in the case of crime, pollution and sickness"<sup>5</sup>.

Future APBs will work to integrate the insights and methods of full cost accounting.

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# The Real Causes of Nova Scotia's Fiscal Problems

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**A**n historical perspective is essential to understanding the roots of Nova Scotia's fiscal problems. Governments across Canada have grappled with fiscal challenges over the past 20 years. While some other provinces were able to achieve a balanced budget during the late 1990s, Nova Scotia has found it more difficult. Nova Scotia's provincial debt has more than doubled since 1990 and is more than four times as high as it was in 1980. The federal government's neo-liberal monetary policy is the main culprit in running up high government deficits and debts across Canada. High interest rate policies deepened and lengthened recessions. Even when the economy was not in recession, high interest rates slowed economic growth resulting in decreased government revenues. Average economic growth in Canada during the 1980s and 90s has slowed to just over half of the growth during the 1960s and 70s. The high interest rates also increased unemployment and demands on government services such as social assistance during the recession. Compounding the problem, high interest rates resulted in increased debt servicing costs. Not surprisingly, government deficits and debt increased.

## AN UNDERDEVELOPED REGION AND THE IMPACT OF CUTS

While all provinces have sought to grapple with the effects of federal monetary policies and cuts to programs, few have found themselves facing the fiscal problems that challenge Nova Scotia. The root to these problems can be found in the ongoing regional disparities within Canada. Underdeveloped regions do not get

the same levels of economic growth as other regions in Canada. Slow economic growth has resulted in lower revenue for the provincial government. Nova Scotia was also particularly hard hit by the federal government cuts in the 1990s due to the high overall unemployment rates in Nova Scotia and due to the considerable amount of federally funded employment (direct and indirect) including the military, regional government offices, health care and post secondary education. Cuts to provincial expenditures further slowed our economy and reduced tax revenue growth.

## REVENUE

Generating sufficient revenue is essential to managing the province's finances. Revenue for Nova Scotia is derived from two main sources: federal transfers and own source revenues. Federal cash transfers currently make up 37 % of the province's revenue — down from 40.5% in 1991. In 2001-02 these transfers were comprised of \$558 million in Canadian Health and Social Transfer (CHST) and \$1,335 million in Equalization Payments.

The province relies heavily on federal transfers, and will continue to do so for some time, despite oil and gas royalties. The provincial government should continue to pressure Ottawa to provide a fair level of funding to the province. However, the province needs to put its own fiscal house in order to generate the financial resources required to meet its responsibilities.



**TABLE 2**

**FEDERAL CASH TRANSFERS TO NOVA SCOTIA (\$MILLIONS)**

	1980-81	1990-91	2000-01
Total Revenue	1,763	3,948	5,357
Federal Cash Transfers	845	1,599	1,982
Federal Contribution	47.9%	40.5%	37.0%

Source: Federal Department of Finance, Fiscal Reference Tables, March 2002

**OWN SOURCE REVENUES**

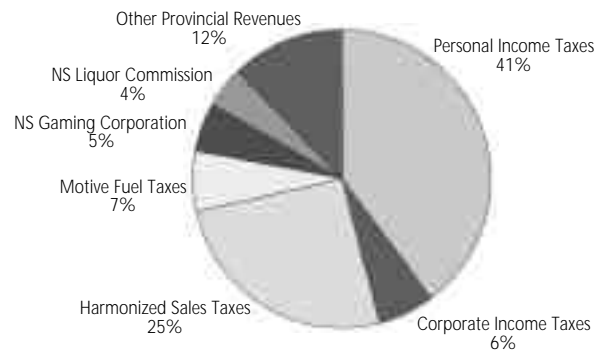
The province's own source revenue is raised through personal and corporate income taxes, sales taxes (HST), and user fees from a number of other smaller sources (see Figure 3).

Nova Scotia's tax burden is not high compared to other provinces. Provincial own-source revenue, as a percent of provincial GDP, is lower in Nova Scotia than in most other provinces. Differences between provinces in the provision and the funding of services and programs between local and provincial governments, limit the accuracy of direct comparisons between provinces based solely on provincial accounts. A more accurate comparison is achieved by consolidating local and provincial government accounts. Statistics Canada's (Financial Management System Basis) consolidation of provincial and local government shows that in 1999-00 Nova Scotia derived less than all other provinces except Alberta and Ontario. Annually, since 1992-93, Nova Scotia has derived almost 8% below the average of all provinces and 4.3% (1.0% of GDP) below the average of the other Atlantic provinces.

While a 1.0% of GDP difference may appear, at first glance, to be fairly small, it has a significant impact on the province's finances. If, for example, Nova Scotia's own source revenue was at the same percentage of GDP as the

average of the other Atlantic provinces, Nova Scotia would have, on average over the past nine years, generated \$180 million in additional revenue each year. In other words Nova Scotia governments derived \$180 million less than they would have if they had taxed at the same levels as other Atlantic provinces.

**FIGURE 3:  
Nova Scotia's Own Source Revenue  
2000-2001**



Source: Nova Scotia Fiscal 2001-2002 Forecast Update, November 23, 2001

Other own source revenues includes: Tobacco Tax (2.6%), Registry of Motor Vehicles (2.1%), Investment Revenues (1.4%) Petroleum Royalties (0.3%) and other small sources (5.8%).<sup>6</sup>

If over the past nine years Nova Scotia had derived own source revenue at a similar rate as other Atlantic provinces, it would have raised more than \$1.6 billion in additional revenue, resulting in a substantially lower debt than what the province currently carries.

If the province had generated revenue at the same rate as the other Atlantic provinces, our debt serving costs would be \$130 million less than the \$866 million<sup>7</sup> the province currently pays. This goes some way to explaining the province's fiscal problems. If Nova Scotia had generated the same revenue as a portion of GDP as the other Atlantic provinces, the province would have a balanced budget by now.

A number of conclusions follow:

- 1) there is no case for arguing that Nova Scotia is a high tax province;
- 2) low own source revenues have contributed to Nova Scotia's debt and thus its current financial problems;
- 3) Nova Scotia must increase the revenue it derives from the provincial economy if it is to get its financial house in order;
- 4) Nova Scotia cannot for the foreseeable future afford tax cuts; what is needed is tax reform.

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## Budgeting in the Context of an Economic Slowdown

**T**he Nova Scotia budget for 2002 is being prepared in the midst of a global economic slowdown. In 2002 the Nova Scotia economy is forecast to grow by 1%, less than half the pace of economic growth during 2001 and about a third the economic growth of 1999. The boom and bust cycles of market economies are nothing new. During periods of slow growth governments have traditionally oriented public policy towards promoting recovery through economic stimulus. This stimulus has historically taken the form of lowering interest rates and counter-cyclical spending. Social programs such as income assistance programs have previously served to moderate the effects of a recession. As workers are laid off they are insured sufficient income to not only sustain their household but also maintain at least a minimal level of economic activity through their spending. In the past govern-

ments have also stimulated economic activity through various job creation programs. Nova Scotia's provincial government appears to be taking an entirely different approach.

The provincial government is setting off on the precarious tack of balancing its budget during the economic slowdown regardless of the cost. This is the worst point in the business cycle for the province to be taking money out of the economy through reductions in expenditures. To do so will not only cause additional hardship for those using the programs and services, but it will also serve to further slow the economy in an already slow period. Slower economic growth will decrease employment, increase demands on government services and decrease government revenue. One is left to wonder what the actual objective is of a budget that makes cuts at such an inopportune time while

contemplating tax cuts within two years. The government appears to be driven less by economic pragmatism than by ideology and a political timetable as they approach the end of their term.

A pragmatic approach would be to accept the realities of the economic slowdown and adjust fiscal planning accordingly. The government should focus on taking a balanced approach to fiscal planning. What is needed in 2002-2003 is an approach that on the one hand supports Nova Scotia households as they struggle with the consequences of slow economic growth and on the other hand begins to address the province's fiscal problems.

The Hamm government has since its election set its sights on restructuring government and ultimately providing tax cuts at the end of its term. Even in the face of an unanticipated economic slowdown the government appears un-swayed in its chosen course of changing the role of government to provide fewer services and programs to Nova Scotians, and to limit the government's ability to provide adequate services in the future. Such policies are undermining the viability of Nova Scotia as a desirable place to live, work and invest. The province needs a realistic fiscal plan that resolves the financial dilemmas we currently face and supports long-term social and economic development.

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# An Alternative Fiscal Plan

**W**e agree that Nova Scotia must address its fiscal problems. The province's fiscal plan should be practical while supporting the long-term viability of the province's economy. It should provide supports for the most vulnerable Nova Scotians and require that Nova Scotians share in funding social and economic development based on their ability to pay. Our fiscal plan meets the needs of Nova Scotians, supports sustainable economic development and manages the provincial debt.

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## DEBT MANAGEMENT

Our fiscal plan (see Table 3, page 18) recognizes that Nova Scotia's debt is too high relative to the size of our economy. It currently stands at 47.6% of GDP — higher than any other province. The ratio must decrease if we are to manage the province's debt. The fiscal plan is guided by two objectives: improving programs and services, and the need to lower the debt to GDP ratio. Within five years the ratio can be decreased to less than 40% of GDP while increasing expenditures.

## EXPENDITURES

The alternative fiscal plan recognizes that per capita expenditures in Nova Scotia have been lower than almost all other provinces for at least the last decade. Nova Scotia's program expenditures are approximately 10% less than other provinces. The costs of under-funding is being borne by those most dependent on services and programs, people with low-incomes, the ill and the province's youth. Under funding is also undermining future social and economic development in Nova Scotia. The APB is designed to bring program expenditure more in line with other provinces through maintaining expenditures and through social investments over the next five years.

In 2002-03 expenditures will increase by 3% to cover inflation, wage settlements and to begin needed reinvestments in services and infrastructure. From 2003-04 expenditures increase by the rate of inflation plus half of the rate of economic growth resulting in on average increases of 3.2% per year. This will allocate more than 60 million per year to social and infrastructure investments.

## REVENUE

The APB fiscal plan presents two revenue scenarios. The APB is based on scenario two. Scenario one is included to demonstrate that the additional revenue derived from economic growth can balance the province's books during the course of a business cycle.

## SCENARIO 1:

The first scenario (see Table 3) leaves revenue as a portion of GDP at current levels. It shows that the budget can be balanced through economic growth during the course of the next period of economic recovery. Revenue projections to 2005-06 are guided by our review of revenue increases during the 1990s. Total revenues, own source and federal transfers, increased on average by about 3.1% annually (see Appendix A). The APB Own source revenue is forecast to increase by the rate of GDP growth and inflation. Federal transfers are forecast to increase by 3.1% annually.

TABLE 3

## Nova Scotia Alternative Provincial Budget Fiscal Plan 2002-2006

<b>Assumptions:</b>	2001-2002	2002-03	2003-04	2004-05	2005-06	2006-07
GDP Growth		1.5%	2.5%	2.8%	2.8%	2.8%
Inflation		<u>1.6%</u>	<u>2.0%</u>	<u>2.0%</u>	<u>2.0%</u>	<u>2.0%</u>
		3.1%	4.5%	4.8%	4.8%	4.8%
	NS UPDATE Nov. 23/02 (\$MILLION)	2002-06 CHOICES-NS CALCULATED				
<b>REVENUE</b>						
Own Source Revenues	\$3,218	3,295	3,443	3,609	3,782	3,963
Federal Sources	<u>1,890</u>	<u>1,914</u>	<u>1,974</u>	<u>2,035</u>	<u>2,098</u>	<u>2,163</u>
<b>Total Revenues:</b>	<b>5,108</b>	<b>5,210</b>	<b>5,417</b>	<b>5,644</b>	<b>5,880</b>	<b>6,127</b>
<b>EXPENSES</b>						
Previous Years Expenses + Inflation	4,340	4,410	4,564	4,714	4,875	5,042
Social & Infrastructure Investments		<u>65</u>	<u>57</u>	<u>66</u>	<u>68</u>	<u>71</u>
Total Program Expenses		4,475	4,621	4,780	4,944	5,113
Debt Servicing	<u>866</u>	<u>875</u>	<u>947</u>	<u>980</u>	<u>980</u>	<u>981</u>
<b>Total Expenses</b>	<b>5,207</b>	<b>5,350</b>	<b>5,568</b>	<b>5,760</b>	<b>5,924</b>	<b>6,094</b>

### SCENARIO 1: NO INCREASE IN OWN SOURCE REVENUE (beyond GDP Growth)

<b>SURPLUS/DEFICIT</b>	(98)	(140)	(151)	(116)	(43)	33
<b>DEBT/GDP</b>	2000-2001					
Debt	11,472	11,600	11,740	11,891	12,007	12,051
GDP	<u>24,061</u>	<u>24,350</u>	<u>25,105</u>	<u>26,234</u>	<u>27,494</u>	<u>28,813</u>
	47.7%	47.6%	46.8%	45.3%	43.7%	41.8%
						39.9%

### SCENARIO 2: INCREASE IN OWN SOURCE REVENUE

Increase Own Source Rev. (% Increase of GDP)	0.2%	0.5%	0.5%	0.5%	0.5%	0.5%
Revenue Increase	50	131	137	144	151	
<b>Total Revenue</b>		<b>5,260</b>	<b>5,548</b>	<b>5,781</b>	<b>6,024</b>	<b>6,278</b>
<b>SURPLUS/DEFICIT</b>	(98)	(90)	(20)	21	101	184
<b>DEBT/GDP</b>	2000-2001					
Debt	\$11,472	11,570	11,660	11,680	11,659	11,659
GDP	<u>24,061</u>	<u>24,350</u>	<u>25,105</u>	<u>26,234</u>	<u>27,494</u>	<u>28,813</u>
Debt/GDP	47.7%	47.5%	46.4%	44.5%	42.4%	40.5%
						38.6%

Increased revenues resulting from economic growth will support the increased expenditures while decreasing the debt to GDP ratio. Deficits will decrease over the next three years resulting in a surplus in 2006 and a debt to GDP ratio of 39.9%.

## SCENARIO 2:

Scenario two uses the same revenue growth assumptions derived from economic growth as scenario one. But the second scenario recognizes that a major cause of Nova Scotia's financial problems is that the province raises 1% less of GDP in own source revenue than the other Atlantic provinces. Increasing revenue as a portion of GDP by as little as 0.5% would wipe out the province's deficit within a year and still leave Nova Scotia below the average of the other Atlantic provinces in terms of own source revenue as a portion of provincial GDP. This would allow Nova Scotia to make overdue investments in programs and services and economic infrastructure. The APB fiscal plan increases the rate of own source revenue incrementally, given the economic slowdown: 0.2% in the current fiscal year and 0.5% in 2003-04. The plan will provide a budget surplus in 2004-05.

The alternative fiscal plan shows that by bringing revenue generation somewhat closer to the Atlantic average, Nova Scotia could improve services and balance the budget while managing the debt. Increasing revenues must be done in a manner that taxes households and sectors of the economy based on the ability to pay. Progressive taxation of individuals and corporations, and the collection of resource royalties provide the province with the most equitable means of raising revenue.

## USER FEES AND TAXATION

The programs and services that we fund and use collectively, like health care, education, parks and fire protection, all have a price, or a tax. For the most part, the price we pay is income taxes. And the income taxation system ensures that those who can pay more do pay more while those who cannot pay as much or cannot pay at all can still use those services.

Every time the government changes the way we pay for these services, it changes the tax for different groups of people. The less public the service, the greater the benefit for the wealthier among us and the greater the loss for the poorer among us.

Every time the government withdraws public funds from a service and people pay more from their pockets, the poor pay more. Sending people home

from hospital quicker and sicker is one example. Reducing the Pharmacare coverage of drugs for seniors is another.

Every time the government charges a user fee, the poor pay more. Rapidly rising university tuition is a good example.

In fact, you could say that Nova Scotia governments have been raising taxes throughout the decade. But they have been raising taxes on the poorer among us, not the wealthier. It would be honest for them to own up to this, but it's not likely.

This coming fiscal year, the government of Nova Scotia will attempt to balance its budget by further reduction of services and upping user fees — raising taxes on the poor even more.

And what will it do once it has balanced the budget? It will give a tax cut. To whom? To the rich.

## PROGRESSIVE TAXATION

Taxes are the price we pay for living in a civil society. We often take government services for granted and forget that they have a cost.

Taxation allows society to enjoy the benefits of the effective and equitable provision of essential public goods. Taxation is an essential ingredient in the creation and development of a fair, prosperous and sustainable society.

Governments raise revenue by taxing economic activity and wealth accumulation: there are taxes on income (personal and corporate), wealth (e.g., property, capital) and consumption (e.g., sales, tobacco, gambling).

Governments also raise money by charging private companies rent for the use and exploitation of our natural resources. Sometimes called royalties, these rents are levied on oil, gas and other resources.

A key concept in fair revenue generation is progressivity i.e., those who are able to pay more should pay more than those who are less able to pay. As the benefits one receives from economic activity rise, the percentage of those benefits paid in taxes should rise. We are not

taxed too heavily in Nova Scotia considering the real needs of the province and its people and the province's capacity to tax. Given the cuts in social programs and infrastructure over the past several years, moves to reduce overall taxes sell the province short. Providing overall tax relief now may well make it more difficult to build the economy and take care of our people in the future, especially if the national and provincial economies take a downturn. But special interest groups — the wealthy and the corporations — are exerting pressure on the Nova Scotia government to give tax breaks to the wealthy and to corporations.

While we argue that overall taxation should not be reduced, the APB's main revenue generation thrust advocates reducing the proportion of Nova Scotia's revenue generated from regressive taxes, and increasing revenue generated by progressive taxes. Under our proposals, low- and middle-income people would pay less and higher-income people would pay more. The province should move away from regressive taxes such as consumption taxes and gambling.

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## Solving the Province's Fiscal Problems

### **STEP 1:**

The APB is based on scenario two. The APB raises revenues as a portion of GDP by 0.2% in 2002-03 and 0.5% in the 2003-04 bringing Nova Scotia more inline with the other Atlantic provinces. Nova Scotia would still tax less, by about 0.5%, than the other Atlantic provinces. This fiscal plan provides for the minimum required social and infrastructure investments.

### **STEP 2:**

Balance the budget by 2004-05.

### **STEP 3:**

Allocate the surpluses after 2004-05 according to the following priorities:

- ~ Reinvest in programs and services;
- ~ Eliminate regressive taxes such as revenue from gambling and the consumption taxes such as the HST;
- ~ Pay down the province's debt.

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# The Alternative Provincial Budget for 2002-2003

**N**ova Scotia needs to invest in programs and services that support Nova Scotians as they struggle with the effects of the economic slowdown. The Alternative Budget for 2002-03 therefore maintains the current level of spending and allows a small amount of social investment.

The Alternative Budget provides for a decrease in the debt to GDP ratio even in the context of an economic slowdown, and it takes a small step in bringing program expenditures more in line with the other provinces. Expenditures will increase by 3.0 %. The increases will be allocated to meeting the province's existing commitments, and to the priority areas as identified by **Choices-NS** below.

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## DEFICIT

The Alternative Budget allows Nova Scotia to remain in a deficit position for the duration of the current economic slowdown. In 2002-03 the deficit will decrease to \$90 million. A deficit of \$90 million will allow Nova Scotia to start the long over due decrease in the province's debt to GDP ratio. This level of deficit allows Nova Scotia to maintain expenditures, cover wage settlements and manage the debt — all in the context of an economic slowdown. In 2002-03 the ratio of debt to GDP will decline to 46.4%.

## EXPENDITURES

Programs and services in Nova Scotia have been under-funded for more than a decade. If Nova Scotia is to become a desirable place to live, work and invest, the province must increase social investments to a level comparable to that of other provinces. For 2002-03 the APB has increased expenditures by 3%.

During the cycle of economic growth that follows the current slowdown, additional social investments must be allocated to the priority areas.

The priority areas of the APB 2002-03 have both a short- and long-term focus. Most of these priorities were identified for attention in APB 2001-02, but little has changed.

While the APB presents the priorities according to departments, it is important to recognize the linkages that exist within the human condition that may be lost in a focus on departments. The development of policies and allocation of resources must be based on a more integrated approach and an effective co-ordination of efforts among departments.



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# Community Services

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The mission of the Department of Community Services is "to enhance the quality of life of communities of Nova Scotia by helping individuals, families and communities reach their potential".<sup>8</sup> The department has a budget of over \$600 million and is responsible for a wide range of critical programs, including services under the Children and Family Services Act and Day Care Act, funding to transition houses and women's centres, and the Family Violence Prevention Initiative. It is also responsible for services such as income assistance, employment support and residential day program services for people in need. The department has a dramatic impact, for good or ill, on residents of Nova Scotia. Government expenditures must take a long-term perspective where investments in social programs result in the long-term well-being of all citizens.

Among the many important services provided by Community Services, the three most in need of additional resources are social assistance, childcare and housing. The long-term goals in these areas are to eliminate poverty, to provide universally affordable and quality childcare, and to have adequate, affordable housing for all.

## SOCIAL ASSISTANCE:

The department needs to focus its attention on making real movement toward the elimination of poverty and powerlessness. Nova Scotia must invest now for long-term pay offs. Changes in the provision of social assistance have been moving from being based on an entitlement to a charity model. The most obvious example of this is the role food banks play in supporting households with low income.

The recent "reforms to welfare" in the end mean cuts to income supports for those in need. The Department of Community Services needs to take a population health approach that links poverty with the determinants of health.

Priority should be placed on the following areas:

- Establish and maintain social assistance rates at adequate levels for all individuals and families to meet their "real" basic needs;
- Provide a phone as one of the real basic needs for individuals and families on social assistance; and
- Increase employment supports for individuals and families receiving social assistance, e.g., childcare, education, transport.

## CHILD CARE:

- Increase minimum childcare workers' salary to \$24,000;
- Increase subsidized childcare places above the additional 50 per year now planned; and
- Begin the expansion of childcare beyond traditional hours.

## HOUSING:

- Initiate urban and rural public housing developments in cooperation with the federal government, utilizing the federal funds that are available for urban projects.

Nova Scotia must work with the federal government in the development of universal social programs in the areas of affordable housing, childcare, health, and dental coverage. Universal programs are cost effective in the long run. The development of these programs should be based on equitable cost sharing between all levels of government.

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# Education

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The Department of Education has a broad mandate that includes responsibility for education and training from primary through all post-secondary education. Including post-secondary support, the department received a budget of approximately \$1,088 million in 2001-2002.

Pressures on the education system are increasing with mounting expectations of the role of education in society, and uncertainty concerning the learning benefits of technological developments in information dissemination.

Spending in Nova Scotia in public elementary and secondary schools, in current dollars per pupil, was the third lowest in Canada in 1999-2000, only 85% of the Canadian average.<sup>9</sup>

Funding per student at the post-secondary level has traditionally been low in Nova Scotia. This is due in part to the large number of out-of-province students enrolled in provincial institutions. Inadequate funding has led to a very large increase in tuition levels, and to student debt loads that run to tens of thousands of dollars. There is, therefore, a critical need for funds to be directed toward post-secondary education.

Short-term priorities identified by the Alternative Budget are as follows:

- Freeze university tuition fees
- Ensure inclusion of students with special needs. Begin implementing immediately the recommendations contained in the Special Education Implementation Review Committee Report (SEIRC) of June 2001 highlighting core services, student supports and in-service training

- Implement appropriate class sizes, student program assistance, special education policy and in-service training
- Ensure equitable access to all to post-secondary education (including social assistance recipients)
- Make capital investments in repairing, building and maintaining schools
- Initiate a Royal Commission that would undertake a one to two year analysis of the requirements of the public education system in the province, and develop a long-term vision.

Long-term priorities:

- Expenditure per pupil (P-12) would be raised to match the national average, from \$6,093 per pupil in Nova Scotia to \$7,140 over a five year period, at an additional annual cost of about \$30 million per year
- Resources need to be made available to implement successfully the Special Education policy of inclusion, as listed in short-term priorities
- Improve the P-12 students to teacher ratio
- Provide \$10 million in the coming year for grants to post-secondary students and add an additional \$10 million in each of the following four years. In five years this would make available \$50 million per year in grants to post-secondary students.

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## Health

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The Department of Health has overall responsibility for the health care system and for influencing policies to bring about improvements in health. Some of the responsibilities for delivery of services are allocated to District Health Authorities and other health care institutions. With a budget of \$1,819 million in 2001-2002, the Department of Health has the largest budget of any provincial department.

Nova Scotia's finance minister has recently sounded dire warnings that provincial health care spending is rising precipitously and has warned that the solution may have to be user fees, cutbacks and more private solutions. But the facts of health care spending are quite different. When we look at health care spending as a proportion of provincial Gross Domestic Product (the best method of calculating our collective ability to pay, we see that health care spending has stabilized. Indeed, it is almost flat. Health issues receive more public attention than any other, and yet people are confused both as to what are the real problems and what would be an effective set of solutions. Part of the difficulty comes from the fact that administrative questions relating to regionalization dominate the discussion, to the neglect of more fundamental health issues.

Effective delivery of health programs requires a well-trained work force working in modern facilities with up-to-date equipment, with individuals doing the task they were trained for. The appropriate person must deliver the appropriate care, e.g., nursing staff give routine needles, not physicians. Increased workloads in recent years are leading to stress and burn-out.

A long-term strategy for health must be developed and implemented to develop and retain the staff required at all levels of a modern health care system.

The key point behind many of the current difficulties is the ineffective restructuring that has occurred in this sector. The net impact has been detrimental to the delivery of health care. It is important to ensure that the control and delivery of health services remain in the public sector. Nova Scotia should obtain an exemption from the application of the General Agreement on Trade in Services (GATS). Any imposition of user fees for health care would result in greater costs to the health care system as those in need of the services put off accessing the services they need to avoid paying the fees.

The Alternative Budget has identified the following short-term priorities:

- Relieve shortages of staff
- Improve the conditions of employment for health sector workers
- Provide additional support to under-funded health care facilities, including community health centres
- Entrench the five basic principles of the Canada Health Act in provincial legislation
- Limit the privatization and commercialization of publicly funded health services and facilities.

In the longer run, four fundamental reforms need to be implemented.

- There must be much greater emphasis on disease prevention and health promotion focused on addressing the determinants of health such as income security, employment status, a clean environment and personal safety.
- There must be a move from a clinical model to a community-based model for health, including a multi-disciplinary approach to health care delivery
- The fee-for-service method of payment for many health professionals must, in the interest of economy, be replaced by a salary-based approach to remuneration.
- There needs to be a move away from prolonged hospital stays and toward an integrat-

ed system of continuing care, including home care and long-term care with adequate and trained health care providers.

- The province should take steps to expand insured services, including working with the federal government and other provincial/territorial governments to establish a number of new insured services at a national level, such as national home care, dental services and pharmacare.
- Nova Scotia needs to develop and implement a long-term strategy for health and health care.
- The province needs to develop and implement a comprehensive human resources strategy for health care personnel.

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## Economic Development

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The Department of Economic Development is "the key economic development contact within the provincial government for federal and municipal officials, as well as community groups involved in economic development."<sup>10</sup> Its current budget is about \$35 million, a considerable drop from its actual expenditures in the last two years.

The long-term objective of the Department of Economic Development should be to provide support to sustainable development that generates well-paying and meaningful employment for all who seek work in Nova Scotia. There have been many false starts, and resources have been wasted. The province must integrate the use of full-cost accounting to more

accurately assess the true social, economic and environmental costs and benefits of economic development strategies.

In the short term, the department should reformulate its approach to resource development, information technology and organic agriculture, with an emphasis on the following:

- Providing incentives for additional value-added in the province, e.g., in gypsum, which is now taken raw from Nova Scotia;
- Researching the value of the off-shore oil/gas to rural Nova Scotia. Develop a government funded regulatory body that is publicly accountable;

- Increasing royalty payments on the use of Nova Scotia's resources to meaningful levels;
- Providing incentives for small-scale firms;
- Tightening up incentives provided to call centres and similar businesses so that the emphasis is on full-time sustainable jobs, with penalty clauses for failure to meet conditions;
- Initiating provisions whereby the province achieves an equity position in companies where subsidized financing is provided;
- Developing a strategy that supports rural and urban centres through the provision of training and education that will achieve two purposes: provide the skilled personnel that industry needs and, perhaps more importantly, give people portable job and life skills that enhance their labour market and community-building potential;
- Ensuring that training incentives are not abused by fictitious job creation;
- Developing a policy with respect to organic farming that provides incentives to green farming and disincentives to the use of chemicals in farming;
- Developing and supporting public ownership of natural resources.

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## Environment (Department of Environment and Labour)

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In the Nova Scotia budget of 2001-02, the Department of the Environment and the Department of Labour were combined. The department now consists of the former Department of the Environment, the former Department of Labour, the Financial Institutions Section of the former Department of Business and Consumer Services, and the Pension Regulation Section of the Department of Finance and the Alcohol and Gaming Authority. The mission of the combined department is "to protect and promote: the safety of people and property; a healthy environment; employment rights; interests of financial services consumers and pension plan members; and, consumer interests and public confidence in the alcohol and gaming services sectors".<sup>11</sup>

With the importance of environmental protection and the pressures on the environment due to economic development, it makes little sense to close a department devoted to environmen-

tal regulation. Nova Scotia needs to ensure environmental protection and conservation are integrated into all government policies and the work of all departments. While the ideal approach would be to have all departments integrate environmental concerns into all policies, this is unlikely to occur without a specialized department.

The long-term objective of environmental regulation, management and enforcement is to produce healthy and sustainable places of work, institutions and residences throughout the province, along with protection of our natural environment. There are major environmental problems, from pollution of the air by industry and vehicles to the prevalence of underground sources of arsenic in well water. And there remains the Tar Ponds disgrace. The provincial government needs to develop and implement tough environmental standards and support the development of environmentally friendly

initiatives such as public transportation.

The three areas identified for action in the short term are water and waste water, resources and sustainable development, and standards and enforcement.

- It is important that water remain under public control and ownership, and that efforts to privatize the system, stemming from potential actions under the GATS, be resisted by the province. Clean, safe water should be treated as a human right, not a commodity. The control and elimination of industrial and residential waste continues to be a major deficiency in the province. Public health and safety issues are paramount with water and waste water issues, and require stringent standards and enforcement. Legislation, education, consultation and assessment form a package of actions on which immediate attention is necessary.
- Environmental impact assessments (EIA) must be used in the evaluation of all relevant government programs and projects (EIAs are an analytical tool to assist policy-makers to determine whether a particular program or project will have negative impacts on the environment). EIA legislation and enforcement need to be updated, with meaningful practices and standards applied across the board.
- An increase of protected areas and public parks must be part of the province's development strategy.
- Standards and enforcement issues cut across the entire environmental spectrum. In general, the capacity of the department to develop, implement and enforce appropriate standards is being seriously eroded by staff cuts. It should be a priority to ensure more resources supplied to this area.

## Nova Scotia Revenue Estimates for 2002-2006

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There are two approaches to estimating provincial revenues for Nova Scotia in the fiscal plan for 2002-2006. One, used by the APB in 2001-2002, is to estimate each major revenue source independently (income tax, sales tax, federal transfer payments, etc.) based on the latest available information relating to expected growth in GDP, federal government pronouncements, and other relevant indicators. A second method is to examine the trend in provincial revenues over a period of time, and to extrapolate estimated revenues for 2002-2006 based on past trends. Given the difficulties in the current uncertain economic climate in projecting what the future economic situation will look like, APB 2002-2003 has based the fiscal plan on these past trends, to provide some perspective on what might transpire with respect to Nova Scotia's fiscal position in 2002-2006.

Over the period from 1980/81 to 2000/01, Total Provincial Revenues in Nova Scotia grew at an average rate of 5.8% per year. Provincial own source revenues grew by 6.8 % per year, federal cash transfers by 4.2 % per year.

However, the decade of the 1980s witnessed much higher rates of increase in revenues than the decade of the 1990s, 8.4 % per year as opposed to 3.1 %. While it is usually preferable to base trends on as lengthy a period as possible, it appears better in this case to use the trend established in the 1990s rather than the two-decade trend rate. The increases in provincial revenues in the 1980s were strongly influenced by relatively high rates of inflation, a phenomenon that has been much reduced in the 1990s. Thus, a reasonable figure for the trend rate of growth in Provincial Revenues is 3.1 %, a figure which incorporates both provincial own source revenues and federal cash transfers to Nova Scotia. Since the annual rates of change in federal cash transfers over the last 20 years fluctuate much more than rates of change in provincial own source revenues, it is preferable to use the rate that incorporates both figures, e.g., the 3.1% of change in the 1990s noted above.

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## Endnotes

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