Nova Scotia

Alternative Provincial Budget Fiscal Plan

2004-05

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We are presenting an Alternative Budget:

- Because important choices are being made about Nova Scotia's future and different choices could be made. We want to provide a means by which the people of Nova Scotia can have input into significant public policy decisions. We want to ensure that the interests of the majority and those with less influence in our society are served;

- Because government today is a "top down" affair. We want to develop a consensus approach to budget making among progressive organizations and individuals, and provide a process for building links between various communities;

- Because a more democratic process and a fairer outcome will not happen unless the citizens of Nova Scotia have access to better information on the choices and consequences of budget decisions.

The Nova Scotia Alternative Budget for 2004-05 has been prepared by the Nova Scotia office of the Canadian Centre for Policy Alternatives.

Contents

List of Figures and Tables

Summary

The Hamm government is now facing the consequences of its income tax cut – an estimated budget shortfall of $100 million for 2004-05. The premier has served notice of more very difficult choices to be made in the 2004-05 budget. Nova Scotians can no longer afford the choices the government has made in cutting expenditure and income taxes. The province needs a fiscal plan that is socially and financially responsible.

The Alternative Provincial Budget (APB) identifies three fundamental challenges that must be addressed: underfunding of programs, services and infrastructure; insufficient revenue; and the size of the province's debt. The APB fiscal plan provides a realistic and prudent fiscal plan for addressing these challenges.

It is hardly surprising that the province is facing expenditure pressures. For at least the past decade provincial and local governments in Nova Scotia have invested the lowest or second lowest per capita amount compared to all other provinces. Due to this under-investment the province has accumulated a social debt and has allowed its infrastructure to crumble. The provincial government's fiscal management strategy, which is focused on cutting expenditure, has exacerbated this situation.

For much of the past decade the province has generated less in own-source revenue as a percentage of the economy than other provinces. This helps to explain how Nova Scotia has managed to under-fund programs and services and still not balance its books.

But this year is different. The provincial government's immediate fiscal woes are, for the most part, of its own making. It chose to implement a 10% income tax cut that will cost the provincial coffers more than $147 million in 2004-05, and more than $700 million over five years.

The income tax cut comes with a social, economic and fiscal price that Nova Scotia cannot afford. The tax cuts will disproportionately benefit wealthy tax payers. The social costs include increased income and gender inequality. Most Nova Scotians will receive minimal benefit from the tax cut but will pay the price through cuts to services and through user fees.

The tax cut undermines economic development. It disproportionately benefits wealthy regions, increasing the economic inequality between Halifax and the rest of the province. The tax cut decreases the government's ability to provide the infrastructure that is crucial for economic development such as highways, rail links and harbours. There are less resources available to develop a healthy, well educated workforce. Indeed, the evidence is that tax cuts intended to foster economic development have the opposite effect. Public investment contributes to decreased costs for businesses. As revenue decreases so does the government's ability to make these investments.

The fiscal costs of the tax cut are now apparent. The cut undermines the very source of revenue that has helped the province to balance the books over the past two years.

The APB fiscal plan reverses the 10% income tax cut. This would allow Nova Scotia to start to address the social debt by increasing investments in programs, services and infrastructure. The fiscal plan manages the debt and decreases user fees and consumption taxes. The plan allows for funding increases to keep pace with economic growth. Debt repayments will commence in 2007 once revenue from oil and gas revenue moves to the next tier of royalties.

Introduction

The Alternative Provincial Budget fiscal plan is guided by the need for fiscal and public responsibility. It identifies three fundamental challenges that must be addressed: underfunding of programs, services and infrastructure; insufficient revenue; and the size of the province's debt. The APB provides a realistic and prudent fiscal plan for addressing these challenges.

The provincial government's approach to fiscal planning decreases the province's capacity to invest in programs, services and infrastructure and to manage its finances. After years of drawing attention to the poor state of the province's finances, the Conservative government has chosen to undermine Nova Scotia's fiscal capacity through a tax cut. The benefit of the cut goes to the wealthiest taxpayers while the majority will pay the price through cuts to government programs and regressive use fee increases. The province's current fiscal situation requires that the government move beyond its ideology of tax cuts and a decreased role for public programs.

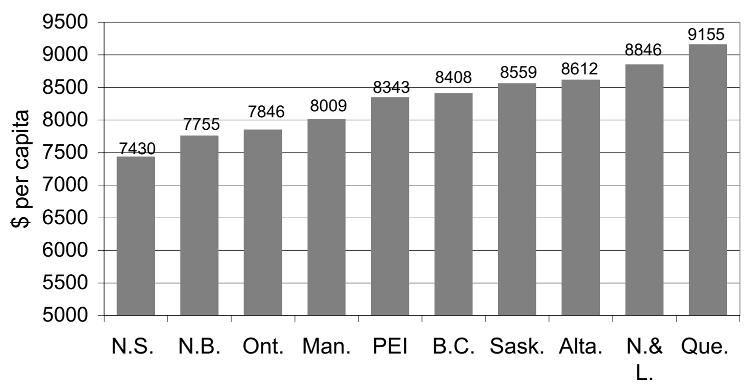
The Alternative Budget presents a pragmatic fiscal plan based on the realities of the province's finances. The key challenges are addressed. The APB fiscal plan promotes the public interest through budgets that are socially just and fiscally responsible, and that protect the environment.

Expenditures: Underfunding Social and Economic Development

The Hamm government's fiscal management strategy has focused on cutting expenditure. Nova Scotians were told by the Conservatives that the province was living beyond it means, and we could no longer afford the "Cadillac" services to which we had become accustomed.

But the facts paint a different picture. Rather than too much, the province has been spending far too little – in 2002-03 Nova Scotia spent less per capita than all other provinces (Figure 1).[1] This has been the case for most of the past decade. As Figure 2 shows, Nova Scotia has consistently spent less than both the Canadian and Atlantic average. Nova Scotians have been accumulating a social debt that needs to addressed (Appendix 1).

Figure 1. Program Expenditure per Capita, Local & Provincial Government, 2002-03



Source: Calculations based on Statistics Canada (Tables 385-0001 & 051-0001)

The Conservative government has exacerbated

Table 1: Program Expenditures as % of GDP

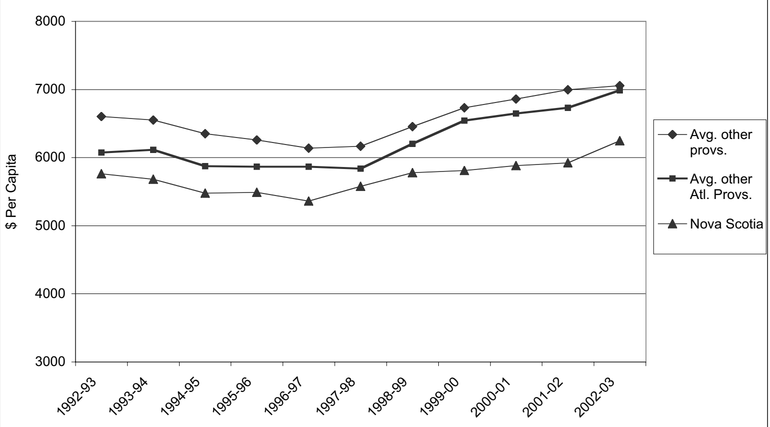
($ millions)	1985-86	1990-91	1995-96	1999-00	2000-01	2001-02	2002-03
Program Expenditures	2664	3676	3907	4627	4434	4741	4860
Program Expend. as % of GDP	21.5%	21.6%	20.2%	20.1%	17.9%	18.2%	17.9%

Source: Federal Dept. of Finance Fiscal Reference Tables & Statistics Canada Table 384-0002

this situation by expenditure cuts that continue into its second term. Last fall another round of cuts were announced with community services absorbing the largest portion. Threatening further cuts, the finance minister has stated that only health and education are safe.[2] Since the Hamm government came into office, program expenditures have decreased from 20% of GDP in 1999 to18% of GDP in 2002-03 (Table1). Yet as the economy grows, demands on government programs and public infrastructure increase. Allowing spending to fall relative to the size of the economy undermines prospects for social and economic development. Recent studies by Statistics Canada confirm that public infrastructure investments decrease business costs and increase overall productivity.[3]

This reduction in spending has serious implications for the government's ability to act in the public interest in areas such as social and economic development, environmental protection and the regulation of the economy. The lack of investment in programs, services and infrastructure is undermining the social and economic health of the province. The underfunding of programs over the past decade helps to explain the expenditure pressures the province faces as it comes to terms with the accumulated social debt and the wear and tear on infrastructure such as provincial highways. The premier appears to realize the limits of continuing to cut the province's capacity to provide services. He recently noted that the government is "not looking at layoffs as a solution [to its fiscal challenges]…You can only go to the well so often."[4]

Figure 2. Real Per Capita Expenditure, Local & Provincial Government



Source: Statistic Canada, Financial Management Basis System and table 051-0001

Revenue: Can we Afford an Income Tax Cut?

The APB fiscal plan reverses the income tax cut that came into effect in January of 2004. These revenues are essential if Nova Scotia is to address the costs of years of underfunding and to address its fiscal challenges.

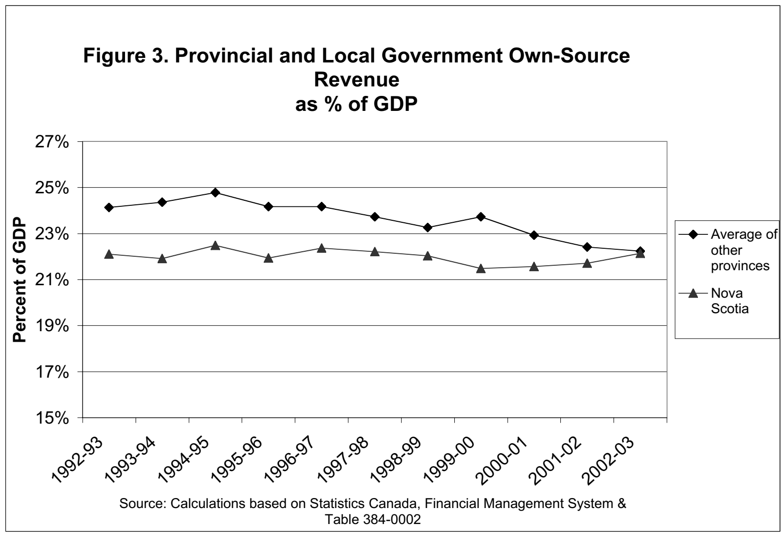
The province depends on two major sources of revenue – own-source revenue and transfers from the federal government. Economic growth over the past six years has been crucial to Nova Scotia's improved finances. As the economy grew so did own-source revenues. This increased revenue enabled the provincial government to balance its books and minimize increases to its debt load.

The premier and finance minister are blaming the federal government for Nova Scotia's fiscal woes. Over the past decade federal transfers have decreased both as a portion of the province's total revenue and as a portion of the provincial economy (GDP). Recent federal adjustments due to a revision of population statistics have further reduced recent transfers. Decreased federal transfers are certainly part of the fiscal problem but the blame must be shared by the provincial government.

Own-Source Revenue

The income tax cut has social, economic and fiscal costs. It will cost the province more than $700 million over the next five years. It undermines the province's ability to meet its social obligations, to provide the infrastructure essential to economic development and to manage its finances.

The Nova Scotia economy is not over-taxed. For much of the past decade the province has generated less in own-source revenue as a percentage of the economy than other provinces (Figure 3). This helps explain why, during the 1990s, Nova Scotia was underfunding programs and services and was still not able to balance its books. Providing a tax cut at this point in time further undermines the government's ability to manage public finances.



The Social Costs of the Income Tax Cut

Nova Scotians are already paying the price for the underfunding of programs over the past decade. The income tax cuts are already resulting in cuts to programs and services and increased user fees. But Nova Scotians do not share the costs of the tax cut equally.

Roughly 244,640 Nova Scotians do not receive any benefit from the tax cut because they earned insufficient income to pay provincial income taxes. These Nova Scotians are some of the most vulnerable members of our community. They will pay through decreased funding to the programs and services they depend upon for support and increased user fees. The cuts to

Table 2: Nova Scotia 2004 Income Tax Cuts – Distribution by Income Group					
Income Group	**Number of tax returns**	**Total 2004 tax cut ($000)**	**Average tax cut ($)**	**Percentage Of taxpayers**	**Percentage of total tax cut**
Tax filers with $0 taxable income	244,640	$0	$0		0
$1- $30,000	223,050	$23,219	$104	51.40%	15.80%
$30,000-$50,000	128,780	$41,993	$326	30%	29%
$50,000 +	82,220	$81,789	$995	19%	56%

Source: *Who Really Benefits From Nova Scotia's Income Tax Cut*[5]

Table 3: Income Tax Cuts – Gender Shares				
	Taxable returns (#)	**Percent of total Returns**	**Percentage of Total Tax Cut**	**Average tax cut ($)**
Women	185,910	43%	30%	241
Men	248,130	57%	70%	412
Total	434,040	100%	100%	

Source: *Who Realy Benefits from Nova Scotia's Income Tax Cut*[6]

Department of Community Services last fall are but one example of the most vulnerable in our society paying the price.

The income tax cut was touted as benefiting working Nova Scotians, but as Table 2 shows those least in need receive the most benefit from the tax cut. The 19% of taxpayers earning more than $50,000 receive 56% of the $147 million tax cut. On the other hand the 51% of taxpayers with annual incomes of less then $30,000 receive only 16% of the total tax cut. The income tax cut increases an already unacceptable level of inequality in Nova Scotia.

The tax cut also discriminates against women. Women comprise 43% of taxpayers but they only receive 30% of the total tax cut. The tax cut compounds the disadvantages women already face in the economy.

The tax cut increases social and economic inequality. Those most in need of support in our society receive the least benefit from the tax cut, but they will pay the greatest price. Lower income groups are in greater need of support and benefit from social programs. But rather then initiate much needed investments in social programs after years of underfunding, the tax cut undermines the province's capacity to make these investments. There will be reduced funds available for income assistance, affordable housing and child care, for example.

Undermining Economic Development

The income tax cut also comes with economic development costs. It decreases the government's capacity to provide the infrastructure that is crucial for economic development such as highways, rail links, harbours and affordable housing. Decreased revenue means there will be less available for the development of a healthy, well educated workforce.

A recent review of the United States' experience with tax cuts that were intended to foster economic development shows that the cuts in fact undermined economic development. The study finds "little grounds to support tax cuts and incentives—especially when they occur at the expense of public investment—as the best means

How Should We Finance the Government We Need?

Government services and programs reflect the collective responsibilities and activities which make us a civil society. They embody the value we put on access and equity and also our concerns with efficiency. But these values and concerns must also be reflected in how we finance government.

"Horizontal" equity is achieved when people with the same financial capacity face the same tax burden. "Vertical" equity occurs when people with more capacity actually pay more as a fraction of their income or wealth - i.e. , when the tax system is progressive. The greater the reliance on financing government through the income tax, our primary progressive tax, the more equitable the tax system is. The more taxes are raised federally, the more we can protect both horizontal and vertical equity by avoiding inter-provincial tax competition. Therefore, more tax revenue should be raised by federal income taxes to promote equity, but transferred to the provinces to reflect federal Constitutional responsibilities. Such fundamental tax reform is a long-run task. What can the government of Nova Scotia do in the short run?

Obviously, we need more money to finance the re-building of programs slashed over the last decade. To raise these funds and enhance equity and access, the government must increase income taxes. The 10% tax cut implemented this year is regressive in general because it reduces income taxes and leads to additional user fees and other forms of tax. It is also regressive in the way it was designed to give the greatest benefit to the highest earners. It discriminates against the poor, against women, and against rural Nova Scotians.

Raising user fees is regressive. Everyone pays the same amount, so the user fee reflects a higher proportion of the capacity to pay of low-income than of high-income earners. User fees do make sense when we wish to discourage use, as in the case of alcohol or cigarettes, but they should not be a tax grab which will limit access to necessary services, such as ambulances.

Sales taxes are also regressive - almost half of Nova Scotians must spend their entire income just to survive. Thus their full income, with relatively minor exceptions, is subjected to sales taxes. On the other hand, higher income people who can save and invest, or holiday out of the province, avoid full taxation.

Even income taxes can be regressive, as in the case of the health surtax now being touted.[7] If it has a basic exemption of $30,000, it does protect low-income earners. However, a maximum amount, such as a $750 cap, protects the highest income levels. Thus the middle-earners will pay the highest burden and the limited progressivity of our tax system will be further eroded.

Having already admitted that cutting off $147 million of revenue is a mistake, the government should rescind the tax cut, knowing Nova Scotians want services for all, not savings for some. The alternatives - higher regressive taxes or more cuts to government programs - are just not acceptable.

to expand employment and spur growth…. Research, in fact, substantiates that public investment plays a positive role in helping lower costs for firms." The study notes "that increases in taxes, when used to expand the quantity and quality of public services, can promote economic development and employment growth."[8]

Within Nova Scotia the tax cut also increases regional economic inequality, especially between Halifax and the rest of the province. Halifax, the most prosperous region with the lowest rates of unemployment, receives a disproportionate benefit from the tax cut relative to other regions. This is further exacerbated by the decreased ability of the provincial government to provide economic development programs and infrastructure to the regions most in need.

The Fiscal Costs

After years of claiming that the cupboards were bare and that "restraint is the order of business in public spending," the provincial government chose to decrease revenues by $147 million. This is certainly an odd notion of fiscal prudence and "living within your means." The decreased revenue has undermined the province's ability to manage its finances and leaves the province vulnerable to contingencies such as the natural disasters and decreased federal transfers that occurred in 2003.

Another concern is the prospect of slower economic growth. The largest jump in Nova Scotia's provincial debt occurred during the slow economic growth of the early to mid 1990s. The resulting lower revenue growth contributed to the debt increases. The relatively robust growth of the last five years and the low interest rates that enabled the Hamm government to produce balanced budgets cannot carry on indefinitely. Projections indicate that growth will be more moderate over the next two years. Interest rates are currently lower than they have been in decades and cannot be assumed to stay this low. This could affect the province's debt servicing costs.

The province's books are already feeling the impact of the decreased revenue. The premier has noted that the province is dealing with a shortfall of about $100 million for 2004-05.[9]

Nova Scotia cannot afford an income tax cut. The costs are too high. The 10% tax cut must be reversed to avoid further cuts to programs and increased user fees. The APB fiscal plan reverses the tax cut, but allocates funds to reducing regressive taxes, such as user fees and the HST, in two years.

Federal Transfers

While much of the blame for the province's immediate fiscal challenges can be attributed to the tax cut, the premier is correct in drawing attention to the long-term detrimental impacts of relatively lower federal transfers. Thirty-four percent of the province's revenue is derived from federal sources. During the 1990s the federal government balanced its books at the expense of the provinces through cuts to transfers. Some of federal transfers have been restored recently. None the less, transfers to Nova Scotia decreased from 10% of GDP in 1995-96 to the current level of 6.7% and from 43% of the provincial government's total revenue to the current level of 34%.

Tax Cuts and the Economy

The Government of Nova Scotia would have us believe that tax cuts are critical for economic prosperity. This seems to rest on two propositions: that tax cuts stimulate economic growth to the degree that overall tax receipts will increase; and that a lower provincial income tax encourages migration to the province, particularly of job-producing entrepreneurs. Each of these propositions is problematic.

The idea that a cut in the rate of tax will stimulate the economy so much that the overall tax receipts will increase is derived from the so-called Laffer curve. Economist Arthur Laffer said such a positive outcome was possible: what history has failed to show is that it is probable. The tax-cutting policy produced large deficits in the 1980s under Regan and Thatcher; George W. Bush is repeating the experiment at the present time, with the same result – limited economic stimulation, and a decrease in tax revenues.

Tax cuts can sometimes have a stimulating effect on an economy, but for a small economy especially, such as Nova Scotia, this effect can be negligible because of the high propensity of residents to buy goods produced outside the province, i.e., the high import content in our purchases. What might work at the federal level works hardly at all at the provincial level, even in a province as large as Ontario.

The second argument for a tax cut relates to the link between migration into our province and the income that the migrant can expect to earn. There is no question that income differences are a major factor in stimulating migration. The question raised by the recent tax cut in Nova Scotia, however, is the magnitude of the effect. How big is a 10% income tax cut? It sounds large because of the heavy loss of revenue it means to the province. But consider a person who has a job prospect in Nova Scotia that will pay her $60,000 per year. The difference between her Nova Scotia income tax bill between 2003 and 2004 will be about $750. If the person decided not to move in 2003, is it likely that an increase in take-home pay of $750 will change that decision? For a person with an expected income of $30,000 per year, the take home pay difference would be less than $300, an amount even less likely to encourage migration to the province. In addition, can Nova Scotia use tax cuts to compete with provinces such as Alberta which has much lower provincial income taxes and no provincial sales tax – as well as a booming economy and higher wages? Moreover, would the prospective migrant not recognize that the income tax cut means corresponding cuts in government services which are crucial to their well-being, or corresponding tax increases in the form of user fees?

It is also worth noting that some who leave the province are employed in the public sector and they leave for jurisdictions where there are more lucrative public sector jobs and better career advancement opportunities. This is directly attributable to the underfunding of programs in Nova Scotia.

Table 4: Federal Cash Transfers to Nova Scotia ($ millions)	1985-86	1990-91	1995-96	2000-01	2001-02	2002-03	2003-04
Federal Cash Transfers	$1,140	$1,599	$1,938	$2,040	$2,054	$1,987	$1,909
Percent of Total Revenue	41.3%	40.5%	43.2%	38.0%	36.8%	34.6%	33.9%
Percent of GDP	9.2%	9.4%	10.0%	8.2%	7.9%	7.3%	6.7%

Source: Federal Department of Finance, Fiscal Reference Tables & 2003-04 forecast, NS Dept. of Finance “Fiscal 2003-04 Forecast Update”

Provinces across Canada will be limited in their ability to provide much-needed injections of funds into existing programs such as health care and post - secondary education, and to support initiatives such as affordable housing and child care until the federal government returns to its former role of providing sustainable funding.

Equalization

Most media and public attention is focused on the funding of specific programs through the Canadian Health and Social Transfer (CHST). These transfers play a major role in funding health and post-secondary education. But of equal, if not greater importance, is the general purpose transfer to provincial governments through the federal equalization program.

We concur with the provincial government in its requests that the equalization program be strengthened to meet the federal government’s constitutional requirement: the Government of Canada is “committed to the principle of making equalization payments to ensure that the provincial governments have sufficient revenues to provide reasonably comparable levels of public services at reasonably comparable levels of taxation” (Constitution Act 1982, S. 36.2).

Equalization transfers are transfers from the federal government (not from the wealthier provinces) to “have-not” provinces. All Canadians, regardless of where they live, contribute to the equalization transfers as taxpayers. Currently the equalization formula is based on the five province standard which omits Alberta, with its oil and gas revenue, from the calculations of transfers to provinces. To provide meaningfully comparable levels of public services at comparable levels of taxation these revenues must be included. The solution is to return to the ten province standard. Had the ten province standard been in place in 2002, Nova Scotia would have received an additional $269 million in equalization transfers, a 23% increase.[10]

The provincial government has blamed the federal government for its present fiscal mess. But federal transfers are notoriously unpredictable because they depend upon the fluctuations of the various provincial economies and changes in population. Was it prudent for the provincial government to provide a $147 million tax cut based given the unpredictability of federal transfers?

The APB supports attempts by provincial premiers to reform the equalization program, but arguing for the need for increased transfers while cutting taxes decreases the legitimacy of the position. What would the Hamm government do with increased transfers – use them to further reduce taxes or increase funding to social programs and infrastructure?

Deficits and Debt: Managing the Province's Finances

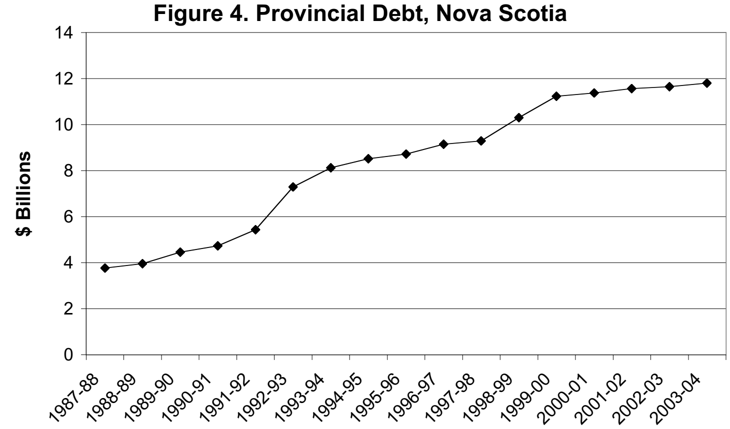
Key to resolving Nova Scotia's financial challenges is the management of the provincial debt. Much of the focus on the deficit is misplaced. The crucial fiscal issue is not whether or not there is a deficit, but rather the impact that the deficit has on the debt and our choices as a society.

Nova Scotia's debt is high and managing it is crucial to the fiscal health of the province. The province's finances are still recovering from the slow economic growth of the early 1990s. Between 1991-92 and 1993-94 the debt grew by 72%. The provincial debt has stabilized over the past six years due to increased rates of economic growth and the associated increased revenues.

The level of debt relative to the size of the economy (debt to GDP) is the most important index of the size of the debt since it provides an indication of a province's ability to manage its debt load. As the provincial GDP increases so does the province's capacity to raise own-source revenue and its ability to finance the debt. That said, Nova Scotia has the second highest proportion of debt to GDP (41%) among provinces (see Figure 5).

Table 5 shows that Nova Scotia's debt to GDP ratio has been decreasing from a peak of 48.7% in 1999-00. The ratio decreased while the province was in a deficit position and while the debt was increasing because the economy grew faster than the debt. Between 1997-2003 the economy grew on average by 6% (nominal) per year. This is in sharp contrast to the average annual growth of 2% between 1992 and 1996, a period that saw large increases in the debt (Figure 4).

Figure 4. Provincial Debt, Nova Scotia



Source: Dept. of Finance, Canada, Fiscal Reference Tables & TD Economics, Canadian Government Finances, March 2004

Should We Be Paying Down the Debt?

A payment of $50 million on a debt of $11.5 billion would reduce annual interest payments from $881 million to $877 million, a reduction of $4 million or 0.4%. Given the need to address Nova Scotia's social and infrastructure debt after years of underfunding, a far better invest-

Table 5: Changes to Nova Scotia's Debt

($ millions)	**99-00**	**00-01**	**01-02**	**02-03**	**03-04**
Debt	11,231	11,370	11,561	11,646	11,794
GDP	23,059	24,770	26,070	27,102	27,102
Debt to GDP	48.7%	45.9%	44.3%	43.0%	41.1%

Note: 03-04 Estimated
Source: Finance Canada, Fiscal Reference Tables.

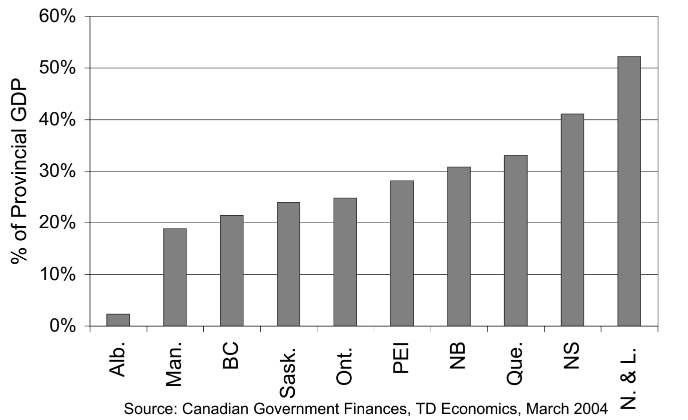


Figure 5. Provincial Debt to GDP 2003-04

Source: Canadian Government Finances, TD Economics, March 2004

ment in terms of return and need would be to allocate funds to programs, services and infrastructure.

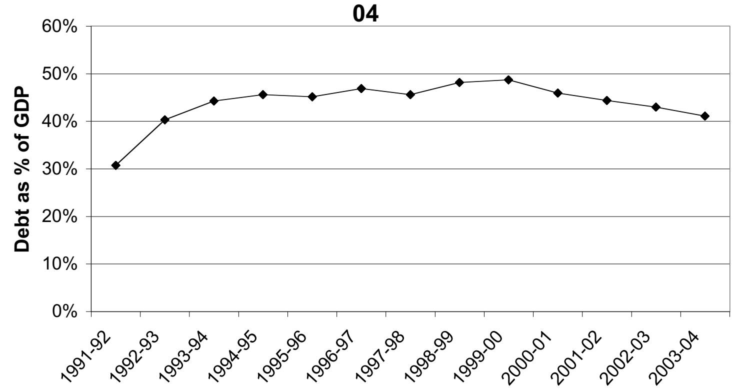
Managing the Debt

Currently net debt servicing costs absorb 16% of Nova Scotia's total expenditures. Allowing the debt to fall in proportion to the size of the economy (debt to GDP) will over time decrease the portion of total expenditures going to debt servicing.

The example in Table 6 shows that over the next five years, if no payments were made on the debt, and expenditures increased by the rate of inflation, the portion of total expenditures going to debt servicing would decrease from 16% to 14%. In other words debt servicing would decrease from 16 cents to 14 cents of every dollar spent. The example assumes moderate economic growth. If the economy and expenditures were to grow faster the decrease would occur faster.

The debt management approach taken in the APB focuses on stabilizing the debt. This will decrease the size of the debt relative the size of the economy. Stabilizing the debt will improve the credit rating for the provincial government and decreases the portion of expenditures going to debt servicing. It will also enable to the province to make long over due investments in the future, while allowing for debt reduction as funds become available (see fiscal plan).

Figure 6. Debt to GDP, Nova Scotia 1991-92 to 2003-04



Source: Fiscal Reference Tables, Federal Dept. of Finance, 2003-04 estimated

Table 6: Debt Management Options

($millions)	2003-04	2004-05	2005-06	2006-07	2007-08	2007-08
Debt Servicing Costs	$900	$900	$900	$900	$900	$900
Total Expenditures	5630	5771	5915	6063	6214	6370
Debt Servicing Costs % of GDP	3.1%	3.0%	2.9%	2.7%	2.6%	2.5%
Debt Servicing Costs % of Total Expend.	**16.0%**	**15.6%**	**15.2%**	**14.8%**	**14.5%**	**14.1%**
Debt	11764	11764	11764	11764	11764	11764
GDP	28593	29736	31253	32847	34522	36283
Debt/GDP	**41.1%**	**39.6%**	**37.6%**	**35.8%**	**34.1%**	**32.4%**

(Based on NS Public Accounts 2003 & NS Fiscal 2003-04 Forecast Update)

The Alternative Provincial Budget Fiscal Plan for 2004-05

The ultimate responsibility of any government is the social and economic well-being of all citizens, regardless of income. Nova Scotia needs to reverse the trends of increasing poverty, inequality, ill health, environmental degradation, and marginalization of many communities within the province. We need to invest in programs and services that support social and economic development to address the years of underfunding. The province needs to do this in a fiscally responsible manner.

The APB fiscal plan is guided by three objectives:

- Investing in programs to bring per person expenditure to a level comparable with at least the Atlantic provinces.
- Decreasing the debt to GDP ratio
- Progressive taxation reforms.

The fiscal plan achieves these objectives through the development of three new funds:

- The Social Investment Fund to eliminate the social debt that has accumulated in the province. Funds will be invested in existing programs and in developing new programs that support social and economic development and protect the environment. The federal government is a crucial partner in the financing of the fund. New program initiatives will be developed through community-based public consultations and environmental impact assessments.

- The Progressive Tax Reform Fund focuses on reforming taxation to increase the overall progressivity of Nova Scotia's tax structure by reducing dependence on regressive taxes such as consumption taxes (HST), user fees and revenue from gaming.

- The Debt Reduction Fund focuses on reducing the provincial debt. Most of the funds will be derived from Sable gas royalties. Some funds will also be allocated from a portion of yearly budget surpluses.

For 2004-05 the Alternative Provincial Budget (see Table 7):

- Maintains a balanced budget;
- Covers program cost increases due to inflation;
- Allocates $150 million to the Social Investment Fund
- Reduces the province's debt to GDP ratio.

Economic Growth Forecast

The APB anticipates the possibility of an economic slowdown by forecasting a moderate rate of growth over the next five years, and by incorporating sufficient flexibility in the case of a slowdown. It also ensures that there is sufficient revenue capacity to limit the impact of decreased revenue that will accompany such a slowdown.

Revenue

The APB fiscal plan reverses the 10% income tax cut. The APB contains tax reforms that decrease dependence on revenue from gaming, user fees and consumption taxes such as the HST. In 2004-05 the APB places an immediate freeze on user fees – no new fees and no increase in the cost of existing fees. Within two years, by 2006-07 the APB begins to cut some of the most harmful user fees, such as the cost of ambulance service, and takes its first steps to decreasing the provincial government's dependence on revenue from gaming.

The fiscal plan assumes that new federal transfers will increase at about the rate of inflation (about 2.5%). This is less than the average

Table 7: Nova Scotia, Alternative Provincial Budget Fiscal Plan 2004-05 to 2008-09

($millions)	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
		Calculated				
GDP Growth	2.20%	2.60%	2.60%	2.60%	2.60%	2.60%
Inflation	3.30%	1.40%	2.50%	2.50%	2.50%	2.50%
	5.50%	4.00%	5.10%	5.10%	5.10%	5.10%
Revenue						
Own-source Revenues	3724	3946	4147	4359	4621	4782
Federal Sources	1,909	1,936	1,984	2,034	2,085	2,137
Total Revenue	5,633	5,882	6,131	6,393	6,706	6,918
Expenses						
Program Expenses (Prev.+Infl.)	4,749	4,815	4,936	5,059	5,186	5,315
Social & Infrastructure Investments	-	150	250	350	400	450
Progressive Tax Reform Fund	-	-	-	60	75	100
Debt Repayment Fund	-	-	-	-	75	100
Net Debt Servicing Costs	881	912	912	912	912	906
Total Expenses	5630	5877	6098	6381	6648	6871
Provincial Surplus (Deficit)	**3**	**5**	**34**	**12**	**58**	**47**
Debt	11,764	11,764	11,764	11,765	11,690	11,590
GDP	28,593	29,736	31,253	32,847	34,522	36,283
Debt/GDP	41.1%	39.6%	37.6%	35.8%	33.9%	31.9%

(2003-04 based on NS Public Accounts 2003 & NS Fiscal 2003-04 Forecast Update)

increase during the 1990s of 3.1%.
By 2006-07 the APB allocates funds to the Progressive Tax Reform Fund to be used to cut the provincial portion of the Harmonized Sales Tax (HST). This decrease will continue in future years as surpluses allow.

In 2007-08, the royalty regime from the Sable gas project is projected to move to a higher tier. Most of the royalty revenue increases will be allocated to debt repayment.

Expenditures

The APB ensures sufficient funds to departments to cover increased costs due to inflation. All new funding initiatives announced in the future by the federal government will be allocated directly as additional funding to programs and services, and not used to replace existing provincial funding to those programs or to fund income tax cuts.

It also immediately allocates $150 million to a

Social Investment Fund that specifically targets the social debt by investing in the revitalization of programs and services. Core program expenses increase by the rate of inflation over the previous year's program expenses. The social and infrastructure investment funds are separate from the program expenses.

Debt

The APB debt management strategy ensures that the province's debt to GDP ratio decreases each year. In 2007-08 $75 million from gas royalties will be allocated to the Debt Repayment Fund and a further $100 million in 2008-09. By 2007-09 the debt to GDP ratio is forecast to decrease to 32%.

Surpluses

The fiscal plan allows for surpluses to be used as contingencies. These surpluses are allocated at year-end as follows:

- half the surplus allocated to the Social Investment Fund
- the remainder allocated to tax reform and debt payments.

The Alternative Budget Fiscal plan presents a responsible, practical fiscal strategy that revitalizes public services, manages the debt and provides for progressive tax reform.

Endnotes

1. Expenditure calculations include local and provincial government expenditure because across Canada differences between which level of government – local or provincial – provides services varies between provinces. A true picture requires that we look at combined expenditures.
2. Mary E. MacIntyre, "Christie: Only health, schools safe," *Chronicle Herald*, p. B1, March 10, 2004.
3. See Harchaoui, Tarek M. and Faouzi Tarkhani, "Public Capital and its Contribution to the Productivity Performance of the Canadian Business Sector," Statistics Canada: Ottawa, 2003; and Harchaoui, Tarek M., Faouzi Tarkhani and Paul Warren,"Public infrastructure in Canada: Where do we stand?" Ottawa: Statistics Canada, 2003.
4. Amy Smith, "No civil service layoffs," *Chronicle Herald*, Halifax, p. A1, April 2, 2004.
5. Jacobs, John, *Who Really Benefits From Nova Scotia's Income Tax Cut*, Halifax: CCPA-NS, July 2003.
6. Ibid.
7. Beth Johnston-Ross, "Tax cuts out, health surtax in?" *Daily News*, p. 3, March 26, 2004.
8. Lynch, Robert, G. *Rethinking Growth Strategies: How State and Local Taxes and Services Affect Economic Development,* Washington: Economic Policy Institute, March 2004 (quotes from Executive Summary).
9. Barry Dorey, "Province records small surplus: $100-million shortfall looms next year," *Chronicle Herald*, p. B1, March 26, 2004.
10. Errol Black and Jim Silver. *Equalization: Financing Canadian's Commitment to Sharing and Social Solidarity.* Ottawa: Canadian Centre for Policy Alternatives. March 2004. Study is available at www.policyalternatives.ca

Appendix 1
What Do You Mean by "Social Debt"?

Here are just a few examples of how the Nova Scotia government under-resources key programs and services:

- According to the Canadian Institute for Health Information, Nova Scotia has perennially been the lowest or close to the lowest per capita spender on health care of all the provinces.
- Low health care spending defies logic given our great needs. Nova Scotians have among the poorest health indicators in the country: the highest rate of deaths from cancer, breast cancer, and respiratory disease; the highest rate of arthritis and rheumatism; the highest reported use of disability days; the highest rates of hospitalization for chronic diseases; the second highest rate of self-reported functional problems; the second highest rate of diabetes; the second highest death rate from circulatory problems and lung cancer; and the second highest death rate per 100,000 population.
- Nova Scotia has among the lowest per capita and per student spending on education of all the provinces. Over the 90s, per capita expenditures dropped about 8%.
- According to the Nova Scotia Auditor General's 2002 report, schools in the province required $500 million in repairs, what is called "deferred maintenance." The chair of the Halifax Regional School Board said that the provincial government was guilty of "chronic underfunding of the system." One need only look at the crumbling state of many of our schools to see this.
- A 2002 report on CBC radio on the QEII hospital's pain clinic says that the waiting list was up to 22 months long and that some of those forced to wait for treatment had committed suicide.
- Nova Scotia has the highest university tuition fees in the country – on average $1500 higher than the Canadian average. Responding to the lack of provincial government funding, fees increased 93% in the last 10 years.
- Unlike most other provinces, Nova Scotia allowed no portion of its student loans to be forgiven or "remitted." Only as we approached last year's election, did the government relent slightly, a move that student leaders denounced as "too little, too late." University tuition promptly rose again.
- Compared to other provinces, Nova Scotia's 15-year-olds scored lower than average on mathematics tests.
- Nova Scotia is one of the only provinces in Canada to charge residents of long-term care homes for medical services.
- Nova Scotia's roads, especially rural roads, are badly in need of repair.