



CANADIAN CENTRE
for POLICY ALTERNATIVES
NOVA SCOTIA OFFICE

Alternative Provincial
Budget 2011

FAST FACTS

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Facts, Principles, and Priorities in Government Budgets

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Nova Scotians are again invited to help the provincial government “return to balance”, i.e., reduce the province’s deficit and debt. We are reminded that “if we don’t want tax increases, we have to accept spending cuts” and warned that the annual interest charges paid by the government are \$1 billion on about \$14 billion of debt. Before we can have an informed conversation about the budget, the public needs more facts and a refresher on principles.

Facts

Governments in the 1990s blamed their deficits on unaffordable social programs, and that is an implication of proposing cuts now. In fact, the deficits were due to government policies: high interest rates and cuts to corporate and personal taxes, at the federal level, plus the cuts to transfers to provinces while the Federal government also downloaded spending responsibilities on the provinces. When governments achieved surpluses, did they re-invest in social programs? No, they cut taxes further.

Note, too, that the annual interest on our provincial debt is roughly three times the projected deficit. That means it is the debt servicing costs that are pulling us down, not government programs. We could maintain and even expand government programs to provide needed government services— if only we could manage the debt.

Why are vital programs, such as health care, education and training, environmental protection, and social assistance, no longer affordable?

After all, our provincial income’s purchasing power per person has increased about 70 percent in the last two decades. If we are 70 percent richer, we should be able to afford 70 percent more.

You may not feel richer and the average Nova Scotian family does not have more purchasing power now – because economic growth has benefitted primarily the top ten percent of the income earners and especially the top one percent. Moreover, the top 10 percent received the largest tax cuts since 1990.

Federal and provincial tax changes have shifted the burden of taxes to low and middle income earners – the total tax system has become less progressive. Indeed, by 2005, those in the top one percent had a lower total tax burden than the bottom ten percent.

Yes, the people who got the lion’s share of the economic growth also benefited most from the tax cuts and, not co-incidentally, had the discretionary incomes to buy up the bonds that governments sold to finance the tax cuts!

Principles

Canadians like to think that the economy, and especially the tax system, is fair. We know that we move into higher tax brackets as our income rises, so we think the tax system is progressive, that it places a higher tax burden on those most able to pay for government services (and who often benefit the most from those services).

However, regressive taxes – i.e., taxes which place a greater burden on the poor, such as property and sales taxes, - tend to over-ride the progressive income tax and now make the entire tax system progressive only up to middle incomes and severely regressive at the very top. That is why the Canadian Centre for Policy Alternatives recommended that last year’s budget raise taxes on upper incomes rather than through the regressive sales tax.

In addition to being progressive, the income tax can be administratively easier for the government and for business. The provincial government tried to reduce the impact on the poor of the increased sales tax with small payments to offset the increased sales tax. Such additional red tape is not necessary with an income tax increase on upper incomes.

Given the increased incomes and reduced tax rates of high income earners, it makes sense to raise funds through the progressive income tax. It is not true that “we all need to tighten our belts” when tax cuts for the wealthiest caused so much of our financial problems at the same time that the only increases in tax burden was on the bottom 20 percent.

Government programs and their financing should reflect people’s needs and priorities. For decades, surveys show that while most people feel they are over-taxed (and they are, relative to the rich), the majority of Canadians are willing to pay more taxes to fund the government programs crucial to our civil society: health care, education, child care, social assistance, etc. We can afford these programs if the tax system were more progressive.

Of course, some government services can be delivered more efficiently, but across-the-board cuts will not achieve this. Of course, we should question which services we should expect the government to provide. Services, such as health care, can be better provided collectively – the private health care system of the U.S. is 50 percent more expensive than Canada’s healthcare which covers all Canadians.

Most Canadians recognize that social assistance programs are necessary for a minimum standard of living, although our social safety net fails to keep about 1 of 8 families out of poverty. Many programs, such as employment insurance, are used extensively by middle income earners. The largest social program, Registered Retirement Savings, gives the greatest benefit to high income Canadians.

Yet some call for smaller social programs for the poor. Ironically, many advocates of smaller government and lower taxes also want the government to subsidise their expensive pet projects, such as convention centres and professional sports stadia. Why should governments be cutting education funds but offer millions for entertainment? Whose priorities are reflected in this behavior?

Last Facts

Just a few more facts - should we panic because the province has a debt of \$14 billion and servicing charges on it of \$1 billion? Much of the recent increase in debt reflects the infrastructure cost under the Federal expansion programs. In addition, Nova Scotia has built up reserve funds to pay down bonds as they mature; these reserves are financial assets which offset almost 20 percent of the debt. The reserve funds earn interest which lowers the real burden of our debt servicing costs. And the bonds that mature this year carried higher interest rates – up to 16 percent – than the new bonds necessary to refinance the old.

Finally, our debt/GDP ratio has been falling - provincial incomes have been growing faster than the debt. This means an increasing capacity to manage our debt – if we make sure our tax system makes everyone, the wealth included, pay their fair share.

Log on to our website and you will see more on the NS Alternative Provincial Budget 2011.
www.policyalternatives.ca

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