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CANADIAN CENTRE
for POLICY ALTERNATIVES
NOVA SCOTIA OFFICE

Nova Scotia Budget Watch 2015

Nova Scotia's Fiscal Choices

THE NOVA SCOTIA government is set to release the provincial budget. This year's CCPA-NS budget watch primers are designed to provide Nova Scotians with tools for understanding the government's budgetary decisions. This is a critical time for Nova Scotians to ask questions about the impact of government budgets on individuals, families and communities.

Nova Scotians should ask serious questions about how the tax and spending changes proposed in this budget could support or undermine social and economic justice in our province. How will this budget influence income inequality in Nova Scotia? What about gender equality? How will the revenue and spending strategies proposed contribute to the protection of our environment, or the creation of good, green jobs? How will the budgetary priorities support the long-term sustainability of the Nova Scotian economy?

This budget season, Nova Scotians should be concerned that the government is following the fiscal advice laid out in the Nova Scotia Tax Review[1] authored by Laurel Broten. Like the oft-cited "Ivany report",[2] Broten's review adopts the notion that Nova Scotia is at a fiscal crisis point. Furthermore, the recent auditor general's report also had some flawed fiscal analysis.[3]

Even though the Broten report was supposed to be about tax reform, it was really only about tax reductions. As such, the Broten report's starting point is "holding the line on government spending." However, the report provides no evidence to back up either these assumptions or the proposed solutions. Indeed, evidence is piling up that points to the opposite conclusion: austerity does more harm than good, and tax cuts do not deliver a stronger economy. A reality check is needed.

What evidence does our government have for its fiscal choices? Doesn't good public policy start from evidence about what does and what doesn't work? How do we understand these choices given our current social and economic context and needs of our shrinking population?

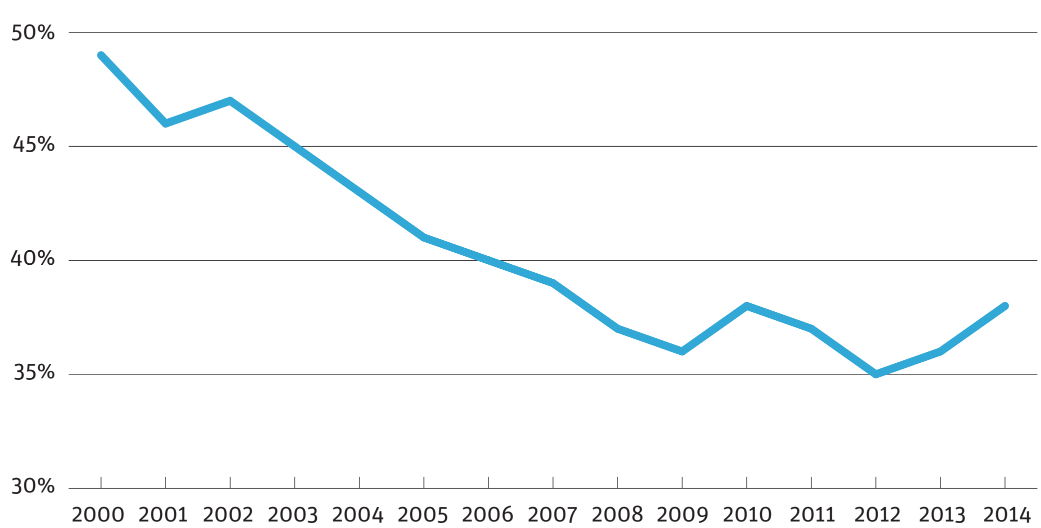
A dozen things you need to know about our fiscal health:

1. Nova Scotia is *not* at risk of bankruptcy: the province is managing its debt responsibly.

Nova Scotia is not a business, nor is it a household: provinces can (and should) carry debt differently. The province takes on debt in order to make public investments that pay dividends for present and future generations. Dollar figures for the debt or interest payments on the debt are only meaningful when put in the context of the revenue base which enables us to manage the debt. The following fundamentals are crucial for those trying to understand our fiscal health:

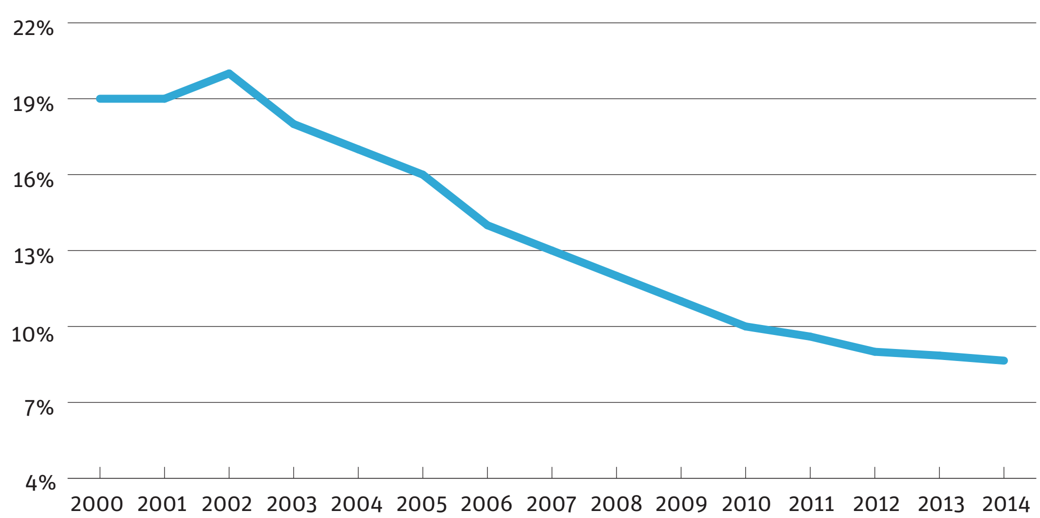
- Nova Scotia's ability to manage the debt, as measured by the debt-to-GDP ratio, has improved significantly over the past decade. (See *Figure 1*) While there is no consensus on the ideal debt to GDP ratio, economists agree that it is more important that the ratio be steady, or on a downward trend.

FIGURE 1 Nova Scotia's Debt to GDP Ratio, 2000–14



Source Nova Scotia Department of Finance, Public Accounts, 2000–2014

FIGURE 2 Nova Scotia Debt Charges as a Percentage of Total Expenditure, 2000–14



Source Nova Scotia Department of Finance, Public Accounts, 2000–2014

- Similarly, when debt charges are expressed as a percentage of public expenditures, a dramatic decline is revealed. Nova Scotia's proportional spending on debt has shrunk from a high of 19% in 2000 to just under 9% in 2014 (see *Figure 2*)
- If and when interest rates rise, debt-servicing costs will rise, but debt charges will increase slowly, as we are now borrowing long-term at extremely low interest rates.

2. Arguments about the morality of burdening the next generation with debt, while not addressing their current needs, are misplaced.

A current debt can be thought of as deferred taxation. The debt charges will be paid by future taxpayers who will benefit from the investments made in government programs today — like public education or post-secondary education or health promotion/illness prevention programs. It is fair to pay the full costs of these investments over time. Failing to address problems such as poverty or deteriorating infrastructure as they arise creates serious consequences down the line. In addition to monetary costs, the real price of lost human potential is enormous, in both economic and moral terms: the cyclical nature of poverty, for example, stunts the well-being of entire segments of society. To prioritize paying down the debt benefits primarily those to whom we owe the debt (those wealthy enough to buy bonds). Given that these very investments save lives, improve health and education, and provide adequate housing for low-income Nova Scotians, one must ask, where is the morality in reducing these investments in the name of not burdening the next generation? Adhering to this logic means risking lives with unsafe bridges and schools, decrepit hospitals, and homes that are substandard and dangerous. If only we were as concerned about the growing household debt to income ratio ($1.63 for every $1 of income)[4] or student debt loads: students in the Maritimes face on average $28,000 upon graduation.[5]

3. Nova Scotia's annual deficit is small and cyclical and a rigid schedule to balance the budget is not good economic policy.

The Nova Scotia deficit would be a concern if rising GDP did not generate greater tax revenues to reduce deficits. As our alternative fiscal framework shows (*Table 1*), the provincial budget could be balanced based on economic growth, and by making the tax system more progressive. In addition, by reprioritizing some spending, it is possible to allow for inflationary expansion of current spending, and invest an additional $500 million to upgrade infrastructure, reduce poverty, lower tuitions, and invest in early learning and childcare, all while creating good jobs.[6]

TABLE 1 Alternative Provincial Budget (000s)[7]

	2015–16	2016–17	2017–18
Revenue	$10,457,043	$10,897,306	$11,542,163
Expenditure	$10,146,967	$10,725,861	$11,550,916
Budget Surplus (deficit)	-$310,076	-$171,445	$8,754
Debt to GDP Ratio	36.62%	35.62%	34.45%

4. The province of Nova Scotia is not a big spender by any measure, especially when one considers the social and economic need in the province.

From 1990 to 2013, we consistently invested less in our population than most other provinces. Furthermore, we have always spent less on a per-capita basis than the Canadian provincial or the Atlantic Canadian average,[8] despite the fact that 57% of the population lives in rural Nova Scotia.[9] Nova Scotia faces outmigration of its youth and an overall aging of the population. Demographics influence and are influenced by government action and inaction.

5. Public investment in an Early Learning and Child Care system in Nova Scotia provides more short-term economic stimulus than other major sectors of the economy.

The GDP multiplier (the increase in GDP generated from a dollar increase in spending) in the early learning and care sector is 2.23. This is larger than other sectors — 67% higher than construction and 112% higher than manufacturing. Furthermore, the employment multiplier (the number of jobs created per million dollars of initial increase in expenditure), is 46.8 jobs per million dollars.[10] In Manitoba, the economic returns were even higher in rural communities, affirming the essential role that child care can play in regional development.[11] In Quebec, for every $100 invested in the system, the provincial government received $104 in return.[12] Our governments should make spending decisions based on specific goals, e.g., to address social issues such as early learning, poverty reduction, and end homelessness. Overall, an affordable, quality system of Early Learning and Child Care advances multiple policy priorities and goals: "preparing our future workforce, supporting parents to work or upgrade their skills and strengthening democratic communities".[13] In contrast, as a form of government expenditure, tax cuts and tax credits offer the worst bang for the buck — maybe a 30 cent return on the dollar for a corporate tax cut!

6. Austerity imposes a cost on the province's economic performance.

If the provincial government uses spending cuts to attack the deficit (freezes also mean real cuts), it will create a fiscal drag. Real reductions in public sector wages and employment, for example, will force these employees to reduce their spending, further reducing GDP and lowering incomes in their communities. Thus, the total impact of government expenditure cuts to GDP growth is greater than the direct effect of a reduction in money spent. Budgetary changes should always be tied to specific policy goals: they should not be driven by fiscal considerations used as blunt instruments with negative consequences. Based on an increasing and significant body of evidence[14] including research from the IMF, any austerity program will result in a drag on fiscal performance and thus even lower revenue down the line. Starving government of revenue will make things worse for those Nova Scotians waiting for home care, long term care, affordable housing and childcare. Public sector spending cuts are more likely to have a devastating effect on rural communities, and will disproportionately affect women (see our budget primer on Gender-Based Analysis).

7. Government stimulus that also results in more purchasing power in the economy can support job creation and expand the revenue base.

Household spending accounts for 54% of GDP in Canada.[15] Providing additional income support for those living on a low income is a sure-fire way to stimulate the economy because they don't have the luxury of saving or investing it and they will spend it.

8. Public services and assets need to be strengthened, protected and made more accessible.

The people who stand to benefit the most from the privatization of public services and assets are the lawyers and financiers who broker the deals. As Nova Scotians are reminded every time they get their electricity bills, the profits received by private owners and shareholders will come out of the pockets of ordinary Nova Scotians. Privatization is not cost-effective, and it affects accessibility and democratic control, thus undermining the public interest.[16]

9. When poverty is reduced, all Nova Scotians benefit.

The scars of poverty (such as higher crime rates and a heavier burden on the health care system) have costs of their own: the estimated monetary cost of poverty in Nova Scotia is approximately $600 million dollars per year (in 2010) representing almost 7% of the provincial government budget. When the direct costs to government are added to individual and societal costs, the total cost of poverty—*$2.4 billion*—is equal to 7% of Nova Scotia's GDP.[17] It costs more to help people manage to scrape by in poverty than it does to lift people out of poverty and prevent it in the first place. Estimates suggest that implementing a comprehensive poverty reduction strategy would cost half as much as continuing with the *status quo*.[18]

10. The province's budgetary choices are restricted by the federal fiscal imbalance.

Without an increase in federal transfers and equalization, our province is unable to provide a reasonably comparable level of service at a reasonably comparable level of taxation. Total federal support to Nova Scotia is expected to rise by only $43 million in 2015–16, a percentage increase of 1.43% (the smallest of any province).[19] Not only is the federal government not providing enough equalization and transfer support, it has also shrunk spending on some federal programs that contribute to the social safety net; whereas in 1990, 91 per cent of the unemployed drew on unemployment insurance benefits in Nova Scotia, in 2014, only 65% of the unemployed drew on EI for regular benefits. Moreover the lowest income quintile only made up 16% of all EI recipients in 2014.[20] The *Alternative Federal Budgets* demonstrate what a significant difference it would make if the federal government were to restore fairness and progressivity to its tax base, and develop strategies to tackle affordable housing, early learning and child care, poverty reduction, while providing the provinces and municipalities with the fiscal capacity they need to provide equitable services to meet the needs of their populations.

11. An appropriate level of taxation is one that contributes to a sufficient revenue base needed to ensure the provision of quality public services, not one that is simplistically judged to be high or low.

The quality of public services in a community is a much more critical factor affecting the attraction and retention of people and businesses than our taxation level. "Competitiveness" depends on a high quality public service environment—Switzerland, Finland and Germany are at the top of the "Davos Index" of global competitiveness, and they are certainly not 'low' tax countries.[21]

12. There is an alternative approach.

For fifteen years now, the Canadian Centre for Policy Alternatives in Nova Scotia published an alternative budget. This year marks the 20th anniversary of the Alternative Federal Budget published by CCPA National. These budgets show that it is possible to make strategic investments to advance social and economic justice, create jobs, reallocate resources, expand the economy, and pay for this by raising revenue based on evidence of ability to pay and return on investment. It is possible to help those in need now, and ensure a solid foundation for our future, our people, our communities, and our environment. In addition, the Alternative Federal Budget sets the bar on how government budgets should be presented: "No government, federal or provincial, has applied such a thorough assessment of the impact of their budgets on inequality, poverty and job creation, which they claim to be priorities. This pioneering innovation should be adopted as a standard feature of government budgets."[22] Alternative Federal Budgets can be downloaded here: https://www.policyalternatives.ca/projects/alternative-federal-budget. Nova Scotia Alternative budgets can be downloaded here: https://www.policyalternatives.ca/projects/nova-scotia-alternative-budget.

Notes

1 Laurel Broten, Charting a Path for Growth: A tax and regulatory review for Nova Scotia (Province of Nova Scotia, 2014) http://www.novascotia.ca/finance/en/home/taxation/default.aspx

2 One NS Coalition, Now are Never: an Urgent Call to Action for Nova Scotians (February 2014) http://onens.ca/report/

3 Richard Starr, New AG picks up where Lapointe left off, February 26, 2015 http://lilstar2.com/2015/02/26/new-ag-picks-up-where-lapointe-left-off/

4 Statistics Canada, National balance sheet and financial flow accounts, fourth quarter 2014. CANSIM tables 378-0119 to 378-0125, 378-0127. http://www.statcan.gc.ca/daily-quotidien/150312/dq150312a-eng.htm

5 Canadian Federation of Students, "Student Debt in Canada: Education shouldn't be a debt sentence" (2013), http://cfs-fcee.ca/wp-content/uploads/sites/2/2013/11/Factsheet-2013-11-Student-Debt-EN.pdf

6 For more details on a fully-costed alternative provincial budget with recommendations, see CCPA-NS, A budget for the 99%: the Nova Scotia Alternative Budget 2014-15 (Halifax: CCPA-NS, March 2014). https://www.policyalternatives.ca/projects/nova-scotia-alternative-budget The changes include 2% increase in two top brackets, shifting tax deductions to refundable credits, and fully taxing capital gains.

7 The Alternative Provincial Budget scenario is based on an estimated economic growth rate (nominal GDP) of 3.7% for this year, then 4.7%, 4%, and 4%. The additional revenue (over and above economic growth) comes from increasing the progressivity of taxes and reprioritizing $116 million in spending.

8 Government of Canada, Department of Finance, Fiscal Reference Tables, 2013 and Statistics Canada, CANSIM Table 384-0038.

9 Statistics Canada, Summary Tables: Population, urban and rural, by province and territory (Nova Scotia). 2011 Census.

10 These multipliers are combined direct, indirect and induced effects. For Nova Scotia multipliers see Robert Fairholm, Short-term Impact Analysis of an Expansion of Regulated Early Learning and Care in Nova Scotia. Centre for Spatial Economics. 2011. http://cupe.ca/updir/Robert_Fairholm_-_NS_Child_Care_Impact_Report_Jan._20,_2011.pdf For national multipliers, see Jim Stanford, How Corporate Tax cuts can actually destroy Jobs, Progressive Economics Forum, January 27, 2011 http://www.progressive-economics.ca/2011/01/27/how-corporate-tax-cuts-can-actually-destroy-jobs/

11 Margaret Norrie McCain, J. Fraser Mustard and Kerry McCuaig, Early Years Study 3, (Toronto: Margaret & Wallace McCain Family Foundation, 2011). http://earlyyearsstudy.ca/ media/uploads/report-pdfs-en/i_115_eys3_en_2nd_072412.pdf

12 Pierre Fortin, Luc Godbout, and Suzie St-Cerny, *Impact of Quebec's Universal Low Fee Childcare Program On Female Labour Force Participation, Domestic Income, And Government Budgets, Working Paper 2012*, p. 20. http://www.oise.utoronto.ca/atkinson/UserFiles/File/News/Fortin-Godbout-St_Cerny_eng.pdf Three microeconomic studies have also suggested that it has had a major impact on mothers' employment rates: Baker, M., J. Gruber, and K. Milligan (2008) "Universal childcare, maternal labor supply, and family well-being," *Journal of Political Economy*, Vol. 116, No. 4, pp. 709–745; Lefebvre, P., P. Merrigan, and M. Verstraete (2009) "Dynamic labour supply effects of childcare subsidies: evidence from a Canadian natural experiment on low-fee universal child care," *Labour Economics*, Vol. 16, No. 5, pp. 490–502; and Lefebvre, P., P. Merrigan, and F. Roy-Desrosiers (2011) "Quebec's childcare universal low fees policy 10 years after : effects, costs and benefits," CIRPÉE-UQAM Working paper No. 1101.

13 McCain et al., IBID.

14 Trish Hennessy and Jim Stanford, More Harm Than Good:Austerity's Impact in Ontario, March 2013. http://www.policyalternatives.ca/publications/reports/more-harm-good See IMF, World Economic Report, February 2012 http://www.imf.org/external/pubs/ft/weo/2012/02/pdf/text.pdf See also Brad Plumer, http://www.washingtonpost.com/blogs/wonkblog/wp/2012/10/12/imf-austerity-is-much-worse-for-the-economy-than-we-thought/

15 http://www.progressive-economics.ca/2013/02/27/boost-the-minimum-wage-boost-the-economy/

16 Toby Sanger, Ontario audit throws cold water on federal-provincial love affair with P3s, February 2, 2015 https://www.policyalternatives.ca/publications/monitor/ontario-audit-throws-cold-water-federal-provincial-love-affair-p3s#sthash.EDK3doHw.dpuf

17 Angella Macewan and Christine Saulnier, the Cost of Poverty in Nova Scotia (Halifax: CCPA-NS, 2010) https://www.policyalternatives.ca/publications/reports/%E2%80%89cost%E2%80%89%E2%80%89poverty%E2%80%89-nova%E2%80%89scotia

18 Iglika Ivanova, The Cost of Poverty in BC (Vancouver: CCPA-BC, 2011) https://www.policyalternatives.ca/costofpovertybc

19 Finance Canada, Federal support to Provinces and Territories http://www.fin.gc.ca/fedprov/mtp-eng.asp

20 David Macdonald, EI is Not Actually Helping the Poor, July 14th, 2014 http://behindthenumbers.ca/2014/07/14/ei-is-not-actually-helping-the-poor/

21 World Economic Forum, The Global Competitiveness Report 2014–2015 http://reports.weforum.org/global-competitiveness-report-2014-2015/

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