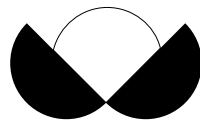


Three Nova Scotia Fiscal Myths

By John Jacobs and Larry Haiven



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Three Nova Scotia Fiscal Myths

The Nova Scotia government justifies its budgeting with the claim that the province is facing a fiscal crisis. While the province has a serious fiscal problem, there is no case to be made for drastic cuts to programs and services. The claim that cuts to expenditures are needed is founded on a number of myths. These myths are used to make acceptable a number of public policies that cannot be justified on their own merit. The provincial government’s fiscal planning is based more on a political agenda than on sound economics. Public policy must be based on facts rather than myths. Not getting at the true causes of the province’s financial problems will have dire long-term consequences for Nova Scotia’s social and economic development.

Myth 1: Nova Scotia spends too much on programs and services.

The provincial government is fond of claiming that Nova Scotia’s expenditures are too high and Nova Scotia has overly luxurious “Cadillac” services. Because we spend too much on programs and services, the myth goes, the province finds itself with fiscal problems. The solution is simple enough: cut expenditures to a less luxurious and more affordable level. Cuts to expenditures have been the focus of the Tories fiscal plan since they came to power.

Table 1: Total Program Expenditure as % of GDP

	Expenditure (million)	GDP (million)	Expenditure as a % 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

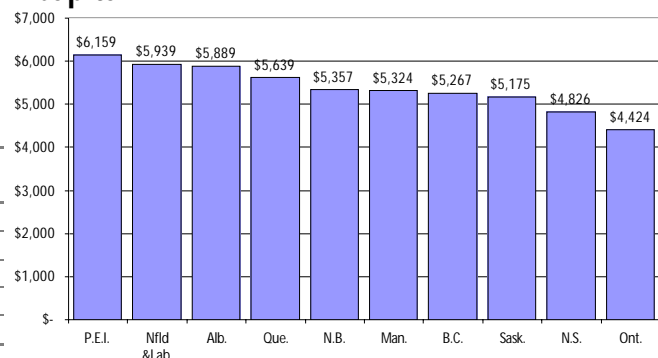
Reality: Nova Scotia spends too little on programs and has done so for more than a decade.

Let’s have a closer look at the government’s 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 actually decreased over the past 16 years (see Table 1).

Given the government’s claim that Nova Scotia has overly luxurious services, one would expect that Nova Scotia spends more per person on programs than other provinces. 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.¹ In 2000 Nova Scotia spent 7% less per capita on programs than the average per capita expenditures of other Canadian provinces (see Figure 1).

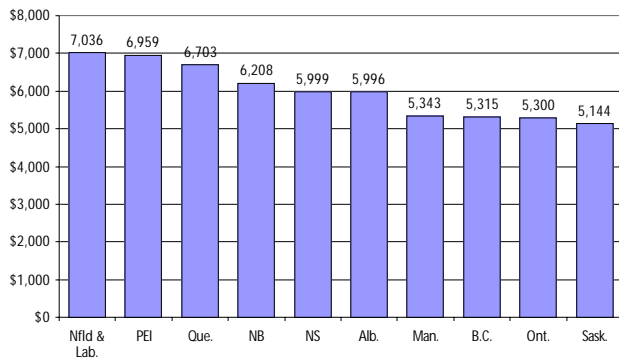
So much for the myth of Nova Scotia’s Cadillac services. Rather than spending too much on services, Nova Scotia spends too little and has done so for more than a decade. This myth that the province over spends is needed to justify cutting programs and services in

Figure 1: Provincial Program Expenditure Per Capita



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

Figure 2: Total Program and Debt Servicing Expenditures Per Capita



Sources: Finance Canada Fiscal Reversion Tables and Statistics Canada, CANSIM II, Table 051-0001

preparation for a tax cut next year as the Tories go into an election.

Reality:
NS spends less in total expenditures (programs and debt servicing costs) than the other Atlantic provinces.

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. But again the facts do not support the government's case. When debt servicing costs are added to program expenditures Nova Scotia, as compared to other provinces, spends around the average per person on total expenditures (see endnote 1). More revealing is that our province spends less on a per person basis than the other Atlantic provinces.

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.

Nova Scotia has a large debt relative to the size of the provincial economy. Its debt servicing costs are high. But overall per person expenditures – debt servicing costs plus program expenditures – is at the average for the prov-

inces. The province's fiscal problems need to be addressed, but this neither amounts to a fiscal crisis nor justifies cutting expenditures. A fiscal management plan is needed that stabilizes the debt, and generates sufficient revenue to provide for investments in programs and infrastructure (see the Nova Scotia Alternative Provincial Budget 2002-2003²).

Myth 2:
Nova Scotia is over taxed.

The Tories have based their fiscal planning on the myth that Nova Scotia carries an "excessive tax burden." According to the government, "Nova Scotia can no longer afford such high rates of taxation." The Tories have set out to "ensure Nova Scotia has the most attractive tax structure and the most business-friendly environment in Atlantic Canada."³ The solution: 10% tax cuts just in time for the next election.

Reality:
Nova Scotia's tax burden is not high, in fact taxation is lower than in the other Atlantic provinces.

Provincial own-source revenue, as a percent of provincial GDP, is lower in Nova Scotia than in most other provinces. Statistics Canada's (Financial Management System Basis) consolidation of provincial and local government shows that in 1999-2000 Nova Scotia generated less in taxes and other sources of revenue than all other provinces except Alberta and Ontario. Since 1992-93 Nova Scotia has derived almost 8% below the average of all provinces and 4.3% (1% of GDP) below the average of the other Atlantic provinces.

While 1% of GDP may appear, at first glance, to be a fairly small amount, it has had a significant impact on the province's finances.

- The Nova Scotia government, on average over the past 9 years, derived \$180 million less annually in own-source revenue than

they would have if they had taxed at the same levels as other Atlantic provinces.

- If over the past 9 years Nova Scotia had taxed at a similar rate as the other Atlantic provinces, it would have raised more than \$1.6 billion in additional revenue, resulting in a substantially lower debt than 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 million⁴ the province currently pays annually. 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.

Myth 3:
User fees ensure that everyone pays their share to balance the budget.

Reality:
User fees put the heaviest burden on those who can least afford to pay. They let those who are wealthy off the hook.

We all pay for public services (e.g., health care, education, roads, reports, registration of

births and deaths) in one way or another. When we pay through income taxes, those who can better afford it (have more income) pay more than those less able. This is the fairest taxation method.

When we pay through user fees, those fees constitute a much higher percentage of the income of the poor than of the rich. Indeed, the poor and the middle class carry the heaviest burden. The impact of \$228 in fees (2 licenses and registration for one vehicle) is much harder on a household with an income of \$30,000/year than a household with an income of \$100,000.

Over the past three years, the Nova Scotia government has proceeded to move away from fair taxation by increasing user fees. We have the highest university tuition in the country. The government has raised the amount seniors pay for drugs. They have increased home health care costs, ambulance fees, the cost of driver's licences, car registration, cigarettes, alcoholic beverages, registering births, death and marriages, deed registration, inspections. The list goes on and on. By increasing taxation that disproportionately hurts the poor and favours the wealthy, the government is orchestrating a transfer of income from the poor to the rich.

Having balanced the budget through cuts and increased fees, the government then intends to deliver the coup de grace. By cutting income taxes, they will favour the wealthy even more. As happened in Ontario, small or non-existent tax cuts to lower income groups were overwhelmed by the user fees and other extra charges with which these people are now saddled.

Conclusion

The Nova Scotia government has claimed that Nova Scotia is facing a fiscal crisis. This myth is used to justify the implementation of public policies that cannot be justified on their own merit. Nova Scotia has under-funded public services for more than a decade and contin-

ues to do so. Nova Scotia is facing fiscal problems because we generate insufficient own-source revenue as a portion of GDP as compared to other provinces. Had Nova Scotia raised revenue at the same rate as the other Atlantic provinces, the province would have balanced the budget by now. While the province's debt is large relative to the size of the economy, total expenditures (debt servicing and program expenditures) are still at a manageable level, the average on a per person comparison with other provinces. The province's fiscal problem, while serious, does not necessitate the drastic cutting of programs and services. What is needed is a long-term fiscal plan that invests in the province's future, and decreases the size of the debt as a portion of the GDP in a manner that is fair and equitable for Nova Scotians.

Governments have for too long used the myth of a fiscal crisis to justify and implement political agendas. The reliance on myths to justify public policies stifles considered, honest public debate. Public policies based on reality rather than myths are long overdue.

Endnotes

- ¹ 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.
- ² Choices Nova Scotia and Canadian Centre for Policy Alternatives – Nova Scotia, (March 2002; CCPA-NS, Ottawa) available at <http://www.policyalternatives.ca/ns>.
- ³ *Strong Leadership: a clear course*, Nova Scotia Progressive Conservative Party <http://www.pcparty.ns.ca/cgi-bin/view?src=platform5> Accessed March 29, 2002.
- ⁴ Fiscal 2001-2002 Forecast Update, November 23, 2001. Government of Nova Scotia, Halifax.

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