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Nova Scotia Alternative Provincial Budget 2014

Budget Backgrounder: Ten NS Fiscal Facts

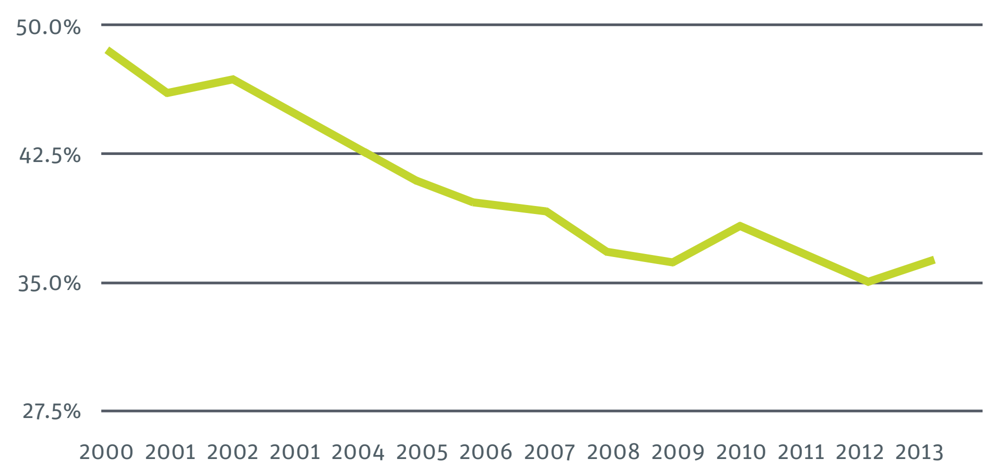
1. Alarm About Debt Per Capita - Misplaced and Misleading

The current focus on how much debt each Nova Scotian carries and the obsession with the total debt load of the province is misplaced. Accumulated debt is deferred taxation – the debt must be paid by taxpayers in the future. However, these future taxpayers are the ones who ultimately benefit from the investments made by government today – like public education, early learning and child care, post-secondary education, or health promotion / disease prevention programs. Our crumbling physical infrastructure also can't wait. It makes economic sense to pay the cost of these investments over time. Furthermore, because of growth, the ability to pay will be greater in the future. Moreover, our government has a moral obligation to address pressing needs now. Growing income inequality will only get worse and its effects will be more costly in the future.

2. We Can Manage the Debt

The ability of a government to carry debt depends on its Gross Domestic Product (GDP). Thus, it is not the amount of the deficit or the absolute level of debt, but the debt-to-GDP ratio that should be the focus of sustainable finances. As Figure 1 shows, the debt-to-GDP ratio dropped from 48.7% in 2000 to 36.3% in 2012. There is no crisis with debt-to-GDP ratios this small (and falling) because the deficit has already been reduced to the point where GDP is growing faster than debt. Nor should we set an arbitrary target of the debt-to-GDP ratio as there is no consensus on what the ideal ratio might be. Indeed, arbitrary economic targets risk making things worse if the ratio be reached by austerity measures. Instead, the province should seek to achieve a reasonable and stable debt-to-GDP ratio.

FIGURE 1 Nova Scotia Debt-to-GDP Ratio, 2000-2013



Government of Canada, Department of Finance, Fiscal Reference Tables, 2013.

3. Nova Scotia's Deficit is Small and Cyclical

There would be a concern if Nova Scotia's deficit was structural, but it is relatively small and cyclical. Over time, inflation and higher levels of GDP generate greater tax revenues which reduce deficits. Adhering to a rigid schedule of balancing the budget by a certain year is not good economic policy. When economic growth is stagnant, austerity budgeting hinders the economy's ability to recover.

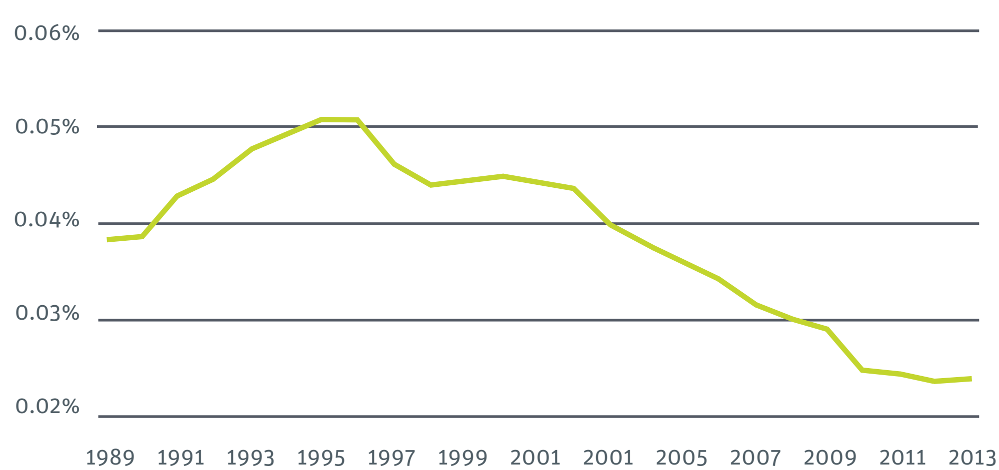
4. Cuts to Government Expenditures Produce a Fiscal Drag

Provincial government program expenditures makes up almost 25% of Nova Scotia's GDP; thus, expenditure cuts have an adverse direct effect on growth. The previous government's cuts resulted in fiscal drag on our GDP growth of about 1%. In addition, these cuts produced a loss of good jobs in our province. This was compounded by federal public service cuts, estimated to cause the loss of at least 4,400 jobs in Atlantic Canada.[1] Jobs created in the public service are a critical part of our economy. Given the predicted[2] threat of the Canada-European Trade Agreement in additional costs for pharmaceuticals and net job loss, it is time to invest in public procurement, in our people and our local industries.

5. Debt Charges as a Pecentage of GDP Have Fallen Dramatically

As the ability of the province to pay for its debt depends on its GDP, it makes sense to consider debt costs as a percentage of GDP. With falling interest rates and GDP growth, debt charges as a percentage of GDP have fallen dramatically, from a peak of 5.1% in 1995 to 2.3% (see Figure 2). Thus, managing Nova Scotia's debt is not particularly onerous. Even when interest rates rise, the trend of declining relative debt costs should continue as the interest rates on the new debt will still be significantly lower than the older debt being cashed in. We are not spending beyond our means to manage debt.

FIGURE 2 Nova Scotia Debt Charges as a Percentage of GDP, 1989-2013



Government of Canada, Department of Finance, Fiscal Reference Tables, 2013.

6. Dramatic Decline of Interest Payments

Even the percentage of expenditures on interest payments on the debt has had a dramatic decline, from a high of 19.56% 2002 to 9.2% in 2012. The absolute dollar figures for the deficit, the debt or the interest payments, are not as significant as they do not tell us much, if anything, about the state of the province's finances.

7. Our Public Programs are Underfunded

Some pundits always claim public spending is too high regardless of provincial tax levels and despite the need for the services. For example, Nova Scotia has some of the highest rates of chronic disease in the country. Moreover, from 1990 to 2013, we consistently invested less than most provinces. Further, we have always spent less on a per-capita basis than the Canadian provincial or the Atlantic average. At $9,233, Nova Scotia has the fourth lowest level of per capita program expenditure and the lowest in Atlantic Canada. The national average is almost 7% greater than Nova Scotia's.[3] To bring Nova Scotia in line with the national average, expenditures would have to rise by over $600 million. Nova Scotia's programs are already comparatively underfunded; further cuts can only make the shortfall worse.

8. Austerity Affects the Provision of Quality Services

The 1% cut, the current government has announced to all departments except health and education, will undoubtedly impact government services and programs. Inflation worsens the cut, making it closer to a 3% real cut. Austerity can make the deficit worse. Consider the effect of a cut on small departments like the Department of the Environment, which accounts for .3% of government spending, but has a significant mandate to fulfill. It will also have a negative impact on Departments like Community Services that are already struggling to respond to the needs that exist and can't turn people away. These departments have little room to cut without cutting programs and services that Nova Scotians need. Changes to budgets should always be tied to specific policy goals related to the portfolio of the department in question and not be driven by fiscal considerations that are used as blunt instruments with negative consequences.

9. The Biggest Threat to our Fiscal Health is the Federal Government

For more than a generation, the federal government has played an important role in Canada. By transferring wealth from wealthier to less wealthy provinces, the federal government has been able to diminish the negative impacts of what are sometimes stark differences in the economic well-being of the provinces. Federal fiscal transfers (e.g., Canada Social Transfer (CST), Canada Health Transfer, equalization) have a direct effect on the provincial economy and on Nova Scotia's ability to provide high-quality services. The federal government's move to adjust transfer payments (equalization and CST) to a common per-capita level ignores, and thus exacerbates, the very inequalities that equalization was designed to address. These transfers should be based on needs, as well as spending (and taxation) capacity. Health transfers will also be affected. With an expiring Health Accord (March 31, 2014) and moves by 2017-18 to provide only a 3% baseline increase guarantee and tie additional support to of GDP, Nova Scotia will be further disadvantaged. Given Nova Scotia's fiscal capacity and its demographic profile, the loss of billions of additional support threatens our fiscal health more than anything else, especially if the federal government continues to erode the tax system as well.

10. There *IS* an Alternative …

The ***Nova Scotia Alternative Provincial Budget 2014: A Budget for the 99%*** shows how it is possible to make strategic investments, create jobs, reallocate resources, grow the economy and broaden our revenue base. It helps those in need now, ensuring a solid foundation for our future, our people, our communities and our environment. In addition, the ***Alternative Federal Budget 2014: Striking a Better Balance*** shows 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, all while providing the provinces and municipalities with the fiscal capacity they need to provide equitable services to meet the needs of their population. Both alternative budgets can be downloaded at **www.policyalternatives.ca**.

Notes

1 Michael Bourgeois, Joanne Hussey, Christine Saulnier, and Sara Wuite, Public Disservice (Halifax: CCPA-NS, November 2012). https://www.policyalternatives.ca/newsroom/news-releases/ccpa-ns-report-warns-atlantic-canada-suffer-disproportionately-federal

2 Scott Sinclair and Christine Saulnier, Beware of Trade-Deal Trade-Offs, November 25, 2013. https://www.policyalternatives.ca/publications/com mentary/beware-trade-deal-trade-offs-nova-scotia

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