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Nova Scotia's Fiscal Situation

Reflecting on Government Priorities, Proposing Alternatives

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Preamble

Since 2000, the Nova Scotia branch of the Canadian Centre for Policy Alternatives (CCPA-NS) has published documents that assess the fiscal situation and the choices available to governments in Nova Scotia. As a non-profit membership-based organization for research and analysis, the CCPA-NS seeks to foster accountable, just and equitable public policy.

Provincial budgets, like all public policy, are about choices and values. For the CCPA-NS the bottom line is about balancing people's needs with viable fiscal policies to achieve social and economic justice and environmental sustainability.

Introduction: Pre-Budget Consultation and Planning

Spending (including debt management) and taxation proposals should be debated in the budget process. The current process is insufficient, however, to ensure that citizens have a say and can influence the final decisions. The government should be commended for offering Nova Scotians additional opportunities to provide input. In February, the Department of Finance offered the public the opportunity to answer an online questionnaire and to provide written commentary to it. In a press release on February 19, Minister Baker said: "We simply won't be able to do all that we want to do. And that's why we'd like to hear from Nova Scotians on their priorities."

This questionnaire is an important first step in seeking to hear from Nova Scotians about their priorities — and we hope the government continues, and improves, the process. It would be preferable, for example, for the consultative process to begin before the questionnaire is crafted. In other words, the government should consult widely about the questions to be included. This year, for example, the first question asks how important the priorities listed should be in this year's budget. One glaring omission from this list is poverty reduction. Given that the government has struck a working group to develop a poverty reduction strategy, why is poverty reduction not on the list? Balancing the budget and reducing the province's debt are the first two priorities listed, making them more likely to be selected. The government could undertake a consultation process that allows for a discussion of what priorities should be listed and how they should be presented.

The second question in the survey asks how to reduce spending if the government has to do so in order to balance the budget. The possibility of maintaining or even increasing spending and not balancing the budget is not one of the options offered to survey respondents, even though this is a real option for governments. Should spending cuts be an option listed when the reality is that there is little room for the government to reduce spending? The Nova Scotia government has only just begun to move closer to the Canadian average in per capita expenditures. For the past 15 years, Nova Scotia has consistently been among the lowest investors of all provinces when it comes to social programs. In order for Nova Scotians to provide meaningful input into the budget process, they would need to be presented with more options and more information about the options that are feasible.

The third question, on raising revenue, is vague: it asks whether the government should raise taxes on businesses; on individuals; the HST; or user fees. All of these should be broken down further: which taxes for which businesses, which taxes for which individuals, raise the HST on what products, raise user fees for what services? It would be more fruitful to have a specific discussion connected to specific proposals with dollar figures that considers how to raise specific taxes if a certain amount of money was needed.

As constructed and made available, the survey limits the input provided by the questions that were asked. The questions pre-structured respondents' choices within a very narrow range and the boxes for additional comments provide little space to articulate alternatives. And of course, an online questionnaire would only be accessible to a certain portion of Nova Scotians — the computer literate with internet access. Very few Nova Scotians will have the time or other resources to make a written submission.

This year's pre-budget consultation process had limitations that could be addressed to allow for more meaningful participation. The survey could be made available to be answered off-line, and the availability of the survey advertised more widely. To ensure a broad and diverse representation of views and interests, it would be preferable to fund consultations that include groups that are disadvantaged by time and resources. This would also allow for a more genuine public discussion and debate to emerge. Engaging Nova Scotians in broad-based public consultations about the budget could permit people to develop a greater sense ownership of the budgetary process and government spending patterns. An integral part of getting input is to provide background information that is accessible and detailed about specific proposals and about the government's current fiscal situation.

Assessing the Fiscal Situation

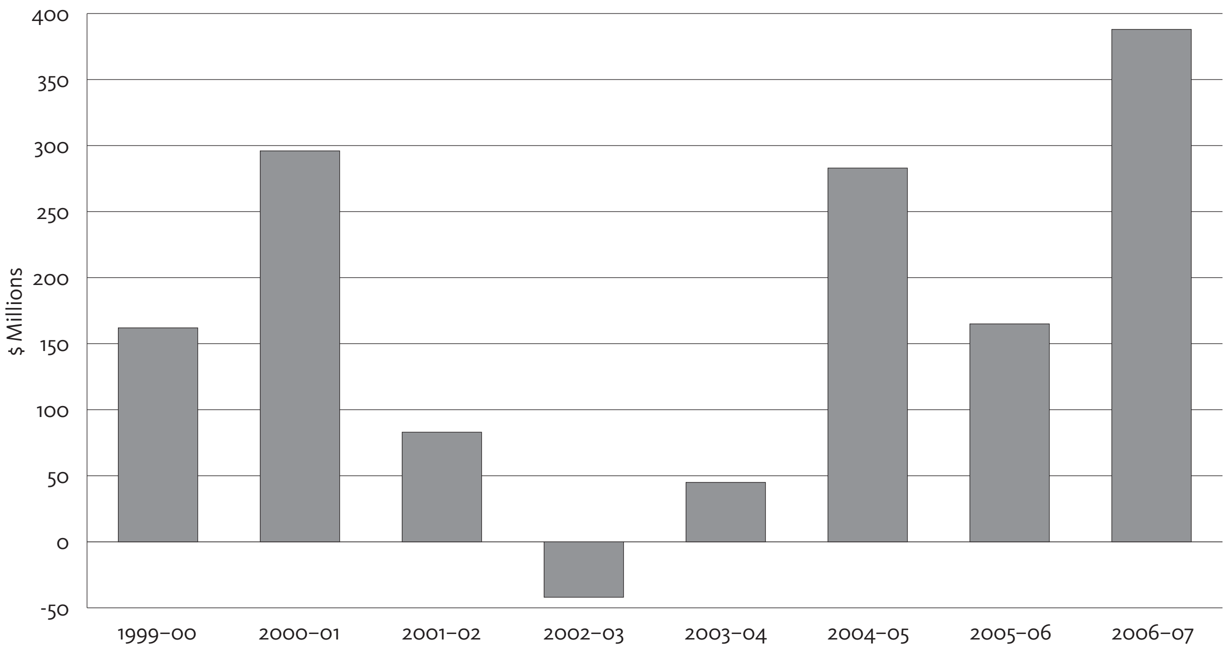
This past December, the Minister of Finance predicted a higher budget surplus than budgeted for the 2007–08 fiscal year. As a result, the government would allocate $33.6 million more to pay down the debt. At the same time, the Minister said: "Finding the money to pay the bills is never easy. And in the coming fiscal year [2008–09], it looks like revenues will be softer than usual and international economic conditions pose significant additional risks. So, it's important for Nova Scotians to know that this year's budget is likely to involve some difficult choices." The government sees the Canadian dollar and high world oil prices as posing significant risks to economic growth for the province this year and therefore making it more difficult for the government to "live and spend within our means" next fiscal year.

Our analysis challenges the government to publicly defend its choices and offers an alternative view of what is within its means. This report provides Nova Scotians with more information on the consequences of budget decisions and demonstrates the critical need for our government to consider the full implications of its decisions. We also show that there are alternative sources of funds to be raised and needs to be met by the programs they could finance.

Underestimating Revenue, Dampening Expectations

With the announcement in March about having an extra $300 million to spend, the government's revenue estimation became the furthest off-base than it has been in recent history at $388 million (see Figure 1). The underestimated amount gets allocated by the provincial government outside the normal budget process and therefore without any public scrutiny via the budget debates in the legislature or any public discussion of how these new funds should be spent. Underestimating revenue and using rhetoric about economic uncertainty allows the government to decrease expectations and indeed, decrease demands for spending going into the budget. At the end of the fiscal year, it provides the government with a significant sum of money to spend as they see fit, with no accountability to the legislature or the citizens of Nova Scotia. Improving pre-budget consultation will not address this undemocratic

FIGURE 1 **Underestimating Provincial Revenue** Nova Scotia



SOURCE Public Accounts, Department of Finance, Government of Nova Scotia

process because it sidesteps the budget process all together.

Spending

In 2006–07, Nova Scotia did increase spending, but remains behind Atlantic Canadian and Provincial averages (Figure 2). For the past 15 years, Nova Scotia has consistently invested among the least of all provinces, the majority of the time with the lowest level of program expenses, and always spending less, on a per-capita basis, than the provincial and the Atlantic averages.[1]

Consistent underfunding has implications that need to be dealt with now. The underfunding of public infrastructure,[3] for example, has left Nova Scotia with the oldest infrastructure in the country. In 2007, the average age of Canada's public infrastructure was 16.3 years, down from its peak of 17.5 in 2000. In Nova Scotia, the average age was 18.0 years in 2007.[4]

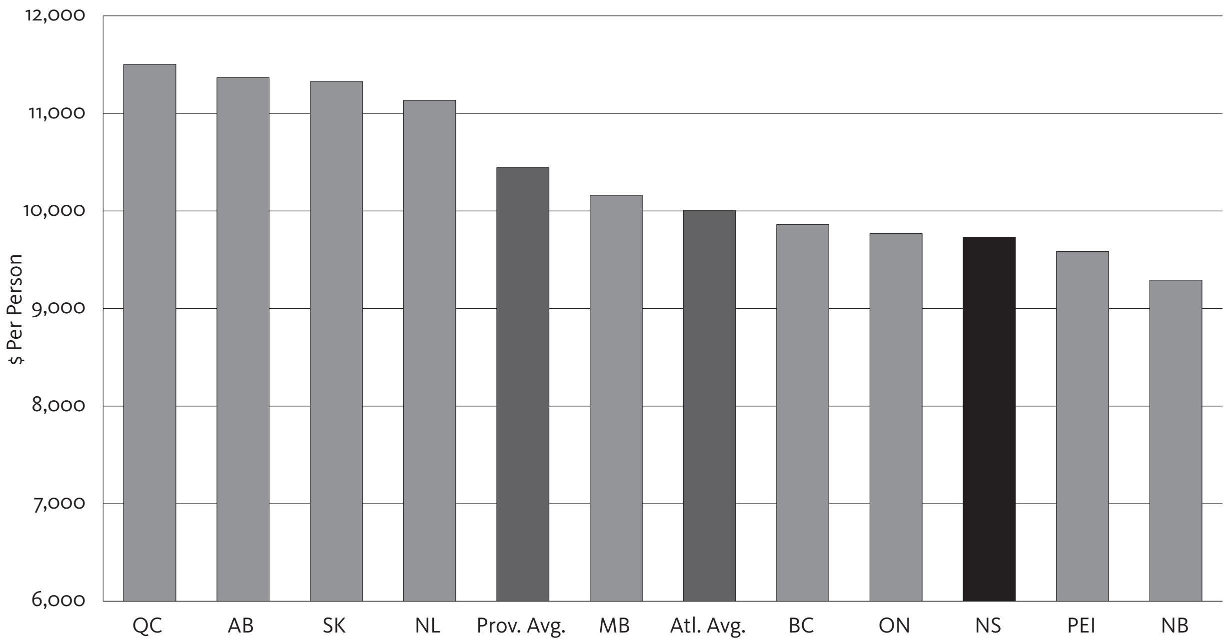
Spending on infrastructure is not just a cost; it is an investment that generates huge benefits to Nova Scotians who need access to safe roads, bridges, hospitals, and clean water. The government must ensure that its citizens are fed and educated and that our environment is protected. Well-funded infrastructure and critical public investments are keys to all of these. As well, investing in public infrastructure can decrease business costs and increase overall productivity.[5]

Gaps exist in many programs and services including child care, health care and public transit.

Income assistance benefits continue to decline in terms of purchasing power for single people, people with disabilities and single parents, allowing them to fall deeper into poverty and increasing the gap between the wealthy and the poor.

Food bank services were set up as a temporary solution to the problem of food insecurity. Many

FIGURE 2 **Per Capita Program Expenses, Local and Provincial Government**[2] 2006–07



SOURCE Statistics Canada, Public Sector Statistics, Summary tables, Table 2-4.
NOTE Provincial and Atlantic averages do not include Nova Scotia.

more people now suffer food insecurity and rely on food banks, including working poor families and seniors. According to Feed Nova Scotia, the average number of people using food banks per month in 2007 was 18,417 — 12.1% higher than ten years ago. It also notes this "number rises to more than 40,000 people per month when factoring in those individuals who rely on food from shelters, meal programs, drop-in centres, etc."[6] More Nova Scotians are not only worried about where their next meal will come from, and whether that food is healthy, we also worry about our food supply and about the way we grow and produce our own food. Food insecurity is a good example of a problem that has serious repercussions the longer it goes unaddressed — for our health, our families, communities, environment, and economy.[7]

Provincial Debt and 'Fiscal Manoeuvrability'

In the 1990s the provincial debt grew at an unsustainable pace. Between 1988–89 and 1993–94 it increased by 51%. The net direct debt stands at $12.3 billion. This translates into a per capita debt load of $1203. The Atlantic average of per capita debt load (not including Nova Scotia) is $1101. Only New Brunswick has a higher debt load per capita at $1257 (See Figure 3).

The best way to assess the meaning of the debt load is to consider a government's capacity to manage it by examining the level of debt relative to the size of the economy (debt to GDP ratio). Increases in the GDP mean that the province has more capacity to raise own-source revenue and thus is better able to finance the debt. Although Nova Scotia has among the highest ratios of debt relative to the size of the provincial

FIGURE 3 **Provincial Debt Per Capita** 2007

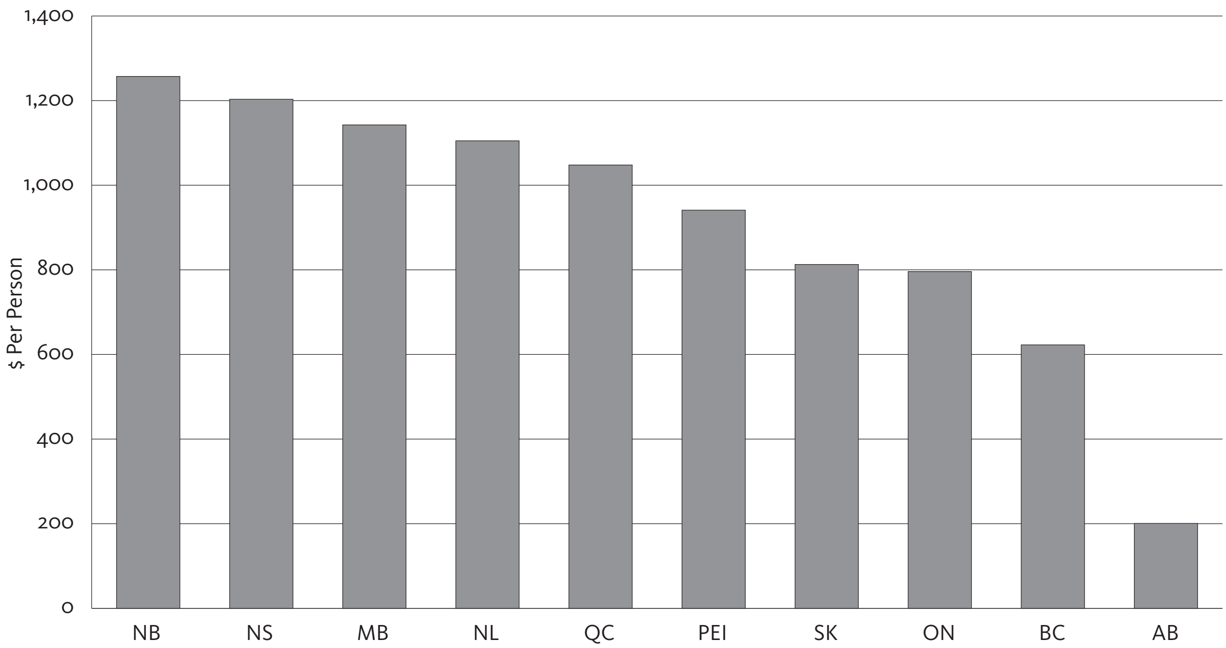
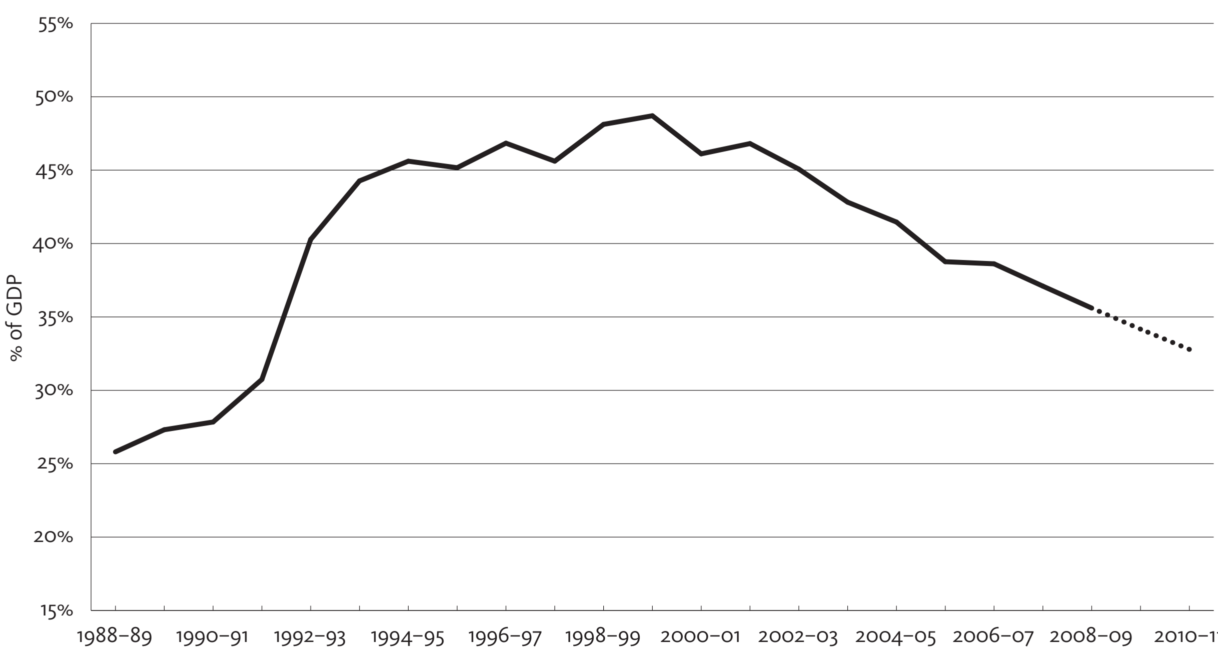


FIGURE 4 **Provincial Debt to GDP** Historical and Projected[8]



SOURCE Dept. of Finance, Canada, Fiscal Reference Tables; Statistics Canada, Table 384-0002 economy, this ratio has declined significantly since 2000 (Figure 4).

As shown in Figure 4, even with moderate growth and no debt payments, the debt to GDP ratio will decline to about 33% within 4 years. There is no consensus on the ideal debt to GDP ratio; choices about how much debt needs to be paid should be made by considering the cost of the debt in terms of interest payments. Paying interest on the debt currently costs the government "12 cents of every dollar available to spend."[9] While this is not insignificant, it is useful to put into a historical perspective: as a proportion of total government revenue, debt costs now are lower than they have been since the 1980s. By the same token, there has been a steady decline in the debt servicing costs of the province, as a fraction of total provincial expenditures.[10]

Despite these improvements in debt management, there is a lack of critical reflection on an unquestioned doctrine: governments must continue to prioritize paying down their debt, must not increase their spending by very much and must never run a deficit. As a result of this and legislation[11] that binds governments to these assumptions, governments are left with very little room to manoeuvre and effectively respond to the needs of citizens.[12] If one could guarantee that the macro-economy of North America would always grow strongly, and would never slip into recession, this might be reasonable — but the reality is that Nova Scotia government revenues may fluctuate due to events which are beyond the control of anyone in Halifax. Even if revenues fluctuate with the business cycle, the reality is that governments still need to invest in maintaining infrastructure to ensure the health and safety of citizens and long term economic viability. To do otherwise would be fiscally irresponsible, in a long term sense.[13] Governments need to address problems when they arise, before they become a crisis. Clear examples can be found in the need to confront two crucial issues — global warming and poverty — through taxation and spending programs, respectively.

Proposing Alternatives: Policy Recommendations for Reprioritizing Government Spending and Taxation

Moving to Sustainable Energy Production: The Case for a Carbon Tax

Carbon taxes are receiving greater media attention in Canada. Quebec was the first province to introduce a carbon tax, followed by British Columbia. A carbon tax is one way to address greenhouse gas emissions. It taxes individual and corporate consumers based on their carbon dioxide emissions or greenhouse gas (GHG) emissions, rewards a change in consumer behaviour, and promotes the transition to a greener economy.

The province of Quebec introduced a fee on all non-renewable fossil fuels (petroleum, natural gas and coal) sold in bulk to retailers. The Quebec carbon tax roughly equates to $3 per tonne of carbon dioxide, using 2005 GHG emission levels. It proposes to use the $200 million per year in revenue for expenditures of a Green Fund.

British Columbia will phase in its carbon tax — beginning at $10/tonne rising to $30/tonne by 2012. It plans to 'tax shift' and provide a lump-sum credit to every individual in the province ($100/adult; $30/child), cut taxes by 2% for individuals in the bottom two tax brackets, and cut corporate and small business taxes. This is intended to make the tax revenue-neutral overall, with heavy emitters seeing their overall tax bill go up, while those who cause fewer emissions will see their tax bill go down.

The advantage of the carbon tax over other methods (such as cap and trade) is that it targets all greenhouse gas emissions. It is also relatively cheap for governments to introduce and does not need as much enforcement effort as regulations would. It is a fair tax because it is priced into every good and service and individuals are taxed in proportion to the emissions their consumption causes.

We recommend that a carbon tax be introduced at $5/tonne, to be increased by $5 per year for at least five years, which would mean a $30/tonne tax by 2013. We recommend that it be phased in to give Nova Scotians time to adjust their consumption and to give time for the government to introduce other programs and services to help the transition to a greener economy. The carbon tax we recommend would be levied at the point of production within Nova Scotia or of import into Nova Scotia.

Any carbon tax (or cap-and-trade permit system) raises an important equity concern - the impact on rural and low-income consumers who are unable to change their behaviour (who have to drive longer distances and/or are unable to afford to upgrade the energy efficiency of their homes or vehicles). To offset this we recommend that **the government return *all* of the revenue raised by this tax to Nova Scotians in the form of a Carbon Credit.**

Why are we recommending implementing a Carbon Tax with a Carbon Credit that would offset the overall fiscal effects of the tax?

The underlying cause of Global Warming is the carbon dioxide emitted when carbon-based fuels are used to produce and transport the goods and services consumed by households and corporations. To reduce those emissions, we need to tax consumers in proportion to the CO_2 emissions caused by their consumption. Canada's target is our Kyoto commitment to reduce CO_2 emissions to 6% below 1990 levels by 2012.

However, because most Nova Scotians have seen little, if any, increase in their real incomes (adjusted for inflation) since 1990, their consumption has not increased. Indeed, because energy efficiency per dollar of spending has improved substantially, most Nova Scotians have actually decreased their personal production of CO_2 and other Greenhouse Gases. Unfortunately for the environment, their cuts in CO_2 emissions have not been enough. People at the top end of the income distribution, where real incomes have increased dramatically, have greatly increased their personal consumption expenditure — and their increased consumption has thereby increased total CO_2 emissions. This is where any strategy to change behaviour should be focused.

It is critical that a carbon tax be transparent in its implementation and crystal clear in its implications — it seeks to change the behaviour of those with a large carbon footprint. Therefore, we recommend that this tax be "revenue neutral" — all the money raised be returned to Nova Scotians in the form of a per capita Carbon Credit. This credit could be determined by the total amount of revenue expected to be raised, based on the carbon content of energy usage by the entire population in the previous year. Those who generate above average emissions will be penalized financially as the carbon tax on the energy they use will be more than the credit they receive.

CARBON CREDIT

Population of Nova Scotia
913,462 (2006 Census)

Total GHG Emissions in 2005
22.7 Mt of CO_2 eq.[14]

Estimated Revenue
$113,500,000

Estimated Carbon Credit
$124 per person

Helping Nova Scotians Reduce GHG Emissions: Energy Efficiency and Sustainable Transportation

Nova Scotian residents, businesses, and industries can all dramatically reduce their energy costs and GHG emissions by improving energy efficiency. However, large up-front costs and other barriers often mean cost-effective energy efficiency opportunities go unrealized. In Nova Scotia, Nova Scotia's Power's Integrated Resource Plan has shown that the province can save $1 billion in the long-run, and avoid the addition of a new 400 MW coal-fired power plant by aggressively investing in electric energy efficiency.[15] However, many Nova Scotian homes and businesses utilize other sources of energy such as oil, wood, and natural gas. Investment in overall energy efficiency in the province has been held constant at $10 M since the fall of 2005 and needs to be ramped up to help homeowners and businesses fight climate change and reduce energy costs.

Energy efficiency is only one area where the province has a long way to go. In 2006 the average expenditure by the nine provinces that invested in public transit was $34 per person, while Nova Scotia invested $1.38 per capita.[16] An estimated 30% of Nova Scotia's population does not have access to a private vehicle, including seniors, youth, individuals with low incomes, and individuals with physical and mental challenges. Therefore investments in sustainable transportation modes, such as transit, dial-ride, carpooling, vanpooling, and walking and cycling infrastructure is critical, and will have social as well as environmental benefits.

The Carbon Tax should be implemented in tandem with other investments targeted to energy efficiency and sustainable transportation, among other strategies.

Becoming the Best Place to Live, Work and Raise a Family: The Role of Poverty Reduction

The Nova Scotia government has stated that its vision of the future is a province that is the "best place in Canada to live, work, do business, and raise families" by the year 2010.[17]

If the government is serious about achieving a balance among social and economic development objectives, clear and meaningful targets are necessary. Thus far, only one measurable target is mentioned — more Nova Scotians are to answer positively a question about whether they have a "strong sense of belonging to their community". Leaving aside problems with the survey methodology (considering issues such as who answers these questions or how the questions are interpreted), this alone is an inadequate measure of whether Nova Scotia is the best place to live and to raise a family in Canada.

Building a real sense of belonging to a community is important — but this means all citizens must be socially and economically included. This cannot be achieved unless we begin to address the marginalization and exclusion that is felt by those people who live in poverty. How can we build an inclusive community when we have more people who are homeless than ever before? How can people who don't know whether they are going to be able to pay the bills at the end of the month participate fully and meaningfully in the broader community? To build this kind of community would require a commitment to social and economic justice for all of its members.

As the government also recognizes, the critical part of making the province the best place in Canada to raise a family is to ensure that the province "offers quality education, health, recreation, housing, and other social amenities."[18] However, in its economic growth strategy ("Strategy for Sustainable Prosperity"), the government also states that it will "work to ensure that quality education, health care, and other important public services are delivered in a manner that is consistent with our economic growth strategy."[19] We also need to ensure that economic growth addresses the social deficit, and benefits more Nova Scotians. This commitment must be made now, with clear and measurable social outcomes, just as have been outlined in the government's economic growth strategy. Currently, the government is allowing its economic growth strategy to take precedence over social development, especially when it comes to its low-income and marginalized citizens.

We are already nearing the midpoint of 2008 — halfway to the government's own 2010 deadline — and the province has a ways to go to make Nova Scotia a better, let alone the best, place to raise a family, especially if we examine the lack of progress for those families and individuals living in poverty.

The government is to be commended for saying that it is committed to poverty reduction. The Poverty Reduction Strategy Working Group that has been set up will make important recommendations about key priorities and directions the province should take to tackle poverty and may reveal some innovative ways to do so. We do not want to pre-empt the recommendations of this Working Group — but we also think it essential to emphasize that Nova Scotia cannot expect to solve poverty at no cost. We have to expect that a serious effort to reduce poverty will cost money. This government must demonstrate its commitment to follow-through on this work by ensuring that the initiative is sufficiently resourced. **Funding must be allocated to begin implementation of the working group on Poverty Reduction's recommendations in this fiscal year. Allocating even $200 million to this initiative could have a substantial impact.** Below we consider how this $200 million might be allocated by offering three examples, which could make a significant dent in reducing poverty in Nova Scotia.

It is crucial that the government intervene to break the cycle of poverty now. The poverty gap — the difference between the "poverty line" and what the poor actually receive in this province — has not been decreasing. Rather, according to the National Council of Welfare, Employment Support and Income Assistance program (ESIA) recipients receive an income far below the poverty line defined as the Low Income Cut Off[20] before tax for families living in Halifax. Currently, recipients of assistance cannot afford the basic necessities of food, clothing, and housing. This is exacerbated by increases in the cost of living, which are not taken into account by government.

Through ESIA, a single employable person is eligible for support which is only 30% of the poverty line. A person with a disability experiences almost a $9000 poverty gap, half of the poverty line income. A lone parent with one child receives only 58% of a poverty-level income. Finally, a couple with two children would need to see their income increased by 43% to reach the poverty line. **It is time to increase the rates for ESIA in this province.** Providing all social assistance recipients (52,300 in 2005) with an additional $2000/year would cost about half of the $200 million (around **$104 million**).

In addition to raising the ESIA rates, the government could also increase the level of earnings exemptions for applicants and recipients.

Governments in Canada and elsewhere have long recognized the need for incentives to help social assistance recipients enter or re-enter the workforce. However, current incentives are not adequate and unfairly penalize recipients when they try to gain valuable paid work experience and transition into the workforce. Currently, applicants to ESIA have no earnings exemption — when the employed apply to ESIA, all of their earnings are taken into account to determine a household's assistance. Because ESIA payment levels are so low, families who are working, but not able to pay for their basic needs (food, shelter and clothing), may still not be eligible for assistance. To be eligible they might have to quit their job. Once the applicant is determined to be eligible, the ESIA program deducts 70% of the net wages earned from their basic entitlement. In other words, the ESIA recipient is only allowed to keep 30% of their earnings.

A more reasonable earnings exemption level is one way to help workers to remain in the workforce or re-enter the work force and gain valuable work experience. It can help bridge a gap to a better job or help with the barriers encountered as the recipient tries to transition into the workforce. At the same time, we do not want to subsidize employers for insufficient wages. Therefore, the government could allocate about some of the $200 million (about **$74 million)** to enable social assistance recipients to keep more of their social assistance while working, by modestly increasing in the earnings exemption level to 50%.

The government could also use some of the $200 million to develop a program such as has been developed in Quebec: Quebec's Employment Pact (Le Pacte pour l'emploi). This program is designed, among other things, to address labour shortages by helping social assistance recipients to re-enter the labour market.[21]

The Quebec program costs a billion dollars to implement over three years, cost-shared with employers. The government's share is $180 million per year. The specific initiatives introduced include: subsidies for social assistance recipients who find work; subsidies for those who enter training programmes; tax Credits for employers who undertake employee training programs; and, specific tax credits for training and jobs offered to immigrants and people with disabilities.

It is estimated that the Nova Scotia could develop this kind of program by allocating $22 million of the $200 million that could be raised by the surtax, which is the estimated government share of the cost calculated on a per capita basis.

This program is one way to begin addressing these issues and also engaging the private sector to do so. It does not, however, get at some of the root causes of social and economic exclusion, including discrimination against immigrants and people with disabilities. These must figure into any poverty reduction plan. As pointed out by an anti-poverty coalition in Quebec, this new programme would help only 50,000 of the 300,000 social assistance recipients who need help. Therefore, it recommends the government raise base social assistance rates to allow people to feed themselves, buy decent clothes, afford public transit, and regain their dignity and confidence. As these are addressed, the social assistance recipients will then be more able to re-enter the workforce.[22]

Nova Scotia can remain an attractive place to do business, while at the same time provide adequate support for the most vulnerable members of our community. Indeed, it is only by striking an appropriate balance between those objectives that more Nova Scotians are likely to say that they feel "a strong sense of connection to their community."

Funding for these kinds of poverty reduction measures should not come from cutting other services — services that are already inadequately funded. Rather, there is a need to consider new sources of revenue by taking into account that there are those who have benefitted disproportionately from the economic growth and tax cuts of the last decade and a half or more.

Sharing the Wealth: A Surtax on the Top 1%

Tax cuts are now common in the Canadian public policy scene. Not only are there general tax cuts at various levels of government, but policies have made targeted tax cuts, while spending programs were curtailed. At the federal government level as well as in many provinces, tax cuts are such a mainstay that they are often considered irreversible. Even parties that criticize tax cuts when they are implemented shy away from suggesting their reversal. But tax cuts cannot do much to help people who have very little to tax. A tax cut agenda favours those who have a higher marginal tax rate, i.e. people with high incomes. There is scope for increasing government taxation revenues to reinvest in social programs as well as to finance initiatives aimed at transitioning to a low-carbon economy.

If we want to build a real sense of community in Nova Scotia, we have to include our least fortunate citizens. If we are serious about this we will need to spend money — and it is only fair that we ask Nova Scotia's most fortunate citizens to contribute a portion of their rising incomes. The top 1% of the income distribution has seen their pre-tax incomes increase disproportionately in recent years while, at the same time, the distribution of taxation has shifted to their benefit. The result is a tax system that is increasingly less fair.

TABLE 1 **Distribution of Tax Returns and Taxable Revenue in Nova Scotia in 2005**

Bracket	Total returns (# of returns)	% of total	Total Revenue $1,000	% of total	Taxable revenue (a) $1000
0	26540	3.80	-15056	-0.07	0
1–10,000	137680	19.70	790710	3.68	429383
10–15,000	82730	11.84	1053477	4.90	721938
15–20,000	79670	11.40	1380842	6.42	1086464
20–25,000	53660	7.68	1201044	5.58	1016612
25–30,000	55540	7.95	1524623	7.09	1309312
30–35,000	44680	6.39	1452730	6.75	1248421
35–40,000	38720	5.54	1452376	6.75	1257864
40–45,000	31640	4.53	1347060	6.26	1179613
45–50,000	26390	3.78	1249564	5.81	1094721
50–60,000	43390	6.21	2378125	11.06	2069410
60–70,000	27650	3.96	1785604	8.30	1546435
70–80,000	16810	2.41	1251464	5.82	1072469
80–90,000	9650	1.38	817635	3.80	700135
90–100,000	6080	0.87	575090	2.67	476722
100–150,000	11310	1.62	1329792	6.18	1098051
150–250,000	4490	0.64	865703	4.02	707288
250,000 +	2100	0.30	1070507	4.98	914950
Total	**698730**	**100.00**	**21511290**	**100.00**	**17929788**

SOURCE Canada Revenue Agency, Final Income Statistics, Basic Table 2, http://www.cra-arc.gc.ca/agency/stats/gb05/pst/final/t02ns-e.html.
NOTE (a) All credits and deductions have been taken into account to get taxable revenue.

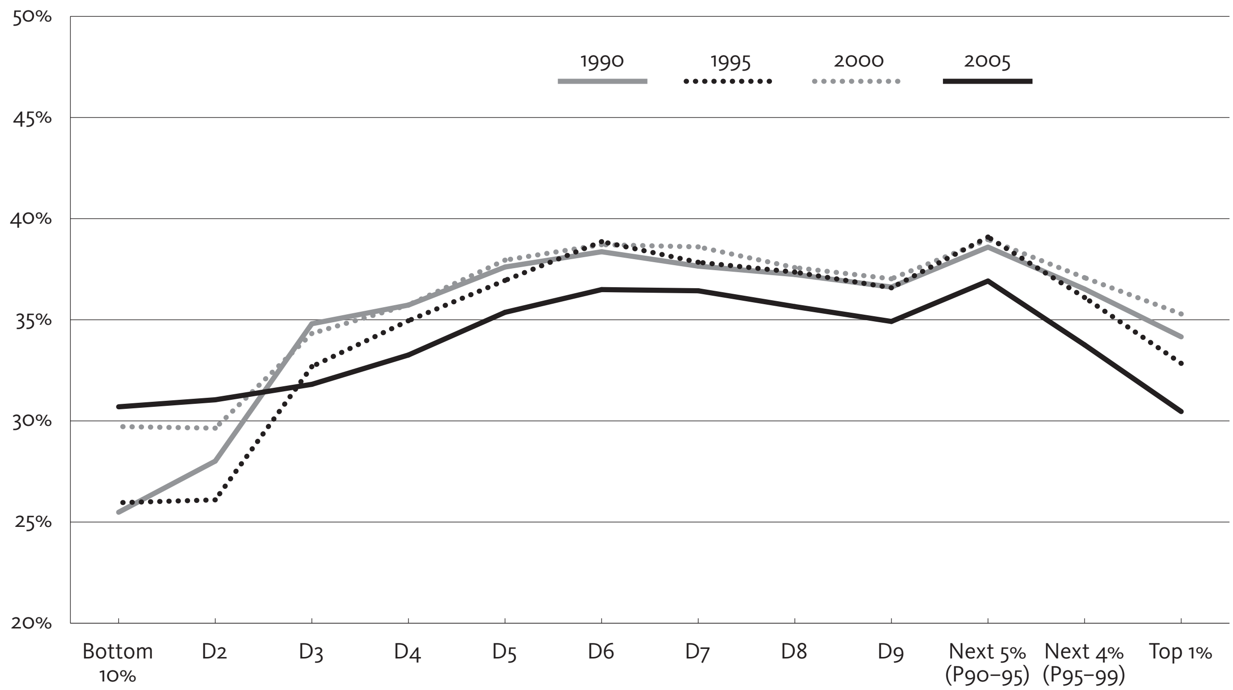
Skewed Gains

A growing body of research is uncovering a disquieting trend in Canada: After decades of relative stability, income inequality — the gap between the wealthy and the poor — is increasing rapidly.[23] What is more, virtually all the income gains accrue to the income earners at the very top of the income distribution. Average real wages (wages adjusted for inflation) have not changed in Canada for about 30 years, and have decreased in Nova Scotia since the early 1990s.[24] Not only has the average Nova Scotian worker not received any benefits from economic and productivity growth in recent decades, average workers have lost because their wages have not kept up with inflation. Instead of leading to increased real wages, virtually all of the increased wealth generated by productivity growth has taken the form of higher profits. At the same time as real wages have stagnated, the corporate share of income has skyrocketed. This rise translates into higher incomes at the top of the distribution, where stock ownership is concentrated.[25]

The recent increase in income inequality in Canada does not just come from rising corporate profits, since a sizeable portion of the incomes of the top 1% come from wages and salaries.[26] But whatever the source, for Nova Scotia, if we look at all individual tax returns filed for the year 2005, 0.94% — i.e. approximately 1% — had incomes above $150,000 (see Table 1).

Individuals at the very top of the income distribution have seen their revenue increase dramatically in the last three decades, while everybody else's income more or less has not changed.

FIGURE 5 **Total Tax Rate**[28]



We fully endorse the view that every Canadian should share in national prosperity. Thus, there is scope for redistribution from the top of the income scale to the rest of society. Given that income for high-income earners comes from various sources, targeting general income for redistribution is the best course of action.

The Tax Curve

But increasing income inequality is not the whole story, for as the income of the top 1% was increasing dramatically, their relative tax bill was decreasing.

The different means of taxation in Canada make it difficult to assess the relationship between total income and the proportion of that income paid in taxes. We know that income tax is generally progressive, i.e. that the higher the income, the higher the tax rate (higher income brackets have a higher tax rate). But what if we consider all the other components of the system, such as corporate tax, sales tax, and property tax?

It turns out that the cumulative result for overall taxes is one that is double-hump shaped. A recent study depicts this figure by accounting for all components of the Canadian tax system at all income levels, i.e. for any given income level, how much of that income is paid in the form of each of the existing taxes.[27] The results are presented for each income group, for every fifth year from 1990 to 2005, as shown in Figure 5.

Looking at 2005, the percentage of income paid in tax slowly rises with income, but declines after the half-way mark (D6). There is a second increase at the 95th percentile, before a major decrease for the top 5%. That is to say, the lower and middle- income class pays the greatest proportion of its income in taxes, save for people at the 95th percentile. This figure also shows that the very wealthy now pay a smaller proportion of their income in taxes than the people at the very bottom of the income distribution.

Furthermore, this tendency has been exacerbated in the last two decades, following the implementation of a series of tax cuts and tax credits: The first half of the distribution has become higher and flatter, as the poor now pay a greater proportion in taxes than they used to, while the proportion of income paid in taxes at the very top has decreased. Just as the individuals at the top of the income distribution were reaping most of the gains from growth, they were also seeing their relative tax share decrease.

To summarize, our governments have allowed the richest Canadians to keep a lion's share of the national wealth increase in a number of ways: they disproportionately benefit from productivity gains as profits increase faster than wages; real wage gains have largely been realized at the top of the pay scales; and their relative share of taxes has been reduced. In addition, as the tax system has become more regressive, it has also meant that others pay more than their fair share of taxes.

This analysis applies to Canada as a whole; nevertheless, similar regressive measures are employed in this province as well, though not through obvious provincial tax cuts. One example is the increase in user fees, a form of taxation that has a greater negative impact on those with lower income (since the fees are fixed, they take up less of total income as income increases).

For three decades, particularly since 1995, the federal government has cut the real amount of resources or transfers it gives to the provinces for social programs.[29] At the same time, every federal budget surplus produced by these spending cuts is accompanied by tax cuts. Both of these trends leave the provinces with less money and fewer services, but greater fiscal room to occupy. To uphold the level of its services, the province should increase its overall tax revenue by offsetting the decreases in federal taxes. The reduction in federal taxes on the wealthy provides the province with an opportunity to move into this gap left by the federal government, by increasing taxes at the very top income level. It is time for Nova Scotia's most fortunate few to share a bit more of the large revenue increases they have enjoyed. **We therefore propose a 30% marginal provincial surtax on any income earned above $150,000, which corresponds approximately to the top 1% of the income distribution in Nova Scotia.**

Our proposal

There are currently four income tax brackets in Nova Scotia (marginal tax rate in brackets): 0–$29,590 (8.79%); $29,591–59,180 (14.95%); $59,181–93,000 (16.67%); $93,000+ (17.5%). In addition, there are numerous targeted tax credits, including a basic exemption at $7,731 (so nobody pays taxes on the first $7,731 they earn), and a surtax of 10% after $10,000 of taxes are paid. Given the current marginal tax rates, the surtax would kick in at $83,814 for an individual only claiming the basic personal exemption and CPP and EI deductions.

To this tax system, we would add another surtax which would apply only to those individuals in the top 1% of the income distribution. For the tax year 2005, the last for which final data are available, the cut-off would be roughly at $150,000; only those individual with an income above that level would have to pay this tax. Just as for normal brackets, the tax would only apply to income earned above that threshold. We envision a top marginal provincial surtax rate of 30%.

In 2005, the total income reported by individuals receiving more than $150,000 was $1,936 million or 1.936 billion dollars. Once all credits and deductions are taken into account, however, this total shrinks to 1,622 million dollars (See Table 2 Taxable Revenue). Of this amount, 634 million dollars is the total income that was earned in excess of $150,000 for people in this tax bracket. A tax of 30% on income above that level would therefore have generated additional revenue of 190 million dollars for the govern-

TABLE 2 **Tax Shares (2005 Tax Year)** Nova Scotia

Bracket	Total returns (# of returns)	Taxable revenue (a) $1000	TAX PAYABLE Net Fed tax $1,000	Net Prov tax $1,000	Total tax $1,000	New tax $1,000
0	26540	0	0	0	0	...
1–10,000	137680	429383	952	1284	3664	...
10–15,000	82730	721938	12142	8309	23541	...
15–20,000	79670	1086464	40992	26858	70885	...
20–25,000	53660	1016612	62453	43370	109390	...
25–30,000	55540	1309312	102616	68208	174534	...
30–35,000	44680	1248421	110419	76835	190717	...
35–40,000	38720	1257864	122824	90412	217387	...
40–45,000	31640	1179613	130373	95862	408104	...
45–50,000	26390	1094721	132205	96031	228687	...
50–60,000	43390	2069410	275928	198075	230554	...
60–70,000	27650	1546435	222897	159194	479524	...
70–80,000	16810	1072469	162309	116887	388669	...
80–90,000	9650	700135	112214	80605	199016	...
90–100,000	6080	476722	79028	56372	138468	...
100–150,000	11310	1098051	192051	138702	340306	...
150–250,000	4490	707288	145316	103051	253532	10136
250,000 +	2100	914950	220307	150137	373467	179985
Total	**698730**	**17929788**	**2125026**	**1510192**	**3830445**	**190121**

SOURCE Canada Revenue Agency, Final Income Statistics, Basic Table 2, http://www.cra-arc.gc.ca/agency/stats/gb05/pst/final/t02ns-e.html.
NOTE (a) All credits and deductions have been taken into account to get taxable revenue.

ment. Most of this revenue would come from individuals reporting more than $250,000 (see Table 2). It can be estimated that the same tax for 2008 would easily generate more than 200 million dollars, given increases in inflation and in real incomes at the top of the distribution.

Once again, we think this surtax is fair in the context of rising inequality over the last decade and a half or more. What is more, we don't think it disproportionately taxes the individuals targeted by the measure. As a share of total income, even individuals reporting more than $250,000 would see their average tax bill increase by less than 17%, bringing the overall average income tax to around 50%. At the same time, 200 million dollars could go a long way in bolstering important social programs specifically targeted to reduce poverty.

Conclusion

Nova Scotians know the government has tough decisions to make, and they want to be able to provide meaningful input into how their tax dollars should be spent. To do so, however, they need access to better information about the choices and consequences of decisions that are made about revenues, about spending and about the debt. We hope this document provides Nova Scotians with additional information and alternatives to use to hold the government accountable for the 'difficult choices' it makes on our behalf. Global warming and poverty are only two crucial issues that deserve to be prioritized in this government's budget.

Notes

1 See Canadian Centre for Policy Alternatives-Nova Scotia, *Maintaining Investments in Nova Scotians* (Halifax: Canadian Centre for Policy Alternatives — Nova Scotia, 2006), see in particular pages 9 to 12 and Figures 1 and 2; 18 March 2008 <http://policyalternatives.ca/documents/Nova_Scotia_Pubs/2006/Maintaining_Investment_in_Nova_Scotians.pdf>

2 The components that comprise local, provincial and territorial statistics contained in these tables are: (i) local general government, (ii) school boards, (iii) provincial and territorial general government, (iv) provincial and territorial non-autonomous pension plans, (v) universities and colleges and (vi) health and social service institutions.

3 Public infrastructure refers to highways and roads, bridges and overpasses, water supply systems, wastewater treatment facilities, and sanitary and storm sewers.

4 Mychèle Gagnon, Valérie Gaudreault and Donald Overton, *Age of Public Infrastructure: A Provincial Perspective* (Ottawa: Statistics Canada. Catalogue No: 11–621-MIE2008067, 2008) http://www.statcan.ca/english/research/11–621-MIE/11–621-MIE2008067.htm

5 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 Tarek M. Harchaoui, Faouzi Tarkhani and Paul Warren, *Public infrastructure in Canada: Where do we stand?* (Ottawa: Statistics Canada, 2003).

6 Feed Nova Scotia, *Hunger Facts 2007* (Halifax: Feed Nova Scotia). http://feednovascotia.ca/getInformed/researchStats/trends.html

7 For more information on food insecurity, see *Thought About Food? A Workbook on Food Security & Influencing Policy* developed by the Food Security Projects of the Nova Scotia Nutrition Council and the Atlantic Health Promotion Research Centre, Dalhousie University, June 2005; http://www.foodthoughtful.ca/index.htm.

8 2007–08 to 2010–11 are projected based on debt freeze and 4.2% nominal GDP growth.

9 Department of Finance, *Nova Scotia Fiscal Overview: 2007* (Halifax: Government of Nova Scotia), p.22.

10 Canadian Centre for Policy Alternatives-Nova Scotia, *Assessing Nova Scotia's Fiscal Situation* (Halifax: CCPANS, 2007), pp.10–11. http://www.policyalternatives.ca/documents/Nova_Scotia_Pubs/2007/Assessing_NSs_Fiscal_Situation.pdf

11 In 2005, the Hamm government passed Bill 177, which stipulated that any revenue not included in the annual budget or not expected to become a "typical" revenue source, is to be allocated to the debt. See Bill 177, Financial Measures Act, 2005, Chapter 29, the Provincial Finance Act. It says "All extraordinary revenues that accrue to the Province in any fiscal year must be paid into the Public Debt Management Fund." http://www.gov.ns.ca/legislature/legc/bills/59th_1st/1st_read/b177.htm#s29; For another example of this legislation that had specific spending control measures in it, see also, Department of Finance, News release: Introduction of Financial Legislation, October 20, 1999 http://www.gov.ns.ca/news/details.asp?id=19991020004.

12 For a discussion of implications of this kind of legislation see Janine Brodie and Isabella Bakker, in *Canada's Social Policy Regime and Women: An Assessment of the Last Decade* (Ottawa: Status of Women Canada, March 2007). See in particular Chapter 5: Budgets and Social Policy: Toward Greater Transparency, Voice and Accountability for Women?, as well as Footnote 13. http://www.swc-cfc.gc.ca/pubs/pubspr/0662450870/200703_9780662450870_1_e.html. See also Isabella Bakker, *Fiscal Policy, Accountability and Voice: The Example of Gender Responsive Budgeting:* Background Study, Human Development Report (New York: United Nations Development Programme, 2001).

13 Lisa Philipps, "The Rise of Balanced Budget Laws in Canada: Fiscal (Ir)Responsibility." *Osgoode Hall Law Journal*. 34(4) (Winter 1996). Article can be accessed here: http://www.ohlj.ca/archive/articles/34_4_philipps.pdf

14 Environment Canada, *National Inventory Report 1990–2005: Greenhouse Gas Sources and Sinks in Canada* (Ottawa: Environment Canada, 2007), Annex 11 — National Inventory Report 1990–2005) http://www.ec.gc.ca/pdb/ghg/inventory_report/2005_report/ta11_6_eng.cfm

15 Nova Scotia Power Inc., *Integrated Resource Plan (IRP) Report*, Volume 1, July 2007. http://www.nspower.ca/about_nspi/rates_regs/regulatory_initiatives/air_emissions/DOCS/IRP%20Report%20Volume%201%20July%202007.pdf

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17 Government of Nova Scotia, *Opportunities for Sustainable Prosperity 2006: An Updated Economic Growth Strategy for Nova Scotia (*Halifax, Government of Nova Scotia, 2006), p.12. http://www.gov.ns.ca/econ/ofsp/docs/Opportunities_For_Sustainable_Prosperity_2006.pdf

18 Government of Nova Scotia, IBID, p.33.

19 Government of Nova Scotia, IBID, p.21).

20 Statistics Canada's Low Income Cut Offs define a low-income household as one which spends a disproportionate amount of its income on the necessities of life — food, shelter, and clothing. Statistics Canada has decided over the years — somewhat arbitrarily — that 20 percentage points is a reasonable measure of the additional burden.

21 Gouvernement de Québec, Communiqué de presses, Québec Annonce Un Investissement De Pres D'un Milliard De Dollars Dans Le Cadre Du Pacte Pour L'emploi, le 18 mars, 2008. http://communiques.gouv.qc.ca/gouvqc/communiques/GPQF/Mars2008/18/c5067.html http://www.pacte-emploi.gouv.qc.ca/

22 Collectif pour un Québec sans pauvreté, Communiqué : Le Pacte pour l'emploi; Après le bâton, la carotte, le mardi 18 mars 2008.http://www.pauvrete.qc.ca/sommaire.php3

23 Lars Osberg,"A Quarter Century of Income Inequality in Canada 1981–2006", *Dalhousie University Mimeo, 2007.*

24 Ellen Russell and Mathieu Dufour, *Rising Profit Shares, Falling Wage Shares* (Ottawa: CCPA, June, 2007). http://www.policyalternatives.ca/documents/National_Office_Pubs/2007/Rising_Profit_Shares_Falling_Wage_Shares.pdf; Mathieu Dufour and Larry

Haiven, *The Rising Tides Swamped Many Boats: Rising Profit Shares and Falling Labour Shares in Nova Scotia* (Halifax: Canadian Centre for Policy Alternatives-Nova Scotia, forthcoming).

25 See the Growing Gap project, at www.growinggap.ca, for a chronicling of the various aspects and consequences of this stagnation for Canadian households.

26 Emmanuel Saez and Michael Veal, *The Evolution of High Incomes in Canada, 1920–2000*, NBER Working Paper No. 9607, April 2003. www.nber.org/papers/w9607

27 Marc Lee, *Eroding Tax Fairness: Tax Incidence in Canada, 1990–2005* (Ottawa: Canadian Centre for Policy Alternatives, 2007), p.12. http://www.policyalternatives.ca/documents/National_Office_Pubs/2007/Eroding_Tax_Fairness_web.pdf, accessed April 8, 2008.

28 Ibid, Figure 1, page 12.

29 Government of Canada, *Fiscal Reference Tables 2007*, accessed on March 10th, 2008, and available at http://www.fin.gc.ca/purl/frt-e.html.

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