



Government Budgets and Public Capital

— by Gary Tompkins

The Alternative Budget of Choice (ABC) was released two days prior to the recent provincial budget. Much of the criticism directed towards the budget had to do with the affordability of the increased program expenditures and the resulting deficit contained in the ABC. Part of the problem, however, is the narrow definition of what many perceive as a government deficit.

While government and household financing is generally quite different, in this case a household analogy is instructive. Consider a family that purchased a house and has little money left over after paying the required bills each month. Suppose that in order to maintain the house at its current standard, a maintenance expenditure of \$4,000 is required in excess of what the family's income can afford. For simplicity, let's assume all other expenditures cannot be changed.

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In this instance, the family has to make a decision—it can decide to maintain the house by borrowing the additional money, allow the house to deteriorate by \$4,000, or some combination of the two. In the short term, the important decision is not whether to have a deficit—it has been established at \$4,000—but rather how to distribute the deficit between a deferred maintenance (a house deficit) and a loan (a budget deficit). That decision is influenced by the household's ability to borrow even more

money, the immediate impact of deferring maintenance, and other factors. The longer term decision is whether the house is affordable. The household has to decide whether the \$4,000 deficit is a temporary phenomenon and will be eliminated in time or whether the household needs to increase its income and/or reduce its housing consumption.

This analogy can be extended to government budgetary decision-making.

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This change in accounting may also improve government decision-making. There has always been a suspicion that the previous accounting practices have encouraged governments to hide deficits where they are less visible (potholes rather than financial deficits) or where the implications of the deficits will only be apparent in the future (buildings falling down) and dealt with by future elected representatives.

The transparency of the government’s fiscal policy decisions will be improved with recent changes urged upon it by the Provincial Auditor. The move to summary statement accounting will include an estimate of highway deterioration as part of the charges to the government budget. The public will be able to know whether the planned spending on highway maintenance exceeds, meets, or fails to cover the ongoing depreciation of this government asset rather than the previous situation when the maintenance expenditure was given without that context.

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of the deficits will only be apparent in the future (buildings falling down) and dealt with by future elected representatives. While it is difficult to accurately assess this allegation, problems in public capital investment that have recently come to light suggest that there is some validity to the argument. The public sector seems to have a problem with capital investment as evidenced by deterioration in infrastructure, examples of inadequate investment in electricity generation capacity, and a more general deferred maintenance crisis in the public sector. Private sector participation in health care is often justified by pointing to the need for external capital investment in the sector. But why privatize the investment function when governments can borrow less expensively than can the private sector? Perhaps there is a systemic capital investment problem in the public sector partly brought on by past budgeting practices and political expediency.

An interesting implication of the move to a broader view of the government financial process is how we are to decide whether particular government expenditures should be counted as consumption or capital investment. Many social activists view all kinds of spending as public investment. Spending on programs such as education, early childhood development, and health could be viewed as investments in “human capital”, and income maintenance programs could be viewed as a means of facilitating productive economic decisions in the face of temporary hardship. Almost all government spending could conceivably be viewed as affecting the amount of “social infrastructure”, some with positive and some with negative effects. Government budgets could be improved to facilitate effective and informed public debate by not only providing meaningful information that discloses the decisions that were made about spending and taxes but also by providing an appropriate context so the impact of those decisions can be more fairly assessed.

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The ABC did not create the current deficit. It differed from the recent government budget in its response to the deficit in two important ways. First, it redistributed a portion of the true deficit from the deterioration of social programs to the financial books. Second, it addressed the long term sustainability of our provincial balance of taxes and programs by increasing some taxes, with those increases particularly focused on higher resource revenues, decreasing the sales tax, and reducing our reliance on property taxes. In contrast, the provincial government chose to deal with the deficit by continued reductions in some spending programs relative to the increases in the cost of provision of services, the elimination of some spending programs, a decrease in the tax burden of small corporations, and an increase in the provincial sales tax.

People can differ on whether the ABC, the NDP government, or one of the opposition parties is offering the best short term response to the current deficit and is addressing whether the current mix of spending programs and taxes is sustainable in the long term, represents an

appropriate size of the public sector, and represents a suitable balance among the spending and tax alternatives. That assessment will be easier to make if the true scope of government budgetary decisions is apparent to taxpayers and voters. This will require appropriate accounting practices and a transparent budget process that presents numbers that accurately reflect the government's decisions. Progress seems to be occurring in this area. It will also require other groups offering sustainable alternative views of what represents appropriate public spending and tax policy. Saskatchewan's recent experience with public policy debates (including the past provincial election campaign, the period leading up to the budget, and many of the responses to the budget) suggests that we still have progress to make toward enabling an informed public debate to occur about the future of the Saskatchewan provincial public sector.

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Gary Tompkins is an Associate Professor in the Department of Economics at the University of Regina, and a Research Associate for the Saskatchewan Office of the Canadian Centre for Policy Alternatives.

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Canadian Centre for Policy Alternatives – SK

2717 Wentz Ave., Saskatoon, SK S7K 4B6

Ph: 306-978-5308 — Fax: 306-922-9162

Email: ccpasask@sasktel.net

Website: www.policyalternatives.ca/sk