



Twelve Things You Should Know about Nova Scotia's Fiscal Situation

Nova Scotia Alternative Budget 2012 Backgrounder

Misplaced Obsession With Balance

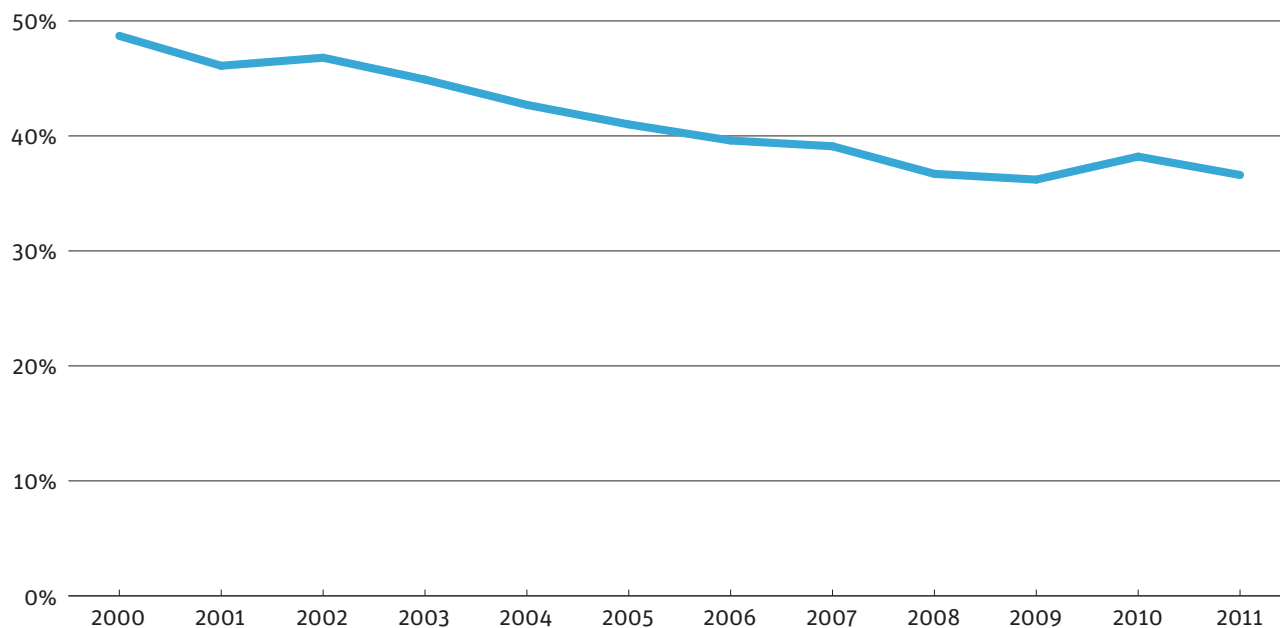
The current Nova Scotia NDP government's obsession with budget deficits and getting "back to balance" (e.g. paying down the deficit) through austerity measures is misplaced.

1. Just as the ability of a household to finance debt depends on its income (the more income you have, the more debt you can safely carry), the ability of a government to safely carry debt depends on its Gross Domestic Product (GDP). Thus, it is not the exact amount of the deficit or the absolute level of debt, but the debt-to-GDP ratio that should be governments' focus in maintaining sustainable finances. Nova Scotia's ability to manage the debt, as measured by the debt-to-GDP ratio, has improved significantly over the past decade.

Figure 1 depicts Nova Scotia's debt-to-GDP ratio from the 1999–2000 fiscal year to 2011–12.¹ The ratio has dropped from 48.7% in 2000 to 36.6% in 2011. There is no danger of a debt 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 new debt. There is no urgent need to balance the budget so quickly, especially given the province's fragile recovery from the deep recession.

2. Economic growth alone will drive down the debt-to-GDP ratio. Over time, inflation and higher levels of GDP generate greater tax revenues which reduce deficits. Un-

FIGURE 1 Nova Scotia's Debt-to-GDP Ratio, 2000–11

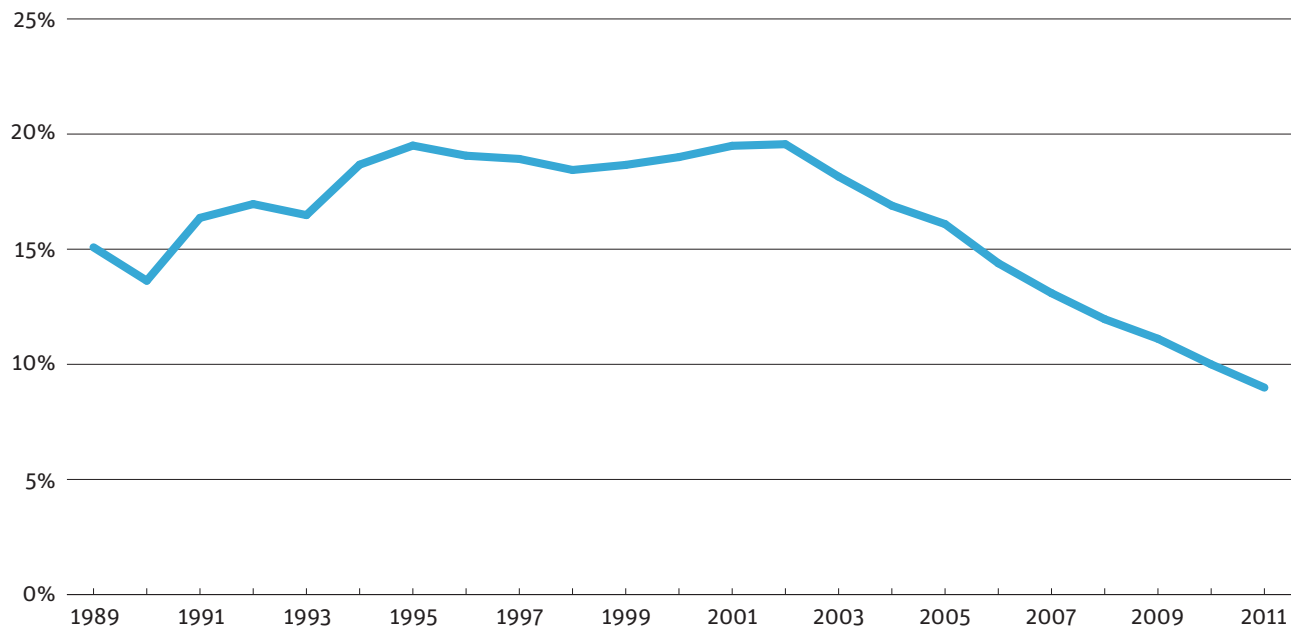


fortunately, in adhering to its rigid schedule of balancing the budget by the 2013–14 fiscal year, the government is not allowing enough time for growth to have a significant impact on the deficit.

3. Since 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 from 1989 to 2011.² Due to the combination of 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 the current level of 2.2%. From this perspective, managing Nova Scotia's debt is not particularly onerous. Furthermore, the trend of declining relative debt costs should continue for the foreseeable future. We are not spending beyond our means to manage debt.

4. Similarly, **debt charges expressed as a percentage of expenditures reveals a dramatic decline** from a high of 19.56% 2002 to 9% in 2011 (see *Figure 2*). The absolute dollar figures for the deficit, the debt or the interest payments, are not as significant as the ratio and indeed do not tell us much of anything about the state of the province's finances. As the NSAB also demonstrates, the provincial government needs to increase its revenue base. If we were to increase our revenue base, the percentage would go down even further.

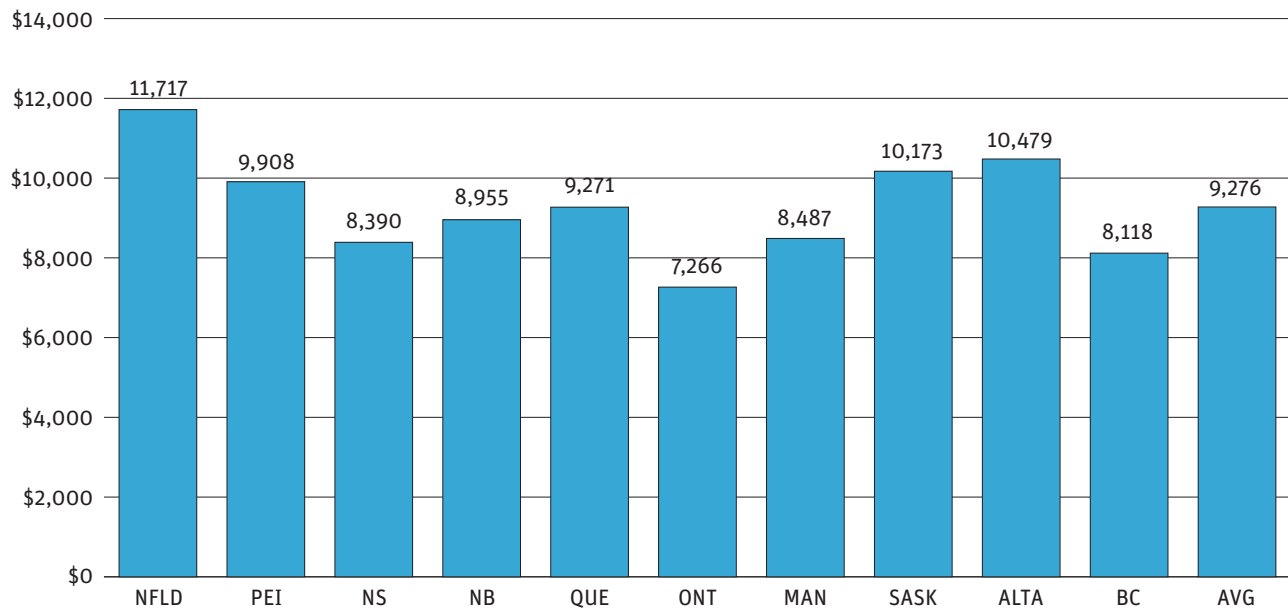
FIGURE 2 Nova Scotia Debt Charges as a Percentage of Total Government Expenditure



5. Accumulated debt is **deferred taxation** — the debt must be paid by taxpayers in the future. However, these future taxpayers are the ones who will ultimately benefit from the investments made in government programs today — like public education or post secondary education or preventative health programs. It is not inequitable to pay the full costs of these investments over time. Furthermore, because of growth, the ability to pay will be greater in the future.

6. Some pundits will always claim public spending is too high regardless of provincial tax levels. **The province of Nova Scotia is hardly a big spender.** From 1990 to 2006, Nova Scotia consistently invested less than most of the other Provinces, often with the lowest level of program expenses. Further, we have always spent less on a per-capita basis than the Canadian provincial or the Atlantic average. The increased spending that occurred under the previous provincial Conservative government hardly made-up for the deep federal government cuts in the 1990s, which we are still attempting to recover from. As can be shown in *Figure 3*, at \$8,390, Nova Scotia has the third lowest level of per capita program expenditure and the lowest in Atlantic Canada. The national average of \$9,276 is 10.5% greater than Nova Scotia's. To bring Nova Scotia in line with the national average, expenditures would have to rise

FIGURE 3 Per Capita Provincial Program Spending, 2009



by over \$800 million. Nova Scotia's programs are already comparatively underfunded; further cuts can only make the shortfall greater.

7. The provincial government's insistence on attacking the deficit through *austerity* will also impose a cost on the province's economic performance. Provincial government program expenditure makes up almost 25% of Nova Scotia's GDP; thus, aggregate expenditure cuts can have an adverse direct effect on GDP growth.³

8. Because government expenditure is subject to a multiplier effect: 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 simply a reduction in money spent.

9. The government's cuts and the subsequent slowing of the economy also reduce employment. Indeed, as the result of recent and expected future budget cuts, numerous health and education employees and administrators, teachers, and public sector workers lose their jobs. The multiplier effect described above magnifies this impact. As public sector workers lose their jobs, they have less income to spend in their communities, putting further downward pressure on private sector employment. The

total impact of austerity on employment is substantial. The government estimated its expenditure management savings for its four-year plan at \$772 million.⁴ Assuming the cuts to each department are made in proportion to its weight in the budget and applying Statistics Canada's jobs multipliers for Nova Scotia,⁵ the estimated impact of this austerity is the loss of well over **10,000** jobs.⁶

10. These jobs and service cuts will undoubtedly hit Halifax, where a number of public sector jobs are held but where a large private sector employment base also exists. However, public sector spending cuts are more likely to have a devastating effect on rural communities, where the public sector makes up a substantial portion of the economy. Many rural areas and small communities cannot afford to lose any more of their productive citizens and see their tax base further eroded.

11. This austerity agenda compounds the impact of the recession on our youth. Statistics Canada's most recent data on unemployment of youth cry out for an immediate youth employment strategy. When Statistics Canada includes discouraged searchers and part-time workers who want more hours, the unemployment rate becomes 25.6% (29% for men and 22.5% for women) for those aged 15–24 in Nova Scotia.⁷

12. Cuts in public sector jobs disproportionately hurt women. In the federal public service, "more than half of public sector workers are women, representing 84 per cent of administrative staff in federal workplaces."⁸ In Nova Scotia, women compose 67 per cent and 85 per cent of education and health employment, respectively.⁹ Public sector jobs represent quality jobs, where pay is on average higher than private sectors jobs — 10% higher for federal public sector jobs. These jobs also provide good benefits to women often including extended health and maternity benefits. In addition, more women in the public sector have pensions (two thirds, as opposed to only one third in the private sector.) Pay equity campaigns in the public sector and the union advantage (with higher unionization rates than the private sector) have resulted in important gains for women. In addition to the loss of good jobs, these job cuts also represent the loss of services, and the creation of gaps that are more often filled without pay by women, such as more unpaid caregiving work.

There Is An Alternative...

In contrast to the Nova Scotia government's plan to balance the budget via across-the-board cuts, the *Nova Scotia Alternative Budget 2012: Forward to Fairness* makes strategic investments; finds creative ways to save money and to increase revenue.

It focuses on restoring fairness with a balanced approach to help those currently in need, and ensure that the province is on the road to becoming more social and economically just, as well as environmentally sustainable. The full budget can be downloaded free at www.policyalternatives.ca.

Notes

- 1 Nova Scotia Department of Finance, *Budget Highlights* (Halifax: Government of Nova Scotia, 2005 and 201).
- 2 Sources: Statistics Canada, Cansim Series # 385-0002; Department of Finance, *December Budget Update* (Halifax: Government of Nova Scotia, 2011).
- 3 Suppose, for example, that the government cuts nominal expenditure by 2% and inflation is also 2% to make the real value of expenditure cuts equal to 4%. The direct effect would be to reduce Nova Scotia's GDP growth by 1%. While this may not seem significant, it represents almost 60% of the growth for 2012 projected by the Finance Department in its December update (1.7%).
- 4 Department of Finance, Budget Bulletin for the Fiscal Year, 2010–2011: *Ensuring Government Lives Within Its Means: Expenditure Management*, (Halifax, NS: Government of NS), p. 3. <http://www.gov.ns.ca/finance/site-finance/media/finance/budget2010/Bulletin-ExpenditureManagement2010-11.pdf>
- 5 Statistics Canada, Industry Accounts Division, *Provincial Input-Output Multipliers*, Nova Scotia (Ottawa: Statistics Canada, 2006.).
- 6 The job effects per \$1,000,000 of spending are 15.67 for health, 14.38 for education, and 11.39 for other provincial government services. These three categories made up 42.1%, 15%, and 42.9% of the 2010–11 budget. These figures combine to produce estimated job losses of 10,530.
- 7 Angella MacEwen, Employment and Labour Force Trends in Nova Scotia, Unpublished Memo, (Ottawa: Canadian Labour Congress, March 2012.).
- 8 Public Service Alliance of Canada (PSAC), Job cuts hurt women, (Ottawa: PSAC, February, 2012.). <http://www.psac-afpc.com/documents/what/IWD-finalE.pdf>
- 9 Nova Scotia Liberal Party, *Media Release: McNeil: Dexter's Cuts Will Significantly Impact Women's Well-Being*. March 13, 2012. http://www.liberal.ns.ca/nslp_9556_42171.html