# Maintaining Investment in Nova Scotians

## Alternative Provincial Budget 2006–2007

ISBN: 0-88627-493-1
May 2006

Canadian Centre for Policy Alternatives – Nova Scotia
Box 8355, Halifax, N.S. B3K 5M1
Tel: (902) 477-1252, Fax: (902)484-6344
Email: ccpans@policyalternatives.ca
Web: www.policyalternatives.ca

# We are presenting an Alternative Budget:

- Because important choices are being made about Nova Scotia's future and different choices could be made. We support a process in which the people of Nova Scotia debate and have significant input into public policy decisions. We want to ensure that the interests of the majority and those with less influence in our society are served;

- Because government today is a "top down" affair. We advocate a consensus approach to budget making among progressive organizations and individuals, and a process for building links between various communities;

- Because a more democratic process and a fairer outcome will not happen unless the citizens of Nova Scotia have access to better information on the choices and consequences of budget decisions;

The Nova Scotia Alternative Budget for 2006-07 has been prepared by the Nova Scotia office of the Canadian Centre for Policy Alternatives (CCPA-NS).

# Acknowledgements

CCPA-NS would like to acknowledge the contributions to this document of Mike Bradfield, Ken Clare, Brenda Conroy, Bernie Davis, Kerri-Anne Finn, Brendan Haley, Larry Haiven, John Jacobs, Ian Johnson, Robert Lanning, Martha MacDonald, Angella MacEwen, Lars Osberg, Katherine Reed, John Ryan, Danielle Sampson, Alasdair Sinclair, Andrew Terris, Kimberly Tran and Anne Webb. Any errors and omissions are the responsibility of CCPA-NS and the opinions presented in this document do not necessarily represent the views of each participant.

# Contents

# Summary

The provincial government has tended to dampen public expectations by budgeting small surpluses and claiming the province's fiscal situation leaves the government few options. But the Conservatives' budgeting is suspect at best. Recent pre-budget announcements by the finance minister have confirmed the province's record of underestimating revenue.

In 2004-05 the provincial government underestimated revenue by $283 million (5.1%). The Alternative Budget estimates the province has under-estimated revenue by $191 million (3.1%) in its 2005-06 budget contributing to discretionary funding in the range of $88 million more than the budgeted surplus – all of which will be allocated to the debt.

Some fiscal prudence in preparing budgets is to be expected, but underestimating revenue by 3.1% is unacceptable.

Underestimating revenue stifles democratic public debate about how funds should be allocated to meet citizen's priorities. Underestimating revenue enables governments to claim that the funds are not available to meet public demands for improved services and infrastructure. Had the provincial government budgeted a more accurate surplus they would have faced increased pressures to support, for example, students dealing with high tuition and low-income households struggling with inadequate income assistance.

Now the finance minister is talking about tax cuts. Decreasing revenue through tax cuts in the current context is both fiscally and socially irresponsible. Maintaining the province's revenue capacity is essential to managing the province's need to make long over due investments in public programs, services and infrastructure.

For far too long Nova Scotia has been accumulating a social debt. In 2004-05 all provinces with the exception of New Brunswick invested more than Nova Scotia in their citizens. Over the past decade, governments in Nova Scotia have invested the least per capita (8 years) and second least (2 years) in public programs and infrastructure, well below the national average.

Just to bring its level of investment in citizens and the economy up to average per capita expenditures of the other Atlantic provinces, Nova Scotia needs to invest an additional $500 million annually. It needs to invest an additional $800 million annually to bring it up to the national average. Addressing this debt must be the overriding priority of provincial budgets for the foreseeable future.

- With the highest tuition fees in the country we need to ensure that post-secondary education becomes affordable to Nova Scotians. We need to invest in research, faculty renewal, and supports for part-time faculty, support staff and lifelong learning to ensure a prosperous and productive economy.
- Poverty in NS remains at unacceptable levels. In 2003, 97,000 (10.7%) Nova Scotians lived in poverty. Income assistance rates to support households struggling with poverty have decreased, in real terms (adjusted for inflation),

by more that 60% for single employable Nova Scotians, by 26% for Nova Scotians with a disability, by 43% for single parents with one child and by 31% for a couple with 2 children.
- Investments are needed in the cultural sector of Nova Scotia. Supports for cultural development decreased by 5% between 2000 and 2003, and the province now invests the second least of all provinces on a per capita basis.
- In spite of commitments to decreased greenhouse gas emissions, emissions continue to increase in Nova Scotia. Investments are needed in the development of renewable sources of energy and in conservation.
- Public health care in Nova Scotia continues to be a high priority. Additional federal and provincial funding is needed to revitalize the system and deal with specific provincial challenges such as high rates of cancer, diabetes and asthma.

The viability of the provincial economy and our communities is dependent upon investments in public infrastructure such as roads, bridges and waste water treatment. Nova Scotia has not been making the needed investments. For example, between 1988 and 2003 Nova Scotia was the only province in which local government did not increase funding for crucial public infrastructure. In real terms (adjusted for inflation), investments decreased by 47%.

After years of under-investing in programs, services and infrastructure, Nova Scotia finds itself in a position of needing to catch up with the rest of the country.

Nova Scotia is also managing a large provincial debt, but the situation is improving. The debt has stabilized and the debt to GDP ratio (debt relative to the size of the provincial economy) continues to decrease, improving the province's capacity to manage the debt.

At this point the focus of provincial budgets must be on making crucial investments without increasing the province's debt load.

Under pressure from some business lobby groups, the Conservatives are once again considering tax cuts. The province should resist such pressures. Tax cuts come at a price. Income tax cuts increase the inequality between wealthy and middle and low income Nova Scotians, between women and men, and between Halifax and the rest of the province. They undermine governments' capacity to provide the services, programs and infrastructure that support the social and economic well-being of communities.

Tax cuts also undermine governments' ability to weather slower economic growth and sudden spikes in interest rates. As an economy slows revenues already decreased by the tax cuts decrease even further, thereby increasing deficits and the provincial debt and/or resulting in funding cuts to programs.

The Nova Scotia Alternative Budget presents a fiscal plan that focuses on investing all revenue – federal transfers and increases flowing from a growing economy – in services, programs and infrastructure, while managing the provincial debt without cutting or increasing taxes

# Maintaining Investment in Nova Scotians

The economic news in Nova Scotia is generally good. Unemployment is at the lowest level in decades. The economy has been growing at a moderate, steady pace and analysts forecast a continuation of this trend for the foreseeable future. Financially the province appears to have turned the corner on the substantial deficits posted during the 90s. Indeed, in 2002-03 the province produced the first balanced budget in 30 years.

But there are clouds on the horizon. The higher dollar could slow the growth of export industries in the province. The rise in energy costs will impact most economic activities.

The provincial government also faces ongoing challenges, such as the low level of public investment in social and economic supports, deteriorating infrastructure and a high provincial debt. The province must also address the challenge of growing greenhouse gas emissions and climate change.

Nova Scotia's new premier and the minister of finance are preparing their first budget. Commentators are speculating that the premier will call an election within months, even weeks, of the release of the budget. If an election is called the premier's first budget will form a key component of the Conservative's election platform and could set the tone for the election campaign.

We can expect plenty of political rhetoric to surround the release of the budget and the campaign that will follow. Business lobby groups are once again advising the government to cuts taxes, while community and social organizations are calling for investments in the environment, education, health care and supports for low-income households.

Can Nova Scotia afford a tax cut? Should we focus on the debt? What about investment in public services, social programs, reducing poverty, and the transition to sustainable energy production and consumption? This Alternative Provincial Budget (APB) identifies and assesses the options open to the province in relation to these challenges.

# Does the Province Have Fiscal Options?

The provincial government has tended to dampen public expectations by budgeting small surpluses and claiming the province's fiscal situation leaves the government few options. But the Conservatives' budgeting is suspect at best. Recent pre-budget announcements by the Finance Minister have confirmed the province's record of under-estimating revenue. In 2004-05 the provincial government under-estimated revenue by $283 million (5.1%). The province has recently announced that revenue was again considerably higher than budgeted for 2005-06. While final figures are not available, the increase will likely be in the range of $191 million (3.1%) in additional revenue over the budgeted revenue (Table 1). Due to the increase in revenue the Department of Finance now estimates a surplus of $151 million for 2005-06. Fifty-seven million ($57 million) of the surplus is already allocated to the debt as part of the federal-provincial offshore agreement, leaving a real surplus of about $94 million – $88 million more than the budgeted surplus.

Some fiscal prudence in preparing budgets is to be expected, but underestimating revenue by 3.1% is unacceptable.

Underestimating revenue stifles democratic public debate about how funds should be allocated to meet citizen's priorities. Underestimating revenue enables governments to claim that the funds are not available to meet public demands for improved services and infrastructure. Had the provincial government budgeted a more accurate surplus they would have faced increased pressures to support, for example, students dealing with high tuition and low-income households struggling with inadequate income assistance.

**Table 1: Under-estimating Revenue, Government of Nova Scotia**

| ($ millions) | 2004-05 | | 2005-06 | |
|---|---|---|---|---|
| | Budget | Actual | Budget | Forecast |
| Total Revenue | 5,574 | 5,858 | 6,098 | 6,289 |
| Increase: actual less budget | | 283 | | 191 |
| Percent Increase over budget | | 5.1% | | 3.1% |
| Sources: Nova Scotia Department of Finance, Public Accounts; Forecast Update and 2006 pre-budget announcements. | | | | |

The government has stated that all of the surplus for 2005-06 will be allocated to repaying the provincial debt, with no public debate as to whether this meets public priorities. And now, with a provincial election on the horizon and pressure being exerted by some business lobby groups, the Conservatives are contemplating using future revenue increases to fund a tax cut.

Given the continued need for substantial investments in programs and services, a tax cut will decrease revenue and undermine the province's capacity to address the social debt and manage its finances.

Tax cuts come at price. They increase the income inequality between low-income and wealthy Nova Scotians, the inequality between women and men, and the inequality between Halifax and the rest of the province. Advocates for tax cuts need to explain to Nova Scotians what would be sacrificed to pay for the tax cuts.

Are they advocating that the province not address the social debt that has accumulated in areas such as supports for low-income households and child care? Should the province restrict investments in transportation infrastructure and education, both of which are essential for a productive prosperous economy? What about the urgent need for investments to reverse Nova Scotia's trend of increased greenhouse gas emissions? And finally, tax cuts undermine the province's ability to weather downturns in the economy – slower economic growth means less revenue, less revenue means the province will have to decide between cutting its programs or facing a deficit.

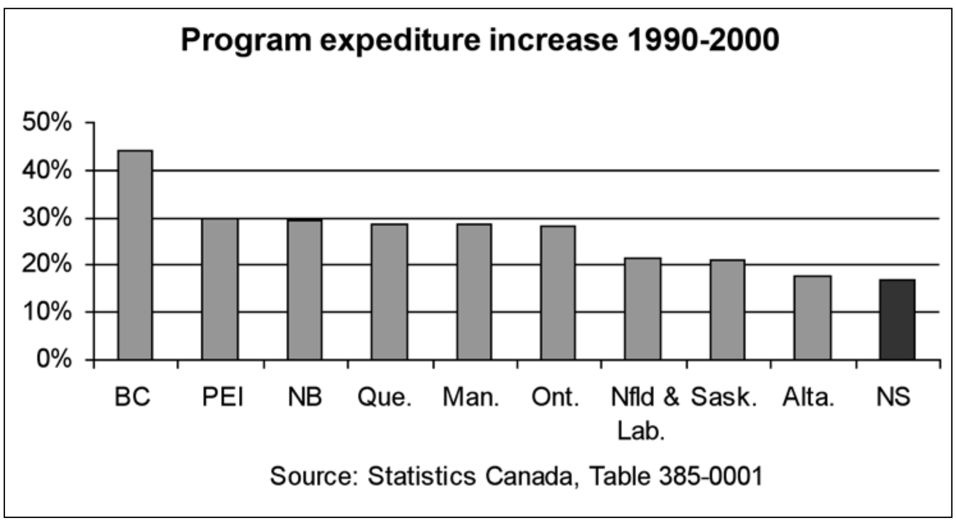
# Expenses: Confronting a Decade of Under-funding

Nova Scotians are still dealing with the impacts of the fiscal policies of the 1990s. The federal government decision in the 1990s to unnecessarily fast-track deficit elimination has had lasting consequences for national programs and for the ability of provincial governments to maintain the social safety net.

Canadians lost affordable housing programs and federal support for social assistance. Programs like health care were left to stagnate due to under-funding. During the 1990s, when unemployment rates were at historically high levels, unemployment supports and income assistance became harder to access and benefits decreased.

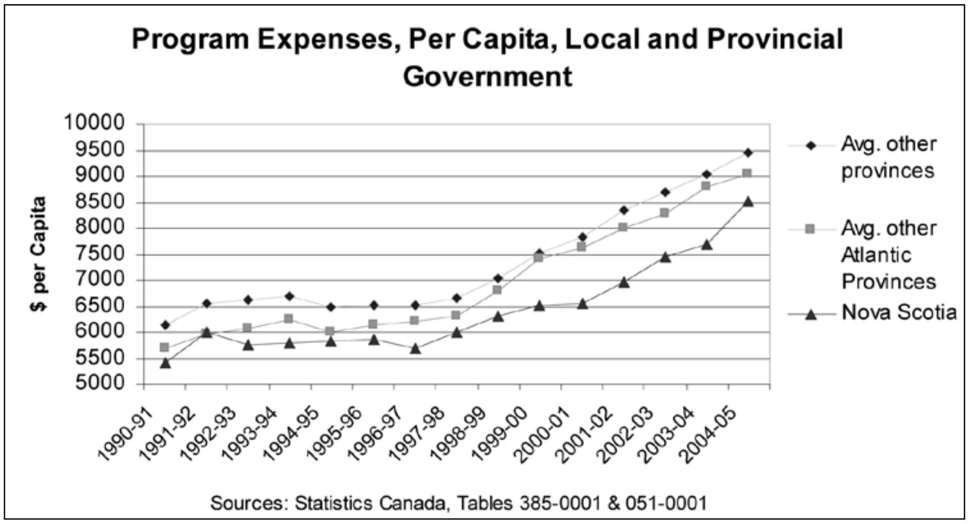
All provinces passed on the cuts to municipalities and to their citizens, but Nova Scotians were particularly hard hit. Reduced federal transfers pressured the provincial government to decrease already low levels of government expenditure. Between 1990 and 2000 government expenditures in Nova Scotia increased at the lowest level of all provinces (Figure 1). This left households and the provincial economy in a vulnerable position.

Figure 1



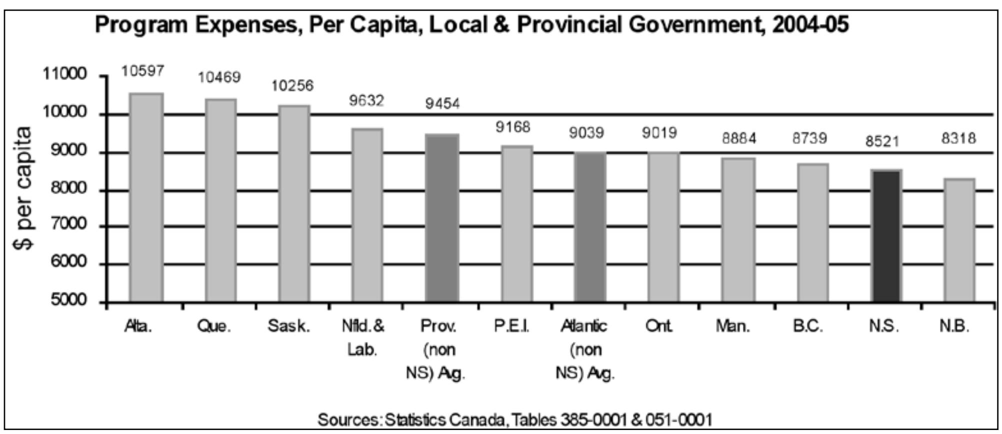

The Conservative government has promoted the notion that Nova Scotia's financial problems are a result of government over-spending, of the province living beyond its means and providing Cadillac services. In fact, for much of the past decade Nova Scotia had the lowest per capita level of program spending of all provinces (Figure 2). For 8 of the past 10 years local and provincial governments in Nova Scotia have invested the least in their citizens, well below the average of other provinces.

Figure 2




During fiscal year 2004–05 local and provincial governments in Nova Scotia spent less than all other provinces, with the exception of New Brunswick, on public services for their citizens (Figure 3) – 11% less per person than the average of the other provinces.* Local and provincial governments in Nova Scotia need to invest an additional $500 million to reach the average per capita expenditures of the other Atlantic provinces, and over $800 million more annually just to reach the average per capita level of program expenditure of all other provinces.

Figure 3




Provincial fiscal polices have led to expenditure pressures – pent-up demands for basic government services to support social and economic development. The consequences of continued under-funding are easy to identify. We all know stories about the state of disrepair of roads and the time spent waiting for services. Demand for food bank services is increasing. Needed affordable housing and women's programs and services are not adequately provided. Income assistance benefits continue to decline in terms of purchasing power for single people, people with disabilities and single parents.[1] The prevalence of household poverty and children living in poverty in Nova Scotia is too high.[2]

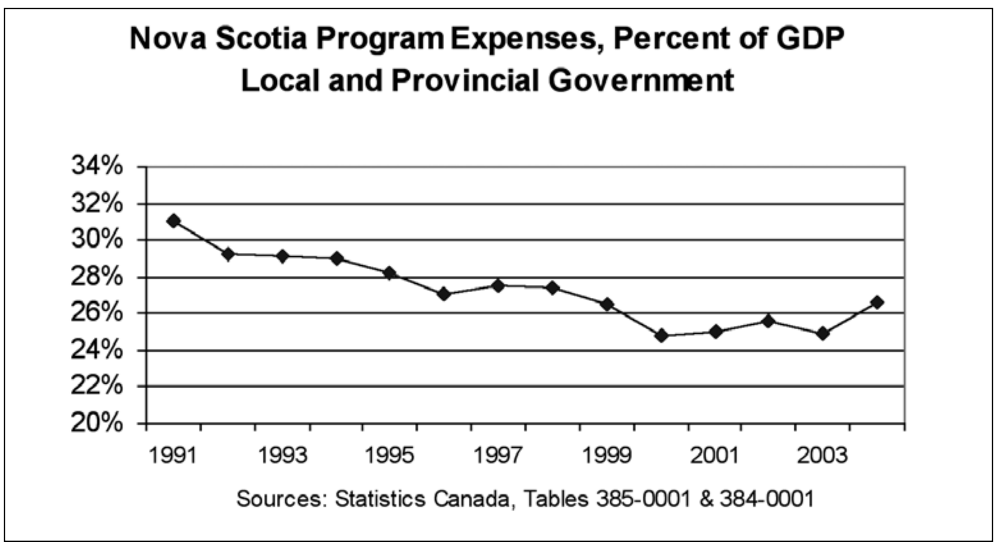
## Program Expenditures and Economic Growth

Another measure of the decreased public commitment of local and provincial governments in Nova Scotia is the decline in investments in infrastructure and public services relative to the provincial economy. Program expenditure as a percentage of economic activity decreased from 31% of GDP in 1991 to 27% in 2003 (Figure 4).

This trend has long-term implications for Nova Scotia's economic and community development. Infrastructure, such as highways and garbage and sewage disposal facilities are deteriorating due to age and increased use in an expanding economy. Recent studies confirm that public infrastructure investments decrease business costs and increase overall productivity.[3]

The decreasing public investment curtails the capacity of governments to service and regulate the economy. Not keeping pace with economic growth undermines governments' capacity to, for example, establish and enforce environmental and health and safety standards. It undermines the ability of the provincial government to promote the transition to a more environmentally sustainable economy.

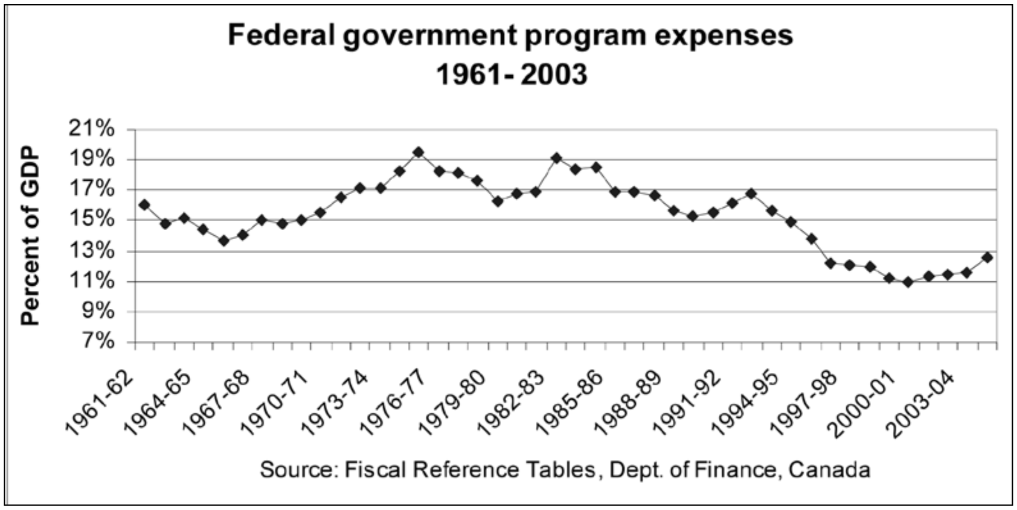
Figure 4




* Local (municipal) governments operate under the authority of the provincial government. Because of differences between which level of government – local or provincial – provides services varies between provinces, we need to look at combined expenditures if we are to get a true inter-provincial comparison of program expenditures.

Federal program expenditures relative to GDP have also decreased over the past decade (see Figure 5), to the lowest levels in 40 years. This decreased level of expenditure has undermined federal support for social housing programs, the Canada Assistance Plan (CAP) which assisted low income households, affordable post-secondary education and health care.

Figure 5



# Addressing the Social Debt: Paying the Price for Under-investment

Years of under-funding have left gaping holes in the social safety net and in supports for economic development. This social debt must become the focus if the province is to become a place of health, well-being and prosperity for all Nova Scotians. Addressing the social debt requires significant and sustained investment by both the provincial and federal government.

Investments are needed in, for example, post secondary education to facilitate a productive economy and employment opportunities. Investments are needed in anti-poverty initiatives as a matter of basic social justice and to support the well-being of all citizens and communities. Health care still needs revitalization and support from the provincial and federal governments. Both levels of government need to take climate change seriously through, for example, dedicated federal transfers to support the transition to an economy that is less reliant on fossil fuels and has lower greenhouse gas emissions.

## Post-Secondary Education

In 2004-2005, the Nova Scotia provincial government per student (full-time equivalent) transfer to colleges and universities was $5010, almost exactly half of the $10,011 Canadian average, and the least of all provinces.[4] Massive cuts to post-secondary education funding in Nova Scotia have left our colleges and universities in a bad situation. In real terms more than 30% has been cut from post-secondary education funding since 1992.[5] The provincial government continues to offload the cost of a university education onto students and their families. Government grants to universities cover only 42% of total operating costs – the lowest proportion in the country.[6]

### Tuition Fees

The chronic under-funding of our colleges and universities has forced tuition fees in Nova Scotia to skyrocket. Average undergraduate tuition fees at Nova Scotia's universities are the highest in Canada, at $6,281 per year (Figure 6). A recent study has concluded that post-secondary education in Nova Scotia is the least affordable of all provinces and states in North America.[7] User fees account for a higher proportion of university operating budgets than in any other province. Student debt frequently drives university and college graduates to other provinces in search of higher paying work so that they can manage their debt payments.

# Gender and Government Budgets

Government budgets impact women and men differently and this needs to be explicitly recognized in fiscal policy and program decisions. Women's labour is more likely to be unpaid, and when women are employed in the paid labour force they earn less money than men do. Women tend to rely on social services more than men. If these facts are ignored when governments determine spending and revenue raising options, there is a distinct possibility that women's situations will be made worse as a result. A gender budget initiative incorporates the perspectives and priorities of women into the public debate on issues that affect all of us, uncovering 'false economies' that would otherwise remain hidden.

Women are more likely to provide unpaid care to children, and ill, disabled, or elderly family members. The rising tendency toward shorter hospital stays often means that individuals require more care from family members at home. This simply transfers the burden, usually to women. The paid work productivity of the unpaid caregiver is reduced, and the strain on both patient and unpaid caregiver is increased. While officially the health budget has registered a savings, in terms of unmeasured costs this policy can be quite expensive.

Another example is the issue of part-time jobs and employment related vs. universal benefits. Many Nova Scotian mothers choose to work part time in order to balance family requirements. Unfortunately, part-time and temporary jobs are often much less secure than full-time positions, pay lower wages, and have fewer benefits attached to them, leading some economists to label them 'precarious work.' Cuts to social assistance and universal benefits such as the proposed national childcare program disproportionately affect these individuals and their families.

Tax policy can also have an inherent gender bias. For example, childcare expenses are tax deductible from the parent with the lower earnings. Choosing to subsidize childcare in this manner means that women with the lowest wages receive the smallest subsidy (potentially no subsidy at all if their earnings are not high enough!). Providing subsidies in the form of refundable tax credits can help solve this problem. Otherwise the implicit assumption is that it is the mother who uses childcare, rather than the family. Finally, taxes fund services, and tax cuts usually mean cuts to services or increases in regressive tax revenues. Because women earn less than men, income tax cuts disproportionately benefit men and increase the income inequality between men and women (see Table 8).

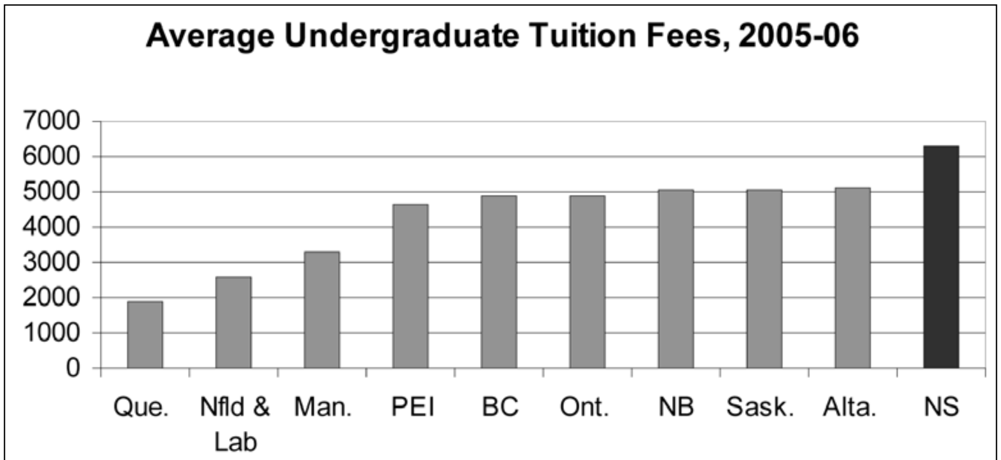
There are many advantages to using a 'gender lens' to examine the fiscal choices of governments. Issues that gender budgets consider include:

- What are the impacts and outcomes for men, women, boys, and girls?
- Do women's priorities get the same weight as men's?
- Do budget priorities, tax structures, and government programs maintain inequality or 'level the playing field'?
- Are stated government objectives and priorities reflected in their budgets?

Throughout the world, governments and lobby groups have used gender budgeting as an integrated part of their planning process, showing many ways that a gender-blind budget can neglect to address issues that disproportionately impact women.

This Nova Scotia APB acknowledges the need to explicitly integrate a gender analysis and future APBs will make this a core component.

Figure 6



Source: Statistics Canada, The Daily, Sept. 1, 2005

Nova Scotia's policy of regulating tuition fee increases for most students, while allowing tuition fees to remain completely unchecked for professional and international students, is out of step with the rest of the country. The provincial government should immediately freeze tuition fees and develop a strategy to reduce fees for all post-secondary students in order to increase accessibility to our colleges and universities, and retain a greater number graduates in the provincial labour force.

## Research[8]

Nova Scotia has 2.9% of Canada's population, 5% of Canada's students, 5.6% of Canada's full-time faculty, but only 2.8% of Canada's research funding. A primary cause for this is that the business sector in Nova Scotia largely consists of small to middle sized businesses, rather than larger organizations that conduct large-scale research.

Federal support for university-based research is $24,000 per full-time faculty member in Nova Scotia compared to $49,168 in Ontario, $55,000 in British Columbia and $59,110 in Quebec. New funding initiatives of the federal government are apt to make this disparity greater. The largest portion of the funding under the new initiatives is from a Canadian Foundation for Innovation fund. This funding requires research partners. In the absence of significant research expenditures by the business sector, partners are much more difficult to find in Nova Scotia than in other parts of Canada. Some provinces have begun to provide partnering funds but very little is being done in Nova Scotia.

## Faculty Renewal

The Maritime Provinces Higher Education Commission (MPHEC) estimates retirements in Nova Scotia universities between now and 2011-12 will be about 71 per year. In addition there will be attrition of about 4% from other causes. Over the next five years, Nova Scotian universities will need to replace about 955 faculty members. Most of these new faculty must be found in Canada. It is estimated that Canada will produce about 1400 new PhD's each year who are willing to enter academia.[9] This is nowhere near the number needed to replace the faculty members who will retire across the country.

Nova Scotia universities need to compete for faculty. If Nova Scotian universities are to maintain quality, the salaries, benefits, research support and working conditions must be at least equal to the Canadian average. The average salary of Nova Scotia professors is 88% of the Canadian average.[10]

## Part-time Faculty in Nova Scotia Universities

Nova Scotia universities employ 1400 part-time instructors, a number that is higher than the national rate; this is equivalent to more than 500 full-time positions. Starting salaries for part-time instructors in Nova Scotia are about 25% below the national average.

Part-time faculty in Nova Scotia have limited access to funds for the advancement of their scholarship, conference attendance, professional development or research. No university assists part-time faculty in obtaining higher educational qualifications. Few part-time faculty have access to benefits that are standard for full-time faculty, such as life insurance, pension, or supplemental health insurance.

## Staff Resources

Chronic under-funding has caused our universities and colleges to cut corners in ways that are often hidden from students. The same number or fewer staff providing essential services to more students represents a loss of quality, often to the detriment of students' educations. One of the best indicators of the quality of general university services to our students is student-to-staff ratios. The Nova Scotia Government and General Employees Union (NSGEU) reports that in 2000-01 the student-to-staff ratio for its four university staff unions (at Dalhousie, Saint Mary's, NSCAD and Mount Saint Vincent) was 18.04 FTE students per staff member; in 2004-05 the ratio was 21.86 – an increase of 21.2% in four years. The consequences for staff – less time spent problem-solving with individual students; intensified work-rates in places like bookstores, computer centres and libraries – were accompanied by a steady ebbing in the quality of services experienced by students.

## Lifelong Learning

Lifelong learning must become an integral part of our post-secondary education system. There are many compelling social and economic reasons why this shift is necessary. Our population is aging. Seniors are the fastest growing segment of our population. At least a fifth of our workforce is close to retirement. Standard full-time work of 34 to 46 hours of work is the exception rather than the rule. Functional literacy is lower in Nova Scotia than in other parts of the country. Therefore post-secondary education must stop being primarily oriented to entry-level university education and training for young people 18 to 24 years old.

Dedicated funding for lifelong learning for part-time students and for non-credit courses is also essential. Increased student aid and financial support for part-time students is needed. The amendment to the Employment Support and Income Assistance Act that prevents recipients of Employment Supports and Income Assistance (ESIA) from attending the post-secondary program of their choice must be repealed.[11] A provincial program of paid educational leave for all working people is long overdue.

In short, no less than a basic re-thinking and re-allocation of resources is required if lifelong learning is to be achieved for Nova Scotians.

# Poverty in Nova Scotia

While unemployment has been decreasing in Nova Scotia, poverty rates remain at unacceptable levels. Statistics Canada data indicates that in 2003 (most recent data available, after tax) 10.7 % (97,000) of Nova Scotians lived in poverty.[12] Unattached individuals under 64 were among the most vulnerable to poverty: 35% of females and 29% of males. The most vulnerable were women and their children living in single parent households.

Public supports for low-income households remain the key to improving the well-being of Nova Scotians currently living in poverty. Social assistance programs support individuals who have limited opportunities to participate in the paid workforce and households in their time of greatest need. Effective programs contribute to the development of cohesive and vibrant communities.

Income assistance payments have decreased dramatically since 1989. In real terms (adjusted for inflation) the 2004 rate for single employable Nova Scotians has decreased by 65%, by 26% for persons with a disability, by 43% for single parents with one child and by 31% for a couple with 2 children. [13]

## Steps in an Anti-poverty Strategy

The Nova Scotia Standing Committee on Community Services held a "Forum on Poverty" in January 2006. The Committee heard from a wide variety of anti-poverty organizations about the realities of low-income households in the province. [14]

Recommendations presented to the Committee included:

- increase income assistance rates and remove the claw-back on earnings of income assistance recipients;
- develop a comprehensive strategy to eliminate poverty, involving provincial and local governments, and community-based organizations;
- increase social housing and the capacity of non-profit housing organizations to develop affordable housing;
- provide supportive housing and programs for homeless Nova Scotians, including the development of permanent housing and supports for individuals

with mental health and addiction issues;
- develop a long-term energy assistance strategy for low-income households, including a plan to increase the energy efficiency of all low-income households;
- recognize and address the specific impact of poverty on women, people with disabilities, people of African and Aboriginal decent, and immigrants;
- support Nova Scotians with disabilities, including removing the obstacles to education and employment opportunities and increasing income assistance rates;
- the provincial government takes a lead in ensuring that the Canada Social Transfer provides specific and adequate funding for the alleviation of poverty;
- increase the minimum wage so that it enables workers to move out of poverty;
- reverse the existing social assistance policy that makes single parents who are university students ineligible for social assistance.

The Standing Committee made a number of recommendations to the minister of community services and requested that they be implemented in 2005-06.[15] These proposals could serve as stop-gap measures, but a long-term strategy based on the recommendations of anti-poverty activists remains essential after years of ignoring and harming the situation of Nova Scotians who are most in need of support.

## Investing in Culture

Culture is one of Nova Scotia's most important renewable resources.[16] Our province is known for the richness of our cultural heritage, the wide acclaim for our artists and cultural producers and the excellence of our cultural output. However, the growth of the sector is stunted by a lack of investment by the provincial government.

In 2001, the province's culture sector contributed $570 million to the provincial GDP. However, between 1996 and 2001, Nova Scotia's culture GDP grew by only 18%, well below the 30% average for all provinces.[17]

In 2001, there were 12,800 people employed in the province's culture sector, 4% fewer than in 1996. Employment on average increased in this sector in other provinces by 18%.

This poor performance is directly related to the provincial government's failure to invest in the sector. Among all of the provinces, Nova Scotia has generally ranked seventh or lower for its per capita expenditure on culture. As can be seen in the Table 2, Nova Scotia tied with Alberta for sixth and seventh place in fiscal 2000-01, but by fiscal 2003-04, it had dropped to ninth place.

While the majority of provinces, including all of the other Atlantic provinces, were making substantial increases between 2001 and 2003 in their cultural expenditures (anywhere from 8% to 25%), Nova Scotia's per capita spending on culture fell by 5%.

**Table 2: Provincial Government Investment in Culture ($ per capita)**

| | Fiscal Year | | $ Change | % Change |
|---|---|---|---|---|
| Province | 2000-01 | 2003-04 | 00-01 to 03-04 | 00-01 to 03-04 |
| Newfoundland & Labrador | $61 | $75 | + 14 | + 23% |
| Prince Edward Island | $80 | $86 | + 6 | + 8% |
| Nova Scotia | $64 | $61 | - 3 | - 5% |
| New Brunswick | $55 | $69 | + 14 | + 25% |
| Quebec | $99 | $97 | - 2 | - 2% |
| Ontario | $45 | $51 | + 6 | + 13% |
| Manitoba | $82 | $96 | + 14 | + 17% |
| Saskatchewan | $71 | $88 | + 17 | + 24% |
| Alberta | $65 | $63 | - 2 | - 3% |
| British Columbia | $75 | $64 | - 11 | - 15% |
| Average | $70 | $75 | +$5 | + 7% |

Source: Statistics Canada, Cultural Statistics Program[18]

From 2000-01 to 2003-04, the Nova Scotia government's net program expenses increased 13% ($546 million), to $4.8 billion, while its cultural spending dropped by 5% ($2.8 million).

If Nova Scotia were to match the 2003-04 provincial average, it would invest an additional $13 million ($14 per person per year) in the culture sector. This would represent less than three tenths of one percent of net program spending for the same year, so the issue here is clearly one of priorities, not of affordability.

The impact of additional investment in the culture sector could be substantial. One of the great strengths of the sector is that it is labour rather than capital intensive. This means that any investment goes primarily into the creation of jobs rather than into the purchase of machinery, equipment, buildings, land and so forth. Quebec provides clear evidence of this. It consistently ranks first for government expenditure on culture and, as a result, between 1996 and 2001, its cultural employment grew by an astonishing 34%, far outstripping the other provinces and the overall provincial growth average of 18%.

Beyond the need for greater investment is the glaring need for strategic investment, a task best left to non-governmental arm's-length funding agencies. Given the glaring absence of an arm's-length agency for investment in the arts, reinstatement of the Nova Scotia Arts Council should be the highest priority when it comes to allocating any new funds for culture.

# Greenhouse Gas Emissions and Climate Change

The threat of dangerous, irreversible climate change demands immediate action. Sea-level rise, increased hurricane frequency, smog, pests, and forest fires threaten Nova Scotia's communities.

An emerging international scientific consensus suggests that dangerous climate change will occur if average temperatures approach 2° C above pre-industrial levels.[19] To avoid this temperature increase greenhouse gas emissions (GHG) must be reduced to 25-30% below 1990 levels by 2020, and to 80% below 1990 levels by 2050.[20]

Nova Scotia has committed to a provincially-based climate change target through the Conference of the New England Governors and Eastern Canadian Premiers (NEG/ECP). The NEG/ECP 2001 Climate Action Plan sets GHG reduction targets to:

- Reduce GHGs to 1990 levels by 2010
- Reduce GHGs to at least 10% below 1990 levels by 2020
- Reduce GHGs by 75-85% in the long-term

These are visionary targets and meeting them would contribute to Canada meeting the Kyoto targets for GHG reductions, but Nova Scotia has fallen behind. GHG emissions increased by 10% between 1990 and 2003, in large part due to the province's continued reliance on coal for electricity generation.

Nova Scotia's island-like geography provides impressive wind resources, potential tidal power resources, as well as geothermal and solar power options. Nova Scotia has one of the oldest housing stocks in the country, in desperate need of energy efficiency improvements.

The conversion toward sustainable energy holds great promise as a form of economic development long sought by Nova Scotians. Renewable energy and energy efficiency are small-scale and decentralized solutions. Local job creation and improved energy self-sufficiency could contribute to Nova Scotians remaining in their communities, instead of being uprooted by the need to seek jobs elsewhere.

The province needs to establish a framework for an ambitious shift toward sustainable energy development that includes the following measures:

## Create Efficiency Nova Scotia

Create an independent agency to coordinate cost-effective energy efficiency improvements in the province. Energy efficiency retrofits can save money for businesses and households by reducing energy use by 30%-60%.

## Establish an Interest-Free Rolling Loan Fund

Efficiency Nova Scotia could administer an energy efficiency and renewable energy rolling loan fund that would be paid back through energy savings. This fund would be utilized by residential, commercial, and industrial sectors to pay up-front costs associated with energy efficiency and renewable energy technologies such as solar hot water, community geothermal energy production, and underground thermal energy storage.

### Provide Standard Rates for Renewable Energy Generation

Setting standard rates for the purchase of power generated from renewable energy by independent power producers provides economic benefits to communities and has been successful in diffusing renewable energy technologies in European jurisdictions. It allows municipalities, farmers, co-operatives, community groups, small businesses and members of the public to participate in green power generation.

### Improve Appliance and Building Code Standards

Nova Scotia should take the lead on upgrading building code standards and legislating that all new buildings be oriented to take advantage of passive solar. All buildings should require universal mandatory labelling of building efficiency performance at point of sale, lease, or transfer.

### Initiate Green Energy Industrial Policy

Sustainable energy is a strategic sector for Nova Scotia. Through participatory strategic planning, Nova Scotia can work to develop new linkages and capitalize on innovation in emerging sustainable energies such as tidal, solar, and efficient and effective design.

A working group of industry, labour, university, government and NGO leaders should be convened to develop a strategic plan for the sustainable energy sector. A human resource planning initiative is needed to identify the skills required for a transition from old industries to new. Nova Scotia workers should be guaranteed no loss of pay and an improvement in health and safety and job security to ensure that they become enthusiastic participants in the transition to a clean energy economy.

Community-based environmental organizations are essential to engaging Nova Scotians in how they can improve energy efficiency and undertake micro-generation projects. Community-based resource centers can help distribute small-scale renewable energy technologies, encourage experimentation, and provide consumer information to local renewable energy industries.

# Supporting Public Health Care in Nova Scotia

Providing well-funded public health care continues to be a high priority for Nova Scotians. Health care in the province faces a number of specific challenges. The health status of Nova Scotians is among the lowest in Canada. For example, life expectancy at birth for both women and men was among the second or third lowest in Canada in 2001.[21] The provincial incidence of cancer per 100,000 is the highest in the country for both women and men.[22] The National Diabetes Surveillance System for 1999-00 as reported by the Canadian Institute for Health Information found that Nova Scotia had the highest prevalence of diabetes in the country. Furthermore, the rate of low birth weight of both female and male babies in Nova Scotia was the second or third highest in 2001[23] and the province has among the highest rates of asthma in the country.[24]

Addressing these challenges requires that the provincial government, supported by the federal government, provide funding for the maintenance of the public health care system along with supporting innovations and health promotion.

Comprehensive wait list management and human resources strategies are needed in the health care sector. This must include a full investigation of all the possible ways that waiting times can be reduced such as through extended hours of operation, use of alternative rooms or facilities, other diagnostic or treatment modalities and better information management systems. For example, new software has been developed at the Capital District Health Authority to centralize patient waiting lists and to allocate surgical time more evenly according to need.

Successful initiatives provide an indication of possible remedies to current problems. For example, significant progress was achieved by Saskatchewan in reducing its surgical wait list in the province's seven largest regions by more than 3,200 people between January 2004 and June 2005. Additional investments provided their health regions with the resources they needed to increase surgical capacity and better manage access to surgery. In addition, the interim report regarding the first eight months of the Alberta Hip and Knee Replacement Project shows that patients can receive needed surgery within four months of the initial consultation. Central assessment clinics have been set up so that patients can be seen within 17 days of a family physician referral. Provincial funding was provided to support an additional 1,200 hip and knee surgeries.

The Nova Scotia government prepared a wait times website last October, but has yet to develop a comprehensive wait list management strategy. It released a Health Human Resources Action Plan in December but has yet to develop a comprehensive strategy. And the government has yet to bring forward its promised legislation to deal with private clinics, let alone initiate the consultation process that is to precede legislation.

The key to addressing the challenges facing health care in the province is a focus on primary health care. This includes developing a network of community-based health centers throughout the province and increasing placements and role of nurse practitioners.

## Privatization Is Not the Solution

The viability of the universal public health care system is currently being undermined by initiatives to increase the for-profit component of health care provision. There is mounting evidence (nationally and internationally) that for-profit health care will do little to help our public system. Peer-reviewed research has consistently shown that for-profit health care facilities have higher death rates than non-profit facilities, cost more, provide lower quality care, engage in schemes to cheat taxpayers, and compromise access to needed services.

It now appears that Medicare is at greater risk than ever before. This is due, in part, to the aftermath to last June's Chaoulli Supreme Court decision that narrowly ruled against the Quebec ban on private health insurance for publicly insured medical services where there are unreasonable wait times in the public system. This ruling has already led to increasing pressures to open the door to privatization and the rise of for-profit health care, especially private, for-profit surgical clinics in many provinces.

In February, the government of Quebec released a white paper in response to the Chaoulli decision. Key parts of the Quebec proposal include allowing private insurance for non-participating doctors, and private speciality clinics affiliated to hospitals. The B.C. government's recent throne speech proposed that there be an expanded role for private health care delivery.

However, the most drastic set of recent proposals came from Alberta. The proposals contained in its New Health Policy allow for a parallel private, for-profit system by permitting doctors to work in both the public and private systems, creating a new private, for-profit insurance system, allowing foreign ownership of newly, legalized for-profit hospitals, and eliminating any commitment to uphold the Canada Health Act. In response to extensive public concerns, the government announced on April 20, 2006 that it was not proceeding with these plans.

In Nova Scotia we have seen the introduction of several private, for-profit health care clinics such as the private MRI clinic in Halifax that opened in August 2002, the private East Coast Medicenter in Dartmouth that opened late last year, and a possible private plastic surgery clinic in Halifax. Of particular concern is the loss of skilled health providers from the public system to the private facilities. To date, the government of Nova Scotia has not been accurately reporting the full extent of private, for-profit facilities in the Canada Health Act Annual Report.

Another impact of allowing private clinics to open is that once they are allowed to compete with the public sector, the protection for Medicare under NAFTA and WTO rules disappears. Governments would then be forced to treat private providers on the same basis they treated public ones.

Instead of increasing private, for-profit health care, we need to strengthen and expand publicly funded and delivered health care. We need to support innovations in the public provision of health care in Nova Scotia if we are to maintain a universal system rather than fall into the traps a two tier system.

# Making Seniors' Pharmacare More Affordable

A well designed and well managed Seniors' Pharmacare Program has great potential to reduced the overall costs of health care in Nova Scotia.

The Seniors' Pharmacare Program began in Nova Scotia in 1974. In its first full year of operation the total cost of the program was $7 million and this was entirely borne by government. According to the most recently available data, in 2004-05 the total cost of the Seniors Pharmacare Program was $146.1 million, $107.64 million of this was paid for by government and $38.46 million was paid by seniors through premiums and co-payments.

Nova Scotian seniors eligible to participate in the Pharmacare Program pay a premium of $400 per year and 30% of the cost of each prescription to a maximum of $30 per prescription and up to $360 per year maximum co-payments. Single seniors with incomes of less than $24,000 pay a reduced premium or in some cases, like those receiving GIS, pay no premium. For senior couples the combined income level for a reduced premium is $28,000.

Since 2000-01 the premium for Pharmacare has increased by 85% and the co-payments by 80%. This makes it very difficult for seniors on fixed incomes.

The Department of Health reports that in Nova Scotia in 2003-04 there were just under 3 million prescriptions for 95,664 seniors paid for by the Seniors' Pharmacare Program . In 2000-01 the average number of prescriptions filled per beneficiary was 29.5 and in 2003-04 that number had risen to 32.4, an increase of almost 3 per beneficiary. IMS Health Canada data reveals that in 2000 the average prescription price was $37.79 and by 2004 it had risen to $45.44[25]. The fact that the average number of prescriptions has increased by 3 and the average price has increased by $7.65 is significant when we consider that there are approximately 95,000 potential seniors eligible under the program.

The government of Nova Scotia can reduce Pharmacare Program costs through improved management of the Program, including implementing the following measures:

- Legislative changes to allow less expensive generic products into the Canadian market.
- Initiation of bulk purchasing programs to reduce the cost of drugs, accompanied by the introduction and use of a national formulary.
- Implementation of medication review programs; these achieved substantial savings in Australia.
- Implementation of trial prescription programs, already in use in other provinces.
- Enforcement of therapeutic guidelines.
- Improved consultation with providers and epidemiologists.
- Improved drug education programs for health professionals and consumers.
- Introduction of disease management programs like the one in BC.
- Improved compliance monitoring.
- Implementation of medication reconciliation programs between hospital and community pharmacies.
- Expansion of academic detailing programs.

# Deteriorating Public Infrastructure

Local governments deliver many federal and provincial government programs for communities and economic development. Infrastructure investments by local governments in Nova Scotia have fallen behind the investments made in all other provinces (Table 3). These investments include roads, sewage treatment and other major capital costs that keep our communities functioning. Between 1988 and 2003 Nova Scotia was the only province where these investments did not increase. Adjusted for inflation, investments in infrastructure by local governments in Nova Scotia decreased by 47%.

Table 3: Local General Government Infrastructure Investment, 1988 and 2003

| ($ millions) | 1988 | 2003 | Percent Change |
|---|---|---|---|
| | | | |
| Yukon | 7 | 31 | 319% |
| British Columbia | 581 | 1,472 | 153% |
| Alberta | 623 | 1,264 | 103% |
| Newfoundland and Labrador | 82 | 156 | 90% |
| Saskatchewan | 178 | 315 | 77% |
| Ontario | 2,842 | 4,981 | 75% |
| Northwest Territories and Nunavut | 18 | 29 | 56% |
| Prince Edward Island | 13 | 19 | 41% |
| Quebec | 1,555 | 1,919 | 23% |
| New Brunswick | 92 | 105 | 14% |
| Manitoba | 237 | 242 | 2% |
| Nova Scotia | 141 | 141 | 0% |

Source: Public Sector Statistics: Supplement, 2004, Statistics Canada[26]

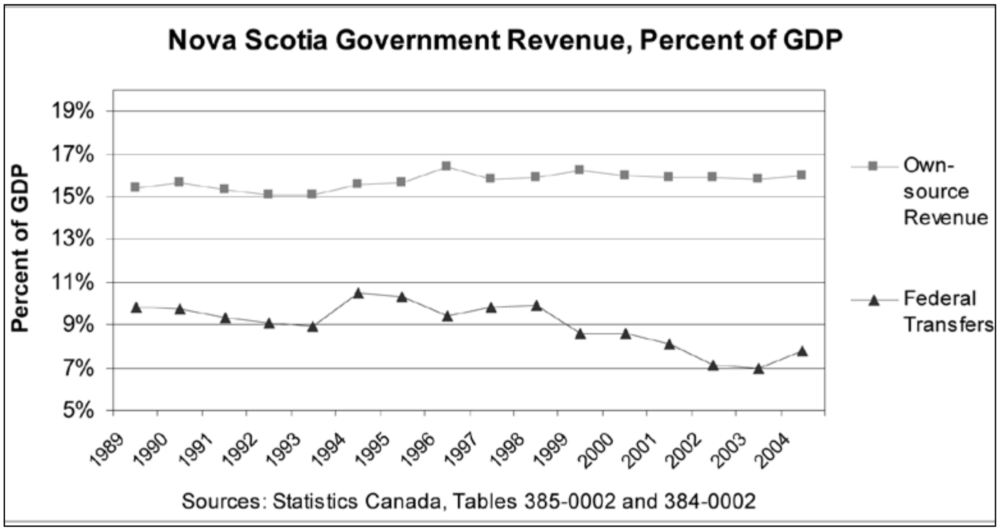
A recent study of the age of public infrastructure in Canada confirms the need for investments.[27] The average age of public infrastructure such as roads and water treatment plants is increasing. These facilities are showing more wear and tear due to a lack of pubic investment. On average "[w]astewater treatment facilities, the oldest infrastructure, had 63% of their useful life behind them in 2003. Bridges, the youngest infrastructure, had reached 49% of their useful life. Roads and highways had reached 59%, and sewer systems 52%."[28] According to the study, "[t]he steady pace of urbanization and population growth, among other factors, has necessitated huge amounts of investment, particularly for roads and sewers."[29] Recent investments, the study notes, have only contributed to a stabilization of the wear and tear of public facilities.

Total economic activity continues to increase, but a decreasing proportion of this activity promotes the public interest. Rather than make the public sector more effective, governments are turning an increasing proportion of the activities that affect our communities and livelihoods over to private corporate interests through lack of government investment in public services and the privatization of these responsibilities. For-profit service provision is based on very different values and priorities.

# Revenue: Increasing Self-reliance during Federal Withdrawal

Overall provincial revenues from all sources have not kept pace with demand and with the growth of the economy. Provincial own-source revenue on the other hand has performed well, keeping pace with the growth in the economy (Figure 7), but federal transfers to the province stagnated until 2004-05.

Figure 7




## Own-Source Revenue

Own-source revenue has kept pace with the growth in the provincial economy. But while personal income taxation became slightly more progressive after the reversal of the 2003 income tax cut, Nova Scotia has increased its reliance on regressive taxation – taxation that is not based on citizen's ability to pay. For example, the share of revenue derived from gambling tripled, from 1% of own-source revenue in 1989-90 to about 3% in 2004-05 (Table 4). Fees for government services increased from 13% to 17.7% of own-source revenues over this same time period.

Table 4: Own-source Revenue: Income Taxes, Gambling Profits and User fees

| | 1989-90 | 1994-95 | 1999-00 | 2004-05 |
|---|---|---|---|---|
| Personal income taxes | 28.7% | 26.7% | 27.8% | 26.7% |
| Gambling Revenue | 1.0% | 2.8% | 3.4% | 3.1% |
| User Fees | 13.0% | 14.5% | 17.3% | 17.7% |

Source: Statistics Canada, Table 385-0002

Nova Scotians are aware of the social costs of gambling addiction. Although gambling is very profitable for private and public providers, it is a losing proposition for the gamblers. Because people on low incomes spend much more as a proportion of their income on gambling than people with high incomes, it therefore collects a much higher proportion of income from the poor than the wealthy. Gambling is therefore a very regressive tax.

Increased user fees are part of a policy approach of "cost recovery" preferred by the government. According to a Department of Finance bulletin, "[t]he philosophy behind cost recovery measures for social programs is that the people who most directly benefit from a service should contribute more to the cost of providing that service than those who do not use it."[30] Fees have been increased for services such as ambulances, pharmacare, home support services, provincial government campgrounds and driver testing. Whether you earn $20,000 or $90,000 a year you generally pay the same fee. User fees, therefore, extract the highest price, as a proportion of scarce after-tax dollars, from low-income Nova Scotians.

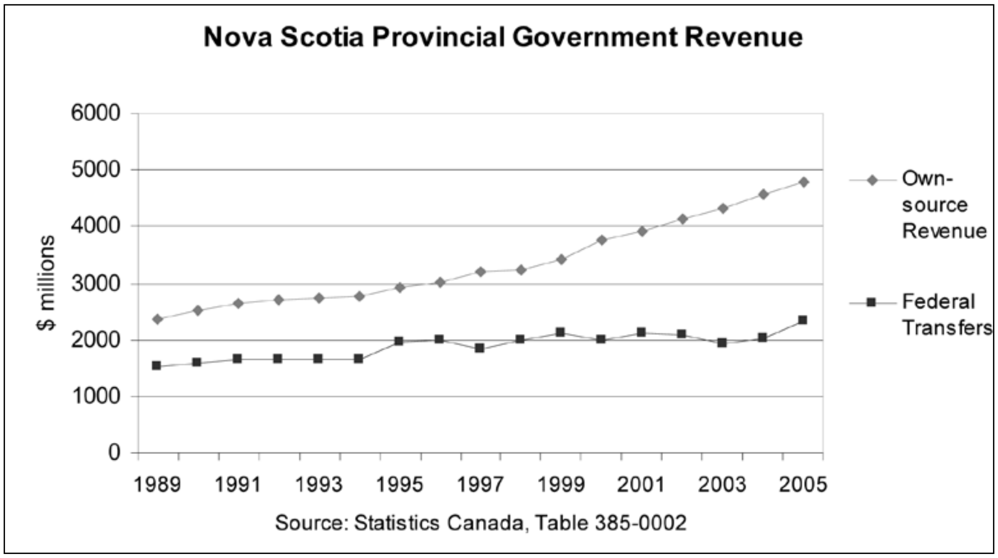
## Revenue: Federal Transfers

Federal transfers to Nova Scotia have decreased in real (inflation adjusted) terms over the past decade. Between 1995 and 2004 prices increased by 19% while federal transfers only increased by 9%. General purpose transfers (equalization payments) kept pace with inflation, but specific transfers such as support for health care and education have declined as a result of the cuts implemented by the federal government during the mid 1990s.

| Table 5: Federal Cash Transfers to Nova Scotia ($ millions) | | | | | |
|---|---|---|---|---|---|
| | 1989-90 | 1995-96 | 2000-01 | 2003-04 | 2004-05 |
| Federal Cash Transfers | 1,600 | 2,000 | 2,127 | 2,019 | 2,340 |
| Percent of Total Prov. Revenue | 38.9% | 39.8% | 35.1% | 30.7% | 32.8% |
| Percent of GDP | 9.8% | 10.4% | 8.6% | 7.0% | 7.8% |
| Sources: Statistics Canada, Tables 385-0001 & 384-0002 | | | | | |

The stagnation of federal transfers provides an insight into the financial turmoil faced by provinces during the late 1990s. Between 1995-96 and 2003-04 transfers to Nova Scotia decreased as a proportion of total revenue from 39.8% of total provincial revenue to 30.7% (Table 5). Transfers decreased as a proportion of GDP from 10.4% to 7.0%. This curtails the provincial government's ability to sustain social programs and investments in economic growth.

Figure 8




In 2004-05 federal transfers provided a significant increase over the previous year, including supports, for example, for initiatives in the health care sector.

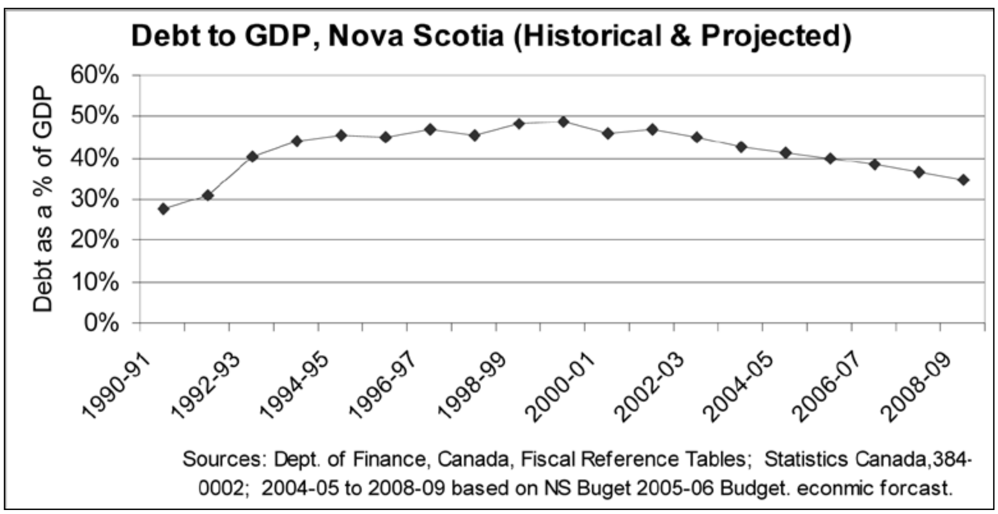
# The Provincial Debt

The major fiscal challenge facing Nova Scotia continues to be debt management. But debts and deficits in themselves are not inherently a sign of fiscal mismanagement. The crucial indicator is the ability of the province to carry the provincial debt. Nova Scotia's debt is high and managing it is key to the fiscal health of the province. The province's finances are still recovering from the slow economic growth and high interest rates of the early 1990s. Slower growth results in decreased revenue and higher deficits. Between 1991-92 and 1993-94 the provincial debt increased by 72%, but steady economic growth over the past 7 years has stabilized the provincial debt.

The level of debt relative to the size of the economy (debt to GDP) is the best indicator of a government's capacity to manage its debt load. As the provincial GDP increases so does the province's capacity to raise own-source revenue and its ability to finance the debt. That said, Nova Scotia has the second highest proportion of debt to GDP of all the provinces.

The provincial debt to GDP ratio has been decreasing faster than anticipated. The debt to GDP ratio peaked in 1999 at 48.7% and now stands at under 40%. The Nova Scotia Department of Finance projects that by 2008 the debt to GDP ratio will decrease to 35% (Figure 9).

Figure 9



# Is There an Optimal Level of Debt?

In thinking about their own family finances, most people would find a policy of zero debt to be unreasonable, since it would rule out car loans and home mortgages – spending on assets which yield benefits well into the future. As well, they realize that it is the level of *debt relative to income* that is the key issue. A car loan of $30,000 would be a crushing burden to someone on a $10,000 income, but is quite manageable for someone making $100,000.

Although the province of Nova Scotia measures its public debts in billions, while its citizens typically measure their private debts in thousands, the same basic principles apply. In both cases acquiring debt to purchase long-term assets can make sense, and it is the debt to GDP ratio that determines whether that debt is manageable. Of course, when either households or governments acquire debts, they have to be paid for sooner or later – but should we pay the debt down sooner or should we pay later?

What is the optimal level of the debt/GDP ratio? Paying down the current provincial debt represents a decision that today's taxpayers should pay a bit more now in debt servicing – which means that future taxpayers will have to pay a bit less. In debt management policy, there is an unavoidable trade-off between the interests of today's taxpayers and those of tomorrow's taxpayers. If the debt-financed capital assets yield benefits for future citizens, future generations should absorb at least part of the cost. As well, if the economy is growing, future generations will have a higher income from which to pay debt servicing costs. Nevertheless, some balance between the interests of current and future citizens must be struck – what should it be?

There is no consensus among economists on this issue. In an informal poll of economists at a recent conference[31] on Canada's debt, participants were asked to specify their own estimate of the optimal long-run debt/GDP ratio for combined federal and provincial debt. None of the 20 respondents was willing to suggest an optimal ratio less than 20 per cent or greater than 50 per cent. However, the two most frequently specified ranges (by 30 per cent of respondents in each case) were right at the edges of this band—20 to 25 per cent and 46 to 50 per cent. Although the average response was almost exactly in the middle (35.7 per cent), that average clearly masks a significant divergence of opinion.

Economists would all agree that a continuing rise in the debt / GDP ratio is not sustainable. However, once the debt ratio has been stabilized they – like citizens in general – have a range of values about the optimal level. Some would argue for a rapid pay-down, while others would emphasize attending to the pressing needs of the present. Fundamentally, finding the balance is the legitimate domain of the political process.

# Managing Debt Servicing Costs

Nova Scotia is set to generate small budget surpluses for the foreseeable future. Is it better to invest the surplus in education, poverty reduction and transport or should the surplus be allocated to debt repayment?

A payment of, for example, $50 million on a debt of $12.3 billion would reduce annual interest payments from $900 million to $896 million, a reduction of about $4 million or 0.4%. Given the need to address Nova Scotia's social and infrastructure debt after years of under-funding, a far better investment in terms of return and need would be to allocate funds to programs, services and infrastructure.

Allowing the debt to GDP ratio to fall over time, because the economy is increasing while the debt level is stable, will decrease the proportion of total expenses going to debt servicing. In 2001-02 the net debt servicing costs comprised about 17.5% of total expenses. In 2004-05 the proportion of total expenses dropped to 14.6%.

**Table 6: Debt Management Option — No Allocation of Surplus to Debt Repayment**

| ($millions) | | | | | |
|---|---|---|---|---|---|
| | 2004-05 | 2005-06 | 2006-07 | 2007-08 | 2008-09 |
| Debt Servicing Costs | 900 | 900 | 965 | 1010 | 1015 |
| Total Expenses | 6,156 | 6,519 | 6,893 | 7,323 | 7,738 |
| Debt Service Costs % of Total Expenses | 14.6% | 13.8% | 14.0% | 13.8% | 13.1% |
| Sources: debt servicing costs, Nova Scotia Budget 2005-06; expenses, Statistics Canada Table 385-0001 | | | | | |
| Assumptions: Expenses increase at average NS prov. expense growth 2002- 2005 (6.5%) | | | | | |

The scenario in Table 6, based on Department of Finance projections, shows that over the next 3 years, if no additional payments are made on the debt beyond the one-time payment from the Offshore Agreement in 2005-06, and program expenses continue to increase at the average rate of increase from 2002 to 2005, the proportion of total expenses going to debt servicing decreases from 14.6% to 13.1%. In other words, debt servicing would decrease from just under 15 cents to 13 cents of every dollar spent. If the federal transfers and provincial revenues and expenses were to grow faster, the proportional decrease would occur faster.

The debt management approach taken in the APB focuses on stabilizing the debt. This will decrease the size of the debt relative to the size of the economy. Stabilizing the debt will improve the credit rating for the provincial government and decrease the proportion of expenditures going to debt servicing. It will also enable to the province to make long overdue social and economic investments.

# Looking for Another Tax Cut?

Canadian governments over the past decade have eliminated deficits partly through deep cuts in social programs and essential infrastructure expenditures. But more than the cuts, the upswing of the economy and lower interest rates have worked to bring budgets out of the red.

We have been conditioned to see the emerging budgetary surpluses, not as opportunities for social re-investment and restoration of lost public amenities, but somehow as money burning a hole in the government's pocket. The minute a razor-thin surplus appears, we face calls for tax cuts from the wealthy and business lobbyists.

These calls should be resisted, first because the small amounts of a tax cuts to individuals and corporations can add up to a huge amount when applied to needed government services; second because our surpluses are too small and our economy too precarious to indulge in tax-cutting.

Business lobby groups in Nova Scotia are again pressuring the new premier, Rodney MacDonald, for tax cuts and the premier appears to be listening.[32] Overall individuals and businesses are already paying less in tax than they did in the recent past. The renewed pressure for more tax cuts follows on a series of tax breaks that businesses have received since the provincial Conservatives came to power. The 2005-06 budget increased the "small business tax threshold" from $350,000 to $400,000 (effective April 1, 2006) increasing the point below which businesses become eligible for the lower small business tax rate. The large corporation tax rate was reduced from 3% to 2.75% and is scheduled to decrease to 2% over the next 2 years.[33] Nova Scotian tax payers continue to receive federal income tax cuts implemented by the Chretian and Martin governments and the new Harper government is planning a cut in the HST.

Tax cuts come at a price. They undermine governments' capacity to provide the services, programs and infrastructure that support the social and economic well-being of communities. Tax cuts also undermine governments' ability to weather slower economic growth and sudden spikes in interest rates. As an economy slows revenues already decreased by the tax cuts decrease even further, thereby increasing deficits and the provincial debt and/or resulting in funding cuts to programs. Ontario is still paying the price with deficits of more that a billion dollars for the tax cuts implemented by the Harris government of the 1990s.

The 10% income tax cut proposed by the provincial Conservatives in 2004 would have cost $150 million a year and more than $700 million over 5 years. The drain on revenue was unaffordable and with in a year the Conservatives reversed the cuts.

Given the uncertainties due to the high Canadian dollar, increased energy costs and potential changes to the equalization formula, the provincial government should not reduce its revenue capacity through tax cuts.

In the context of the province's tight finances, business lobby groups need to state where the funds would come from to support tax cuts. Would services be cut and if so which? Are they advocating that spending on child care or income assistance programs be cut? Are they suggesting that programs that support the development of highways and other infrastructure be curtailed? Should less funds be allocated to support economic development programs such as Nova Scotia Business Inc.? Are they suggesting that the corporate tax cuts be cancelled or that user fees increase? Or are they suggesting that the province run a deficit?

Reforming taxation is not inherently a bad thing but any such changes, given the provinces fiscal challenges, must be revenue neutral, that is, any decrease should be made up for in an increase in another tax. It should also give the greatest benefit to the poorest of Nova Scotians. The changes implemented by the Hamm government, when it reversed the income tax cut, are a good example – some low income tax payers got a bit of a break while taxes were increased slightly for taxpayers earning more than $93,000 annually.

## The 2003 Income Tax Cut: What Did We Learn?

With an election on the horizon the MacDonald government may be tempted to embark on a tax cuts agenda. Based on the Hamm government's experience, this would be a big mistake.

Recent federal and provincial income tax cuts were primarily to the benefit of well-off taxpayers. The income tax cut proposed by the Hamm government was touted as benefiting working Nova Scotians, but as Table 7 shows those least in need would receive the most benefit. More than $80 million (56%) of the tax cut benefits would go to taxpayers earning more than $50,000 per year. Only $23 million (16%) would go to the majority of tax payers, those earning less than $30,000 per year in 2004.

**Table 7: Nova Scotia 2004 Income Tax Cuts – Distribution by Income Group**

| Income Group | Number of tax returns | Total 2004 tax cut ($) | Average tax cut ($) | Percentage Of Taxpayers | Percentage of total tax cut |
|---|---|---|---|---|---|
| Tax filers with $0 taxable income | 244,640 | $0 | $0 | | 0 |
| $1- $30,000 | 223,050 | $23,219 | $104 | 51.40% | 15.80% |
| $30,000-$50,000 | 128,780 | $41,993 | $326 | 30% | 29% |
| $50,000 + | 82,220 | $81,789 | $995 | 19% | 56% |

Source: Who Really Benefits From Nova Scotia's Income Tax Cut[34]

Roughly 244,640 Nova Scotians were not eligible for any benefit from the tax cut because they earned insufficient income to pay provincial income taxes. They are some of the most vulnerable members of our community. They would pay for the tax cut through decreased funding to the programs and services they utilize and through increased user fees. The income tax cut would have increased an already unacceptable level of inequality in Nova Scotia.

Table 8: Income Tax Cuts - Gender Shares

| | Taxable returns (#) | Percent of total Returns | Percentage of total tax cut | Average tax cut ($) |
|---|---|---|---|---|
| Women | 185,910 | 43% | 30% | 241 |
| Men | 248,130 | 57% | 70% | 412 |
| Total | 434,040 | 100% | 100% | |
| Source: Who Really Benefits From Nova Scotia's Income Tax Cut[35] | | | | |

Income tax cuts also increases the inequality between women and men. Because of the existing income inequality in our society men would gain more from an income tax cut. Women comprise 43% of taxpayers, but they would only have received 30% of the total tax cut. The tax cut compounds the disadvantages women already face in the economy.

Who pays the price for income tax cuts – Nova Scotians most in need such as those who are sick, students and low-income households. However, everyone pays part of the price through the deterioration of public services as money is diverted from government expenditure to fund tax cuts. Economic development suffers because of under-funding of the fundamental supports needed for economic activity such as a healthy, well-educated workforce and a modern infrastructure in areas such as transportation. Income tax cuts provide a windfall for the wealthy that we cannot afford.

Nova Scotians are already trying to cope with the lowest levels of government investment. Income tax cuts mean that the level of public services and social programs in Nova Scotia will fall even further behind.[36]

The reality is that most Nova Scotians are not clamouring for income tax cuts. The failed 10% tax cut experiment proved to be a learning experience for taxpayers and we hope for the provincial government.

# The APB Fiscal Plan: Maintaining Investment in Nova Scotians

The APB fiscal plan is guided by 4 main objectives:

- To address expenditure pressures and bring per person expenditures to the same level as the average of the other Atlantic provinces
- Ensure a deceasing debt-to-GDP ratio
- Avoiding deficits and not increasing overall taxation of the provincial economy
- Not decreasing revenue capacity through tax cuts

The fiscal plan invests all revenue increases from both own-source and federal sources in programs, services and infrastructure. The APB continues to allocate the revenue associated with the federal-provincial offshore agreement, to the provincial debt.

The fiscal plan does not anticipate significant surpluses as all revenue will be allocated to program expenditures and revenue from the federal-provincial offshore agreement commitment will be allocated to the debt. Funds from any unanticipated surpluses will be allocated equally to debt repayment and to a Program and Infrastructure Investment Fund. Surplus funds allocated to the Program and Infrastructure Fund will be invested in the next fiscal year. This will ensure that the allocation of unanticipated surpluses is subject to public scrutiny and debate.

For 2006-07 the Alternative Provincial Budget (see Table 9):

- Maintains the capacity of current programs by increasing expenses by the projected rate of inflation
- Invests an additional $280 million in services, programs and infrastructure through the Program and Infrastructure Investment Fund
- Maintains a balanced budget
- Does not decrease overall revenue through tax cuts
- Reduces the province's debt-to-GDP ratio

## Revenue Growth Estimates

The APB assumes continued moderate economic growth and estimates that total revenue will increase by 5%, more than the forecast rate of economic growth but less than recent trends in provincial revenue growth (approximately 9% in 2004-05 and 6% in 2005-06).

## Expenses

The APB ensures sufficient funds to departments to cover increased costs due to inflation (approximately 2 % increase annually). A Program and Infrastructure Investment Fund is established that specifically targets the social debt by investing in the revitalization of programs and services and the provincial infrastructure. Program expenditure is increased annually by the rate of inflation on the previous year's program expenses, including the funds allocated to Program and Infrastructure Investment Fund. All new funding initiatives announced by the federal government will be allocated directly as additional funding to programs and services, and not used to replace existing provincial funding to those programs or to fund tax cuts. Total program expenses are forecast to increase by, on average, 4% annually.

### Debt

The APB debt management strategy ensures that the province's debt- to-GDP ratio decreases each year. By 2008-09 the debt-to-GDP ratio is forecast to decrease to 35%.

### Surpluses

All surpluses are allocated to the Program and Infrastructure Investment Fund. Any additional surpluses beyond those anticipated in the fiscal plan would be allocated as follows:

- half the surplus allocated to the Program and Infrastructure Investment Fund
- remainder allocated to debt payments.

The Alternative Budget fiscal plan presents a responsible, practical fiscal strategy that revitalizes public services, promotes sustainable economic development and manages the debt.

| Table 7: Nova Scotia Alternative Budget Fiscal Plan 2005-06 to 2008-09 | | | | |
|---|---|---|---|---|
| ($ millions) | | | | |
| | | | | |
| Revenue | | | | |
| | 2005-06 | 2006-07 | 2007-08 | 2008-09 |
| Revenues | 6,302 | 6,636 | 6,988 | 7,358 |
| Revenue increase | | 5% | 5% | 5% |
| Consolidation Adjustments | 45 | 35 | 35 | 35 |
| Income Government Business Enterprises | 342 | 349 | 356 | 363 |
| Total Revenue/Income/Adjustments | 6,689 | 7,020 | 7,379 | 7,756 |
| | | | | |
| Expenses | | | | |
| Net Program Expenses | 5,585 | 5,697 | 6,096 | 6,339 |
| Pension Valuation Adjustment | 52 | 25 | 25 | 25 |
| Program & Infrastructure Investment Fund | | 280 | 118 | 235 |
| Net Debt Servicing Costs | 901 | 925 | 950 | 950 |
| Total Expenses | 6,538 | 6,927 | 7,190 | 7,549 |
| Annual Program Expense Increase | | 6.6% | 3.8% | 5.5% |
| | | | | |
| Debt Repayment (Offshore oil & Gas payments) | 151 | 93 | 189 | 207 |
| | | | | |
| Surplus/Deficit after Debt Repayment | 0 | 0 | 0 | 0 |
| | | | | |
| | | | | |
| Net Direct Debt | 12,471 | 12,517 | 12,421 | 12,293 |
| GDP | 31,267 | 32,549 | 33,884 | 35,273 |
| Debt/GDP | 39.9% | 38.5% | 36.7% | 34.9% |
| The APB Fiscal Plan is based on the following sources: Department of Finance "Forecast Update," Department of Finance, News-release, May 1, 2006, "Nova Scotia Budget 2005-2006," and Statistics Canada, Table 384-0002 and ScotiaBank and TD Bank Forecasts. | | | | |

# Endnotes

1. National Council of Welfare (2004). "Welfare Incomes 2003." Ottawa: Minister of Public Works and Government Services Canada.
2. Raven, P and L. Frank (2004). "The Nova Scotia Child Poverty Report Card 2004: 1989–2002." Halifax: Canadian Centre for Policy Alternatives – Nova Scotia.
3. See Harchaoui, Tarek M. and Faouzi Tarkhani (2003). "Public Capital and its Contribution to the Productivity Performance of the Canadian Business Sector." Statistics Canada: Ottawa and Harchaoui, Tarek M., Faouzi Tarkhani and Paul Warren (2003). "Public infrastructure in Canada: Where do we stand?" Ottawa: Statistics Canada.
4. Canadian Association of University Teachers. "Almanac of Post Secondary Education: 2006" Table 1.4: Provincial Government Transfers to Colleges and Universities per FTE Student Enrolments, 1992-1993 to 2004-2005. http://www.caut.ca/en/publications/almanac/2006-1.pdf accessed April 28, 2006.
5. Ibid, Table 1.1: Provincial Expenditures on Post-Secondary Education (2004).
6. Numbers in constant 2004 dollars, Statistics Canada and Canadian Association of University Business Officers, Financial Information of Universities and Colleges Survey (FUCS).
7. Alex Usher, A. and Kim Steele (2006). "Beyond the 49th Parallel." Educational Policy Institute: Toronto. http://www.educationalpolicy.org/publications.html accessed April 27, 2006.
8. All Figures in the Research section are from Maritime Provinces Higher Education Commission (November 2005) R&D Funding in Atlantic Universities.
9. Maritime Provinces Higher Education Commission (August 2002). Faculty Recruitment and Retention in the Maritimes, page 17.
10. Canadian Association of University Teachers (2006) "Almanac of Post-secondary Education," page 5.
11. Reed, Katherine (2005). "Fairness in Education for Single Parents in Nova Scotia." Halifax: Canadian Centre for Policy Alternatives – Nova Scotia.
12. Statistics Canada, Table 202-0802 - Persons in low income.
13. National Council of Welfare Reports (2005). "Welfare Incomes 2004." Ottawa: National Council of Welfare (Government of Canada), page 45.
14. The anti-poverty organizations that made presentations include: Affordable Energy Coalition, Antigonish Women's Resource Centre, Face of Poverty, Community Action on Homelessness, Community Advocates Network, Disabled Persons' Commission, Halifax Coalition Against Poverty, Halifax Peninsula Community Health Board, Nova Scotia Advisory Council on the Status of Women, Nova Scotia Association of Social Workers, Nova Scotia Government and General Employees Union, Nova Scotia League for Equal Opportunities and Women's Centres Connect. Transcripts of the presentations are available on-line at: http://www.gov.ns.ca/legislature/hansard/comm/cs/
15. The recommendations are presented in a January 27, 2006, letter to David Morse, minister of community services from the chair of the Standing Committee on Community Services, Marilyn More, MLA.
16. The culture sector is generally defined to include the following sub sectors: libraries, heritage resources, arts education, literary arts, performing arts, visual arts, crafts, film, video, broadcasting, sound recording, multiculturalism, and other activities.
17. Based upon the most recent available data from Statistics Canada's Cultural Statistic Program. Sources include "Economic Contribution of the Culture Sector in Canada – A Provincial Perspective" (December 2004), and the "Survey of Government Expenditures on Culture" (2000-01 to 2003-04).
18. Ibid.
19. Council to the European Union, Spring Summit Conclusions, March 23, 2005, page 43, http://ue.eu.int/ueDocs/cms_Data/docs/pressData/en/ec/84335.pdf European Climate Forum. 2005. "European Climate Forum: The 2 Degrees Strategy." http://www.europeanclimate-forum.net/pdf/ECF_strategy_2005.pdf "A Viable Global Framework for Preventing Dangerous Climate Change," Climate Action Network Discussion Paper, pg. 1, IPCC. 2001. Climate Change 2001: Impacts, Adaptation, and Vulnerability. Cambridge University Press, p.4; http://www.grida.no/climate/ipcc_tar/wg2/008.htm.
20. Climate Action Network, "Declaration on Climate Justice and the Montréal Climate Change Summit." http://www.climateactionnetwork.ca/e/issues/cj-full-declaration.pdf, accessed April 29, 2006.
21. Statistics Canada, (November 2004). "Comparable Health Indicators – Canada, provinces and ter-

ritories."
22. Canadian Cancer Society (2006). "Canadian Cancer Statistics 2006."
23. Statistics Canada (November 2004). "Comparable Health Indicators – Canada, provinces and territories."
24. Lung Association of Nova Scotia (2006). "State of Asthma Report – Nova Scotia: 2006" http://www.ns.lung.ca/2006.01.04.AsthmaRep.pdf, accessed April 27, 2006.
25. IMS Health is a private health care research and consulting firm. See: http://www.imshealthcanada.com/htmen/1_0.htm
26. Public Sector Statistics: Supplement 2004, Statistics Canada, Catalogue no. 68-213-SIE.
27. Gaudreault, V and Lemire, P. (2006). "The Age of Public Infrastructure in Canada." Ottawa: Statistics Canada.
28. Ibid, page 1.
29. Ibid, page 1.
30. Department of Finance (2000). "Cost Recovery Measures," Budget Bulletin. Halifax: Government of Nova Scotia. (April 11).
31. C. Ragan and W. Watson (2004). "Is the Debt War Over?" Institute for Research on Public Policy, Montreal.
32. The April 8, 2006 Business section of the Chronicle Herald carried 3 articles proposing tax cuts. For example "End bracket creep – chambers" by Steve Procter (D5). The premier appears to be entertaining tax cuts, see "Premier flip-flops on budget tax cuts" by Amy Smith in the Chronicle Herald, April 21, 2006. (p. A1).
33. Department of Finance (2005). "Nova Scotia Budget 2005-2006." Halifax: Government of Nova Scotia, page 36.
34. Jacobs, John (2003). "Who Really Benefits From Nova Scotia's Income Tax Cut." Halifax: CCPA-NS.
35. Ibid.
36. A review of the United States' experience with tax cuts intended to foster economic development shows that the cuts undermined economic development. The study finds "little grounds to support tax cuts and incentives—especially when they occur at the expense of public investment—as the best means to expand employment and spur growth…. Research, in fact, substantiates that public investment plays a positive role in helping lower costs for firms." Lynch, Robert, G (2004). "Rethinking Growth Strategies: How State and Local Taxes and Services Affect Economic Development." Washington: Economic Policy Institute March. (quotes from Executive Summary).