A Better Way

Putting the Nova Scotia Deficit in Perspective

A CCPA–NS Background Paper For an Alternative Approach to Nova Scotia's Provincial Budgets

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Preface

The report you are about to read is the first publication of the Nova Scotia branch of the Canadian Centre for Policy Alternatives (CCPA – NS). The CCPA is a non-profit membership-based organization for research and analysis. For over 20 years, through its publications and commentaries, the CCPA has been at the forefront of demonstrating that there are viable, progressive policy alternatives.

Over the past five years, the CCPA has also set up branches in British Columbia and Manitoba. The Nova Scotia branch of the CCPA was formed, in the fall of 1999, to produce high-quality, critical research and analysis of government policies, and to develop workable and equitable alternatives.

The efforts of CCPA – NS are directed by a steering committee elected by organizational and individual members. Our research associates come from a variety of backgrounds, including academic, community, and labour organizations. We will be providing independent, non-partisan research, analysis and informed commentary to Nova Scotia and the rest of Canada. We are also an educational resource for our members, and we encourage public debate and communication.

As an organization which seeks to foster accountable, just and equitable public policy, we are particularly concerned with attempts to limit public discourse—attempts that are excused by the notion that in the context of globalization there are no humane alternatives. Provincial budgets, however, like all public policy, are about choices and values. The bottom line is about balancing people's needs with viable fiscal policies. This document contributes to a framework for the alternative provincial budget process that was initiated by community, student and labour organizations at a conference on March 4, 2000. This background document is the first in a series of publications that will seek to broaden the debate and provide viable alternatives.

We would like to thank the Nova Scotia Federation of Labour for its generous help in funding this project. We would like to thank the membership of CCPA-NS and the members of the project's advisory committee for keeping this publication on track and within the time limitations we faced.

Summary

Nova Scotia is once again in the grip of deficit hysteria. Understandably, we are getting somewhat disoriented. Did we not just go through a decade of cuts? Our public services are still reeling from the sacrifices made to "balance the books." Were we not just told, less than a year ago, that the provincial accounts were in a surplus position? These are serious issues, and the public would benefit from a calmer and more reasoned consideration of the issues.

This background paper provides CCPA–NS's initial contribution to broadening the debate and providing Nova Scotians with an understanding of the choices they face. This document begins by assessing what the current level of the deficit is. It then defines the issues surrounding the current deficit to ascertain what are, and what are not, the causes of the current problems.

Such an analysis is essential if we are to develop fiscal policies that provide a long-term, sound fiscal basis which maintains the services essential to the well-being of Nova Scotians, and shares the costs fairly.

Debt as Percentage of GDP Nova Scotia

Year	GDP (market prices)	Debt	Debt/GDP
1990	$16.794 billion	4.454 billion	26.5%
1993	18.308 billion	7.288 billion	39.8
1996	19.360 billion	8.715 billion	45.0
1998	20.689 billion	8.369 billion	40.5
2000	22.034 billion(p)	10.800 billion (p)	49.0

Putting the deficit in perspective

The post-election revelation that we are deeper in debt is a disappointment, but not a crisis. New accounting methods applied to the 1999-2000 budget raised our reported deficit- and debt-to-GDP ratio significantly, but did not affect our creditworthiness or our ability to pay.

More than 55% of the most recent deficit figure of $767 million, used by the provincial government to justify the contemplated drastic cuts in program spending and reduced services, is made up of one-time items such as costs related to Sysco and Y2K. The deficit, if one- time charges are subtracted, is more like $300 million on a recurring basis. This is serious; but it is **not** a crisis.

To emphasize the one-time high deficit figure undermines Nova Scotians' ability to rationally assess the province's fiscal situation, and it obscures the options we have as a province and the choices the government is making.

Nevertheless, we do have a serious fiscal situation, and a government of any political stripe would be forced to make it a high priority. In 1990 the debt was 25% of the provincial gross domestic product, and in 2000 it is expected to be 49%. This trend has to be reversed.

The question is: how do we do it? After almost a decade of fiscal restraint, we need to ask whether even deeper cuts are going to get us where we need to go, and whether we have the right strategies for sharing the pain involved in dealing with our fiscal problems.

The root causes of our fiscal woes

The provincial government has targeted program spending as the root of our fiscal problems. Rather than spending excessively on programs, this document shows that Nova Scotia, on a per capita basis, has consistently spent the lowest or second lowest amount among all provinces throughout the 1990s.

Program expenditures are not the root cause of our fiscal problems.

In this paper, we present compelling evidence that Nova Scotia does not have Cadillac public services and never has. Our levels of program spending have traditionally been well below those of most other provinces. There is now very little fat left.

Our current problems stem from the slow growth of our economy. This is a result of ongoing regional disparities within Canada which characterize the Atlantic regional economy. Simply put, the biggest reasons for our continuing fiscal problems are our weak economic growth over the past decade and the relatively greater costs to us of federal cuts to spending and transferes.

Because of our high unemployment rates, particularly in eastern Nova Scotia, and the massive federal presence in regional offices, the military, the health care sector, the universities, in DEVCO, and so on, Nova

Scotia has paid the highest price of any province in helping the Chrétien government generate a surplus.

Moreover, the cuts to provincial expenditures have slowed our economy and reduced tax revenue growth. Our economy was particularly vulnerable to the shocks of high interest rates and federal government cuts during the 1990s.

While Nova Scotia has only 3% of the Canadian polulation, it absorbed 15% of federal cuts. This took a lot of money out of the provincial economy and inevitably slowed growth. The economy has now adjusted and the outlook with Sable gas coming on stream is good, but it has been a hard decade.

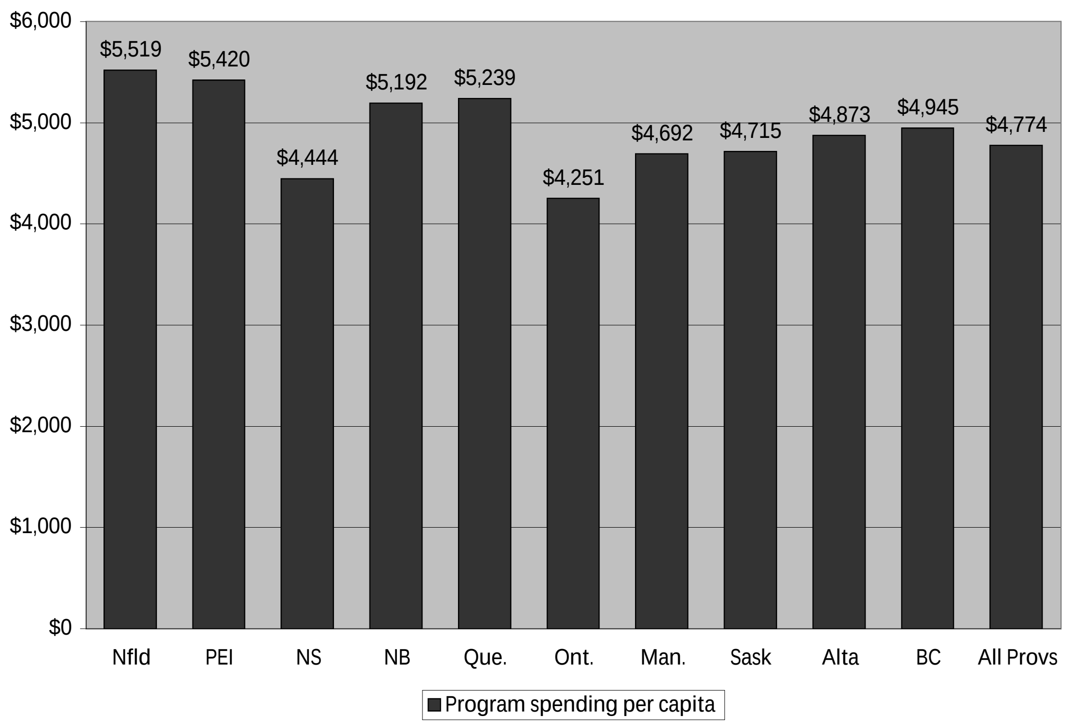
By going after the wrong target—i.e., program spending—the Nova Scotia government is imposing an unacceptable toll on public services and the quality of life in a province already suffering from the deep cuts of the 1990s. It risks undermining the viability of Nova Scotia as a desirable place to live, work, and invest.

While this paper shows that we do not have a deficit and debt crisis, it does recognize that we have a fiscal problem that has to be addressed. Nova Scotia needs a balanced approach to addressing these problems. Fiscal prudence and socially just policies need to be balanced to meet Nova Scotia's long-term needs.

Percentage Growth in GDP, Canada and Atlantic, 1990-98

	Canada	Nova Scotia	New Brunswick	P.E.I.	Newfoundland
1990	$668.6 billion	$16.75 billion	$13.1 billion	$2.01 billion	$8.8 billion
1998	$895.5 billion	$20.69 billion	$17.2 billion	$2.87 billion	$11.3 billion
Increase	33.9%	23.5%	31.3%	42.8%	28.5%

Program spending per capita by province, 1999



Introduction: Putting the deficit in perspective

Nova Scotia is once again in the grip of deficit hysteria. Understandably, we are getting somewhat disoriented; did we not just go through a decade of cuts? Our public services are still reeling from the sacrifices made to "balance the books." Were we not just told, less than a year ago, that the provincial accounts were in a surplus position? Nova Scotia, we are told, has a huge out-of-control deficit; there is no alternative to cutting programs and services deeply to get at the root of the problem.

To rationally assess the current financial situation of the provincial accounts, a more reasoned discussion is needed. This background paper provides CCPA–NS's initial contribution to broadening the debate and providing Nova Scotians with an understanding of the choices they face. The paper begins by assessing what the current level of the deficit is, and then defines the issues surrounding the current deficit to ascertain what are, and what are not, the causes of the current problems. Such an analysis is essential if we are to develop fiscal policies that provide a long-term, sound fiscal basis, which maintains the services essential to the well-being of Nova Scotians, and shares the costs fairly.

1. How big is the deficit?

Accounting changes and non-recurring expenditures

Nova Scotians might well be surprised by the sudden change in their fortunes. In less than a year, a small $1.5 million surplus predicted by the previous government was transformed into a whopping deficit of $767 million[1]. The numbers, according to the finance minister, are not "very pretty, [but] at least we all know where we stand. …Making government smaller and less expensive is our only long-term option. Clearly we have a major task ahead of us." The current deficit, from the Minister's perspective, is the basis from which the government will set the agenda for this government. This $767 million deficit has set the tone for the hysteria. How did we end up here?

The government elected in 1999 took as one of its first tasks a thorough audit of the province's accounts. Accounting changes had a major impact on the 1999-2000 budget, contributing about $370 million to the deficit (see Appendix A). The audit produced dramatic results, but nonetheless the audit did not materially change the province's well-being. The late addition of $378.5 million in future Sysco liabilities also contributed greatly to the deficit[2].

But is the big deficit figure actually a sound basis on which to set the government's agenda? The deficit for 1999-2000 includes a number of non-recurring costs (see Table 1).

These non-recurring costs total $469 million, or 61% of the "operating" deficit predicted for 1999-2000. A few of these costs could still show up in future budgets. For example, spending in the Department of Economic Development seems to be consistently understated. And the government may introduce new measures to help drought-stricken farmers or bring in new early-retirement schemes. But that would be new spending. The big charges (Sysco at $378.5 million and Y2K charges at $40 million) are never going to be repeated, and there is no apparent reason why any of the costs listed above would continue beyond the current fiscal year.

Table 1 Recurring and non-recurring costs in the 1999-2000 deficit

Forecast deficit for 1999-00	**$767 million**
Non-recurring costs from 1999-2000	
Sysco liabilities	378.5
Y2K costs	40
Election and severance costs	6.4
First-year mandate implementation costs	5.5
Older Fisheries Workers adjustments	3.5
Restructuring	16.1
Drought relief programs	7.1
Economic Development Commitments	12.3
Total non-recurring costs	**-$469**
Recurring Items from 1999-2000 Deficit	**$298**

Several other factors that have contributed to the 1999-2000 projected deficit may not have as negative an effect in future years.

1. The budgeted $65 million loss for Nova Scotia Resources Ltd. was reduced in third-quarter forecasts to $32 million and should continue to be lower next year because of revenues from the Sable Offshore Energy Project in which NSRL holds an 8% share.
2. The $31.8 million operating loss for Sydney Steel will not recur if the government proceeds with plans to close the steel mill.
3. Foreign exchange losses are a moving target and could come in lower if the Canadian dollar continues the upward trend it has been on for the past several months.

Finally, in projecting a large deficit for 1999-2000, the Finance Minister ignored or understated potential revenue.

4. Unallocated recoveries, worth $20.1 million in 1997-98 and $14.1 million in 1998-99, simply disappeared from calculations for 1999-2000.
5. Prior years' adjustments (PYAs) added $75.9 million to provincial coffers in 1997-98 and $106.8 million in 1998-99.

The budget for 1999-2000, ignores long-standing advice from the Auditor-General to include an estimate of PYAs in the budget. However, in projections released March 3, 2000, the Minister estimated that PYAs will have a positive impact of only $17.3 million.

6. Deficit projections for 1999-2000 have consistently underestimated revenues. In October 1999, revenues were projected to increase $72 million over 1998-99. The second quarter update, released December 22, 1999, projected a further increase of $44.5 million. An update issued March 3, 2000, added another $96 million to revenue estimates—a total revenue improvement of $140 million in less than five months.

A number of other cost factors that contributed to the current deficit may well decline next year. And potential sources of revenue have been ignored or understated. HST transitional assistance, which contributed over $50 million this year, will run out next year—but that decline will be at least partly offset by increases in the CHST announced in the February federal budget.

Clearly, the forecast deficit of $767 million for this year does not mean that without drastic cuts the same results can be expected for next year. Far from it. Removing the one-time costs alone would reduce the deficit for this year to $300 million. Different assumptions about revenue growth and losses by Sysco and NSRL could bring the deficit for next year down even further.

Putting the deficit in perspective does not belie the fact the Nova Scotia has a fiscal problem. Accounting changes had a cumulative effect of turning the small surpluses in 1997, 1998, and 1999 into deficits totalling $744 million, which in turn contributed to net direct debt increases from accounting changes totalling 1.559 billion. But focusing on the high deficit contributes to the hysteria and gets in the way of the need to assess the province's options.

A fiscal dilemma with social implications

During the 1990s, reining-in public spending in pursuit of elusive balanced budgets dominated political agendas. Between 1990 and 1999, program spending in Nova Scotia increased by an average rate of almost half that for all provinces. As a share of GDP, Nova Scotia's program spending dropped from 21.4% in 1990 to 19.5% in 1999.

While the Province was able to control program expenditures, debt and deficits continued. Between 1990 and 1999, reported annual deficits totalled $2.47 billion. These deficits, combined with losses by Crown corporations, foreign exchange losses, pension liabilities, and other factors more than doubled Nova Scotia's net direct debt—from $4.454 billion in 1990 to $9.928 billion in 1999.

During the 1990s, Nova Scotia's net debt per capita increased from $5170 to $10562 as the province moved from having the third highest net debt per capita (behind Newfoundland and Quebec) in 1991 to second (behind Quebec) in 1999.

Meanwhile, expenditure restraint had a predictable effect on our social fabric. Classrooms are more crowded. Health care is in crisis. Employment has increased, but real wages have stagnated. Both median and average family income in Nova Scotia were the second lowest in Canada in 1996. Child poverty increased by nearly 30% between 1990 and 1997. At 22.7% in 1997, Nova Scotia's rate of child poverty was the highest in Canada.

We've got a problem here, but a search for the solution must be based on an appreciation of the root causes.

Table 2 Program expenditures, year ending March 31, 1990 and 1999

Year	Nova Scotia	New Brunswick	All Provinces
1990	$3.602 billion	$3.260 billion	$112.721 billion
1999	$4.177 billion	$3.920 billion	$145.550 billion
Yearly average increase	1.77%	2.25%	3.24%

Source: Finance Canada, Fiscal Reference Tables

Table 3 Net Debt, Nova Scotia and Atlantic

	Nova Scotia	Other Atlantic
1990	$4.454 billion	$6.581 billion
1999	$9.928 billion	$11.562 billion
Percentage Increase	122.9%	75.7%

Source: Finance Canada, Fiscal Reference Tables

2. Is program spending the cause?

Overall spending by Nova Scotia and other provinces

Nova Scotians must sometimes become confused. On one hand, we are told that we must "learn to live within our means." The Minister of Finance has stated that resources are "being wasted on an excess of government" and that making government smaller and less expensive is our only option, yet only three provinces have lower per capita expenditures than Nova Scotia!

On the other hand, people know that, far from living beyond our means, individuals are being forced to cope with important but underfunded services such as health care and education.

It is important to get some perspective on our situation.

Spending by the Nova Scotia government in 1998-99 was a little over $5 billion. (The amount reported in the Nova Scotia Finance Department's latest forecast is about $240 million *lower*, but the federal finance data are used for purposes of comparison with other provinces.)

The three other Atlantic provinces all spent more per capita in 1998-99 than did Nova Scotia. (Part of the reason for the higher spending may be because our neighbouring provincial governments pay the full of cost of education. But even adding the approximately $160 per capita Nova Scotians pay in municipal education taxes still leaves this province as the lowest spender in the region. The fact that in Ontario municipalities pay 60% of education costs explains why the Ontario provincial government's per capita spending is lower than Nova Scotia's.) Nova Scotia's increase in per capita spending over the decade was the fourth lowest, ahead of only PEI, Saskatchewan and Alberta.

Total expenditures include both program spending and interest payments. Be-

Table 4 Total annual expenditures per capita by province, selected years

Province	1991	1994	1996	1999	% Change 1991-99
Nfld.	$5719	5850	6200	6602	15.5
PEI	$5592	6045	5802	6159	10.1
N.S.	**$4752**	**5097**	**5157**	**5373**	**13.1**
N.B	$4936	5699	5810	6000	21.6
Que.	$5160	5759	5875	6227	20.7
Ont.	$4404	5068	5249	5039	14.4
Man.	$4538	4747	4854	5143	13.3
Sask.	$5003	4908	5019	5442	8.8
Alta.	$6177	6202	5202	5453	-11.7
B.C.	$4450	5115	5166	5162	16.0
All Provinces &Territories	$4896	5418	5437	5496	12.3

Source: Finance Canada, Fiscal Reference Tables

Table 5 Debt charges per capita - Nova Scotia and selected Provinces

Province	1991	Rank	1994	Rank	1999	Rank
NS	**$735**	**Second**	**929**	**Second**	**930**	**Third**
Nfld	$845	First	870	First	1085	First
Que.	$628	Fifth	738	Sixth	988	Second
NB	$646	Fourth	779	Fifth	$808	Fourth
Avg. all provs.	$453		637		722	

Source: Finance Canada, Fiscal Reference Tables

Table 6 Program spending per capita by province

Province	1991	1994	1996	1999	Rank
Nfld	$4869	4946	5216	5519	1st
PEI	$4862	5216	4919	5420	2nd
NS	**$4017**	**4168**	**4193**	**4444**	**9th**
NB	$4692	4920	5020	5192	4th
Que.	$4532	5022	5045	5239	3rd
Ont.	$4042	4410	4486	4251	10th
Man.	$4086	4228	4332	4692	8th
Sask	$4529	4043	4185	4715	7th
Alta	$5683	5591	4597	4873	6th
BC	$4308	4886	4937	4945	5th
All Provs	$4443	4782	4739	4774	

Source: Finance Canada, Fiscal Reference Tables

cause of the size of our debt, Nova Scotia's spending on debt service is among the highest of all the provinces.

Because Nova Scotia devotes proportionately more of its annual spending to debt payments, there is a smaller amount left over to spend on programs.

Nova Scotia was consistently the second lowest among all of the provinces in per capital program spending, 7% below the average for all provinces, throughout the 1990s (see Table 6).

Spending on health

Some argue that Nova Scotia should spend less on health care, claiming that health care spending in Nova Scotia—and indeed in all provinces—is out of control. At the same time, many Nova Scotians are unable to obtain the services of a family doctor or find a nursing home bed for an aging relative. Understaffing continues to be a problem in many institutions. Waiting periods for some tests and procedures are unacceptably long. Can health care be underfunded and costs be out of control at the same time?

What are the facts? At 37.3% of expenditure in 1998, Nova Scotia spent a higher percentage of its budget on health care than all but two other provinces. But Nova Scotia's health percentage is higher because the overall provincial spending against which it is computed is among the lowest. A more meaningful way of measuring health spending is on a per capita basis. Using that yardstick, provincial expenditure on health care in Nova Scotia has traditionally been at or near the bottom.

The notion that health care spending is out of control in Nova Scotia may reflect the fact that since 1996 it has increased by more than 10% a year. However, that increase follows a four-year period during which spending dropped every single year. Nova Scotia has the highest rate of disability, the highest incidence of heart and lung disease, and the fourth-highest over-65 population in the country. The surprise is not that we spent more per capita on health care than five other provinces in 1999; it is that we spent so little in comparison with other provinces in the years before 1997.

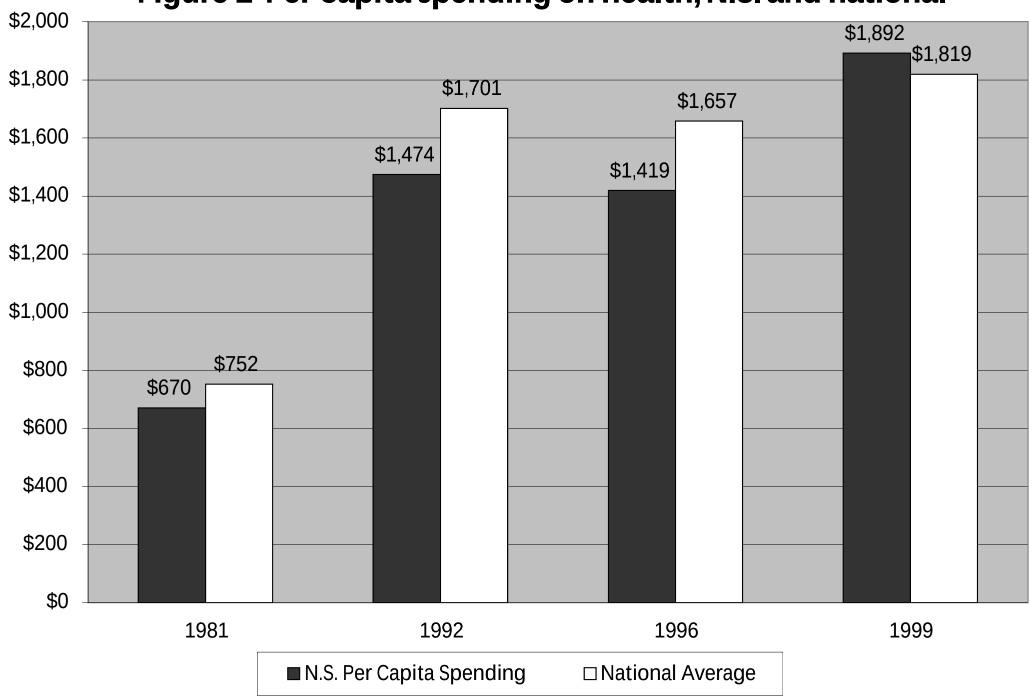
Moreover, Nova Scotia is not alone in recent increases on health care; the larger increases are in those provinces which earlier made the deepest cuts. Recent increases are a response to public concern over a health care system weakened by service reductions. Costs are not out of control. Between 1990 and 1999, health spending by all provinces increased 40%. Between 1980 and 1990, the increase was 166%.[3]

Table 7 Per Capita spending on health, N.S. and national, selected years

Year	N.S. Per Capita Spending	Rank among Provinces	National Average
1981	$670	Tenth	$752
1992	$1474	Ninth	$1701
1996	$1419	Tenth	$1657
1999	$1892	Fifth	$1819

Source: Canadian Institute for Health Information

Figure 1 Per Capita spending on health, N.S. and national



Education

With the exception of universities, Nova Scotia has traditionally spent less on education than most other provinces. According to Statistics Canada, in 1993-94 total public school expenditures in Nova Scotia were the third lowest in Canada, at $5,339 per student. This was followed by four years of cuts to school boards totalling more than $180 million. By 1997-98, Nova Scotia had the second lowest expenditure, at $5,121 per K-12 pupil. Since 1997-98, the provincial government has been putting funds back into the school system, but Nova Scotia school boards are still short by more than $80 million because of the cuts. The increase for the current fiscal year was less than half the $106 million increase recommended by the Education Funding Review Work Group in its 1999 report.

Community colleges are badly underdeveloped in Nova Scotia. Despite modest budget increases and a jump in enrolment from 3,000 to 7,000, Nova Scotia's system lags behind other provinces and the Canadian average. There is a serious shortage of spaces: in the 1998 / 1999 school year, 17,000 Nova Scotians applied to the Nova Scotia Community College, but only 7,000 were accepted. In 1996, Nova Scotia spent a mere $51.80 per capita on community colleges, the lowest in the country and well behind our neighbouring provinces. Despite an increase of nearly 10% in 2000, Nova Scotia still spends only $55.96 per capita on community colleges.

University spending tells a different story. With 32 students per 1,000 population, Nova Scotia's 11 university campuses accommodate by far the highest per capita population of university students of any province. This is reflected in overall spending on universities of $469.55 per capita in 1996, 18% above the national average.

While our universities are a great asset, both students and the provincial treasury pay a price for that. Nova Scotia has historically spent more per capita on universities than its neighbours, but those grants must cover a larger number of students. The result: high provincial per capita spending on universities accompanied by high tuition rates. And, as provincial grants have declined over the last decade, tuition rates have climbed dramatically to compensate.

Spending on social services

The major component of social services spending is income assistance. About the most positive thing that can be said for the record of the past decade is that, unlike some provinces such as Ontario and Alberta, Nova Scotia did not take the axe to income support programs. However, family benefits, inadequate to begin with, have not been increased since 1994.

The impact of income assistance spending on the province's total expenditure picture is difficult to measure because of the service exchange of the mid-1990s. The province took over responsibility for all so-

Table 8 Unrestricted Operating Grants to universities, selected provinces and years

	1990-91	Per Capita	1995-96	Per Capita	1999-00	Per Capita
NS	**$202.8m**	**$221.60**	**$189.9m**	**$200.04**	**$182.7m**	**$194.41**
NB	$126.1m	$169.02	$134.6m	$179.17	$134.3m	$177.81
PEI	$ 20.8m	$159.88	$ 20.1m	$147.75	$20.0m	$144.91

Source: Maritime Provinces Higher Education Commission

Table 9 Public servants per 1000 population, Nova Scotia and selected Provinces

Province	1991	1994
Nova Scotia	38.6	35.2
Newfoundland	46.5	44.4
Prince Edward Island	58.0	51.2
New Brunswick	62.0	61.6
Manitoba	41.5	39.6
British Columbia	34.3	32.0

Source: Statistics Canada

cial assistance spending from municipalities and standardized rates across Nova Scotia. This led to benefit increases for some and severe cuts of 30% for others: single people living in metro Halifax.

Overall, between 1992 and 1997, income assistance spending rose at an annual rate of 2.9% in Nova Scotia. However, that increase likely resulted from the service exchange, since there was no increase in rates or growth in case-loads. (The number of people on assistance as of March 31, 1998, was 85,500, 5,000 less than in 1992). The increased cost to the province from completely taking over income assistance would be offset by savings realized by the municipalities assuming responsibility for some roads.

The second major component of social services spending are Children's and Family Services, budgeted at $104.8 million in 1999-2000, up 8.7% over 1997-98. It is difficult to compare this with spending in this category during the early 1990s because of inconsistent definitions and the end of federal-provincial cost-sharing of many of the services. Between 1993 and 1999, housing subsidies of about $17 million showed almost no increase. They are forecast to drop by over $3 million this year.

The public service

There is a myth that Nova Scotia has too many provincial public employees. The facts tell a different story.

Nova Scotia had by far the smallest provincial work force in the Atlantic region in both 1991 and 1994 (see Table 9). It was also lower than Manitoba. Since 1994, there have been further reductions in the ranks of Nova Scotia teachers, nurses and individuals employed directly by the provincial government. Far from adding to the deficit, public service workers have, over the past decade, made a measurable contribution to its reduction.

3. Generating Revenues

A comparison of the Public Accounts of the Province of Nova Scotia for 1990-91 with the latest forecasts for the current fiscal year reveal both the changes and the continuities in the generation of revenues for the province.

Federal transfers

Federal cash transfers to Nova Scotia increased by 23% from 1991 to 1999. This represented the second highest increase among the provinces, topped by Newfoundland's increase of 34.6%. The Atlantic provinces and Quebec experienced an increase in federal transfers during the 1990s. The other five provinces had their federal transfers cut, Alberta leading the way with a reduction of more than 50% in transfers from Ottawa. Overall, federal transfers to the provinces dropped 10% because of the massive cuts to health and education and the repeal of the Canada Assistance Plan.

Ottawa's total contribution, as a percentage of Nova Scotia's revenues, was virtually the same in 1999 as it was in 1991: around 40% (see Table 11). The major change in federal transfers took place in the 1980s. At the beginning of the 1980s, the federal government contributed 48 cents of every dollar spent by Nova Scotia.

Own–source revenues

Nova Scotia's increases in own-source revenues were the third lowest among all provinces between 1990 and 1999, with only Prince Edward Island and Alberta realizing smaller increases. Over the decade, Nova Scotia's own-source revenues grew by 20.8%, from $2,567 per capita to $3,100. However, most of that growth has occurred over the last three years.

Personal income tax has been the slowest growing category. Between 1993 and 1999, it increased by just 8.4%. A 1997 re-

Table 10 Change in source of N.S. tax revenues and percentages of total revenue 1990-2000

Category	1990-91	Percentage	1999-00	Percentage
Personal & corporate income tax	$1.014 billion	26.0	1.274 billion	26.7
Sales Taxes	$907 million	23.3	1.050 billion	22.0
NSLCC and Motor Vehicles	$122 million	3.2	193 million	4.1
Other Provincial	$320 million	8.2	377 million (includes gaming revenue)	7.9
Federal Equalization	$931.6 million	23.9	1.276 billion	26.8
Other Federal	$600 million	15.4	590 million	12.4

Source: Public Accounts 1990-91; Year End Forecast Update, March3, 2000

Table 11 Change in federal cash transfers as a percentage of Nova Scotia Revenues

	1980-81	1990-91	1998-99
Total Revenue	$1.763 billion	$3.948 billion	$4.941 billion
Fed. Cash Transfers	$ 845 million	$1.599 million	$2.027 million
Federal contribution	47.9 %	40.5%	41.0%

Source: Finance Canada: Fiscal Reference Tables

Table 12 Corporate tax as percentage of own-source revenue by province 1999-2000

Province	Own-source rev	Corp. taxes	Percentage	Rank
Nova Scotia	**$2.90 billion**	**$200 million**	**6.9%**	**Seventh**
Newfoundland	$1.95 billion	$120 million	6.2%	Eighth
PEI	$ 469 million	$ 25 million	5.3%	Ninth
New Brunswick	$2.64 billion	$197.8 million	7.5%	Sixth
Quebec	$38.10 billion	$3.33 billion	8.7%	Third
Ontario	$52.59 billion	$7.8 billion	14.9%	First
Manitoba	$4.320 billion	$369 million	8.5%	Fifth
Saskatchewan	$4.478 million	$420 million	9.4%	Second
Alberta	$17.862	$1.56 billion.	8.7%	Fourth
BC	$847 million	$17.803	4.8%	Tenth

Source: budget documents Canadian Provinces 1999

duction in personal income tax cost $30-$35 million a year, with high-income individuals benefiting most.[4]

Sales tax, including the PST / HST, gasoline and diesel oil tax, tobacco tax and insurance taxes, increased by 18.3%, from $916 million in 1992-93 to $1.083 billion in 1998-99. The introduction of the HST lowered the combined GST and PST from over 18% to 15%. The HST was applied to a wider base, including home heating fuel and clothing under $100. This compensated the treasury, while giving purchasers of $400 suits a tax break at the expense of bargain-bin shoppers.[5] Because of the lower rate and the pass-through for business, Nova Scotia will likely get less in the future from the HST than we would have received from the old Health Services and Amusement Taxes.

Revenue from corporation taxes grew significantly between 1993 and 1999. In 1992-93, the province collected $66.2 million in corporation income tax and another $14.9 million in corporation capital tax. Forecasts for 1998-99 predict $119.4 million in corporation income tax, $13.9 from the Corporation Capital Tax, and $45.6 million from the capital tax on non-financial institutions, introduced in 1997.

However, compared with most provinces, Nova Scotia collects a relatively small share of its revenue from corporations.

Other revenues

Nova Scotia is much more reliant than other provinces on the “Big Three” revenue categories: income tax, sales tax and federal transfers (see Table 13).

Most of the Nova Scotia's revenues in the "other" category originate from three sources:

1. Nova Scotia Gaming Corporation profits, which increased from $74.5 million in 1992-93 to a projected $169 million in the current fiscal year;
2. Nova Scotia Liquor Commission profits, totalling $136 million, up from $73.8 million at the beginning of the decade;
3. Driver, motor vehicle and related registrations, budgeted at $56.3 million this year, approximately what was raised in 1992-93.

The province also raises about $30 million a year from the Securities Commission, the Companies Branch, the Registry of Deeds, and through license fees under the Alcohol and Gaming Authority. Over the last three years, the province has also made $30-$35 million in interest.

Part of the explanation for the relatively small amount Nova Scotia collects in the miscellaneous revenue category is that, with the exception of Saskatchewan, the other provinces examined in Table 13 raise significant amounts through property taxes. But there are other factors as well, including:

- Resource royalties - Nova Scotia expects to collect a mere $7.7 million in royalties this year on the exploitation of its gypsum, coal, timber, firewood and petroleum resources. By contrast, Newfoundland is budgeting for $27.8 million in natural resource taxes and royalties, while New Brunswick expects to collect over $10 million from mining and $46.3 million from forest royalties. Saskatchewan expects to raise more than 12% of its own-source revenues from royalties on gas, oil and potash. Alberta brings in about $2.5 billion a year in royalties.

- Investment Income - Aside from reporting $30-$35 million interest (on short-term deposits), Nova Scotia reports no investment income. New Brunswick expects to make $111 million on investments in 2000, and PEI $9.8-million, while Saskatchewan will add $125 million in dividends from Crown investments to its general revenues.

Table 13 Source of revenue by percentage of total revenue, selected provinces, 1999-2000

Province	Federal Transfers	Income Taxes	Sales Taxes	Other
Nova Scotia	39.2	26.7	22.0	12.1
Newfoundland	42.3	18.4	19.2	20.1
PEI	39.3	18.3	23.2	19.2
New Brunswick	35.4	23.2	20.3	21.1
Ontario	9.5	41.0	26.2	23.3
Saskatchewan	19.7	32.0	21.0	27.3

Source: budget documents, Canadian Provinces 1999

4. Root causes of the debt and deficit

Regional economic disparity

Nova Scotians want and deserve public services like health and education that are as good as those enjoyed by other Canadians. Indeed, the Constitution Act enshrines the principles that all Canadians are to receive a comparable level of services at comparable rates of taxation, regardless of the province in which they live.

Unfortunately, economic realities dictate that residents of Atlantic Canada pay more and get less. Our economies do not produce as much wealth as do other parts of the country. Because there is less wealth, tax rates in Atlantic Canada need to be generally higher to raise the minimum revenue needed to maintain public services.

Everyone agrees that education is the key to a brighter future. And we have put our money where our mouths are. In 1995, Nova Scotians spent 8.4% of GDP on education, roughly the same as New Brunswick and PEI. Only Newfoundlanders spent a bigger share of the GDP on education. Did this mean that students were learning in the lap of educational luxury? Hardly. Because our economies are small relative to other provinces, devoting more of our economy to education did not spare us from bringing up the rear in terms of education expenditures per student.

Health spending is another case in point. In 1997, Nova Scotians spent 10.9% of provincial GDP on health care, both public and private. The national average was 9.0% of GDP. Nonetheless, per capita spending on health (at $2,347) was 8% below per capita health spending for Canada as a whole.

And the economic recovery of the 1990s was much weaker in Nova Scotia and all of Atlantic Canada. This meant that Nova Scotia did not get the same revenue bounce from the recovery as did Ontario and the Prairies.

Sub-regions of extreme underdevelopment

Compounding the problem of regional economic disparity facing all of the Atlantic provinces is the underdevelopment of areas beyond Metro Halifax, in particular Cape Breton and Eastern Nova Scotia. Efforts to preserve and create jobs through provincial government investments had mixed results in terms of job creation, and contributed to Nova Scotia's debt levels. With the federal government withdrawing further from its responsibility for the economy of Industrial Cape Breton, there will be a continuing need for the province to address the economic problems of Eastern Nova Scotia.

Impact of federal policies

The entire Canadian economy and the fiscal state of all governments took a hit in the late 1980s and early 1990s, because of the high interest rate policy of the Bank of Canada and successive federal Finance Ministers. High interest rates depress economic growth and tax revenues while driving up spending on unemployment insurance, income assistance and, especially, debt servicing costs. Predictably, budget deficits soar.

Provincial deficits increased dramatically as a result of the recession of 1982 and 1983, but by 1989 the deficits of all governments had declined to the point where they amounted to just over 3% of GDP. However, by 1992, after three more years of the Bank's high interest rate policy, provincial deficits equalled 8% of GDP. Governments responded to the deficits by attacking symptoms—social program spending—rather than causes. The decline in deficits between 1993 and 1999 had little to do with spending cuts. Deficits were reduced because lower interest rates meant lower debt-servicing costs, while a recovering economy generated increased revenues.

However, in Nova Scotia, the mid-'90s economic rebound from the recession did not happen because of the federal government's cutbacks to regional development, unemployment insurance, the military, and other federal institutions in the province—cuts that hit Nova Scotia particularly hard.

Federal post-war policies helped to develop Nova Scotia (particularly Halifax) as a regional growth centre, concentrating government, military, health care and post-secondary institutions in the province. The federal government also played a major role in the Cape Breton economy through its support of the coal industry. Nova Scotia's reliance on federal supports and institutions left this province particularly vulnerable when the Chrétien government reduced its role in the economy.

Nova Scotia, with 3% of Canada's population, took 16% of the cuts to federal spending between 1993 and 1996. This prolonged the Bank of Canada-induced recession to 1997.

Between 1992 and 1997, personal income per capita in Nova Scotia grew by just 5.1%, compared with a national rate of 8.4%. During that same period, GDP in constant dollars increased just 5.7%, compared with a national rate of increase of 16.4%. Predictably, a stagnant economy produced stagnant revenues for the provincial treasury. Despite several tax increases, provincial revenues grew by less than 15% between 1992 and 1997, compared with national growth of 19%. Taking into account the impact of the Canada Health and Social Transfer, it becomes clear that federal policies played a direct role in the continuation of Nova Scotia's fiscal problems.

Free rides for some

Ordinary Nova Scotians have grown weary of cuts and the loss of services. We are concerned about the accessibility of the education we and our children need to succeed. We worry about the quality of health and community care. While we pay more in taxes and get less in public services, some have fared better, thanks to government policies.

- Despite a recent jump in corporate tax revenues, corporations contributed only 6.9% of Nova Scotia's own-source revenues in 1999, compared with an average of 10% for all provinces.
- Tax cuts in the recent federal budget, as well as the 1997 Nova Scotia tax cuts, provided significant tax savings to upper-income individuals.
- Introduction of the HST provided a substantial tax break to business.
- While bank profits soared, the big banks received provincial handouts.
- Michelin benefited from a $50 million write-off of provincial loans and a significant drop in property tax assessment.
- Resource companies have been getting a free ride for years.

5. The effects of past cuts

Nova Scotia is not in a fiscal crisis. The reported increase in net direct debt and the transformation of operating surpluses for 1997, 1998 and 1999 into deficits were the result of accounting changes. These accounting changes are welcome, to the extent that they inform Nova Scotians about the true state of the province's finances. However, using these accounting changes as a pretext to create a debt and deficit crisis defeats that purpose.

The debt is going up at a much slower rate than before. Between 1980 and 1990, Nova Scotia's net debt increased at an average rate of 35% a year. Between 1991 and 1996, the rate of growth slowed to an annual average rate of 17.4%. In the four years since, even taking into consideration the upward spike resulting from the accounting changes, the annual average rate of increase has been just 6%.

Nova Scotia has continued to run annual deficits, but program spending is not the cause of this problem. In 1999, Nova Scotia spent less per capita on programs than any province but Ontario. Nova Scotia has traditionally been the second or third lowest in education, and near the bottom of the pack in expenditures on health care. The only major category in which Nova Scotia spends more than most other provinces is in servicing the debt.

The Minister of Finance, in the Financial Report for 1998-99, says,"Now that the costs (of government) are clear, the government is in a position to tackle the root causes." But, by looking only at the cost of programs through Voluntary Planning's Fiscal Management Task Force and through its internal program review, the government is ignoring the real causes of our fiscal problems. Another round of cuts to necessary health and education services is not the solution.

Previous efforts

Efforts to manage Nova Scotia's debt by making government smaller dominated much of the political agenda of the early 1990s. Between 1991 and 1995, provincial government employment in Nova Scotia dropped by 9.6%. Only PEI and Alberta had a bigger drop. In New Brunswick, provincial government employment actually rose slightly during the period.

With the work force reduced, the wages of Nova Scotia provincial employees dropped by almost 7%. And it is not as though the Nova Scotia public sector was fat to begin with, relative to other provinces (Table 9).

Hospital employment took the brunt of the cuts in Nova Scotia, falling 10.9%, from 19,478 in 1993 to 17,347 in 1995. Across the country, hospital employment dropped by 4%. Wages and salaries for Nova Scotia hospital workers dropped even more: 13.5%. Across the country, the decrease was marginal.

The number of teachers in Nova Scotia dropped from 10,650 in 1991 to 9,659 in 1995. The pupil/teacher ratio jumped to the second highest ratio in the country, second only

Table 14 Per capita expenditure on wages for health care workers Atlantic region

Year	Nova Scotia	New Brunswick	Newfoundland	PEI
1991	$600.00	$534.85	$565.52	$400.00
1995	$512.01	$577.28	$617.96	$385.76

Source: Statistics Canada

to Alberta. The number of nurses reached a low of 8,525 in 1998, a 6.6% drop from 1993, double the national rate of decline in nursing jobs.

Social impact of the cutback strategy

The negative effects on Nova Scotians of the rapid cuts that took place with the first two Liberal budgets were soon evident, especially in the hospital sector. As well, the public school system—already the second lowest-funded in the country—had to absorb over $70 million in cuts between 1993 and 1995. University students, paying the highest tuition fees in the country, were faced with paying more. Community college students found that one of the least developed systems in the country was falling even further behind.

People were denied hospital care and forced to rely on inadequate or non-existent home care. Restraint on physician payments led to an increase in “tray fees” and other subtle forms of extra-billing. Failure to increase income assistance payments in pace with inflation added to the lineups at the food banks and other social agencies.

Cuts hurt the economy

With limited employment opportunities, the loss of nearly 3,500 provincial public service jobs between 1991 and 1995 was a very serious blow. In addition, the Nova Scotia economy lost about $30 million a year from the 3% wage rollback that went into effect in 1994. The cumulative impact of the drop in public service wages and salaries between 1991 and 1995 was $118 million. Those who lost their jobs, or who suffered a loss of income through the wage rollbacks, spent less in their communities. This affected the incomes of others. This “multiplier” effect meant that the total impact on the economy of the province’s “spend less” approach was probably over $160 million. And worsening these effects were severe federal cuts and sharp reductions in benefits for UI recipients.

The result was that Nova Scotia was still in a recession in the mid-1990s. Instead of rising revenues that would help the province overcome its fiscal problems, the economy and government revenues stagnated. Nova Scotia’s own-source revenues grew by a mere 1.5% a year between 1991 and 1996—and nearly half of that increase was due to the sales tax changes.

Cuts not sustainable

Downsizing, downloading and public sector wage restraint helped to keep the lid on program expenditures until 1997. But this kind of restraint was not sustainable. It became clear that there were not enough teachers to maintain quality in the classroom, not enough health care workers to meet the needs of Nova Scotians, not enough workers in the government departments to adequately carry out the tasks of government. And, after seven years, extension of the wage freeze and continued suspension of collective bargaining for public employees was out of the question.

In 1998, wage and salary costs rose for the first time in seven years. The number of staff paid directly by the provincial government—down almost 25% between 1993 and 1997 —rose slightly. After bottoming-out at 9,356 in 1995, the number of full-time teachers reached 9,621 in 1998-99, still 800 fewer than in 1990-91.

6. Re-defining the problem

A balanced approach

Nova Scotia has a deficit and debt problem, but not a crisis. That problem was not caused by overspending on programs like health, education and social services. The main cause is slow growth, due to the nature of the regional economy and compounded by the effects of high interest rates and federal cuts. Between 1990 and 1998, our economy, as expressed by the Gross Domestic Product, grew by only 23.5%. This was just two-thirds of the national rate of growth, and the lowest of the four Atlantic Provinces.

As much as anything, our stagnant economy was responsible for our low revenue growth and our chronic deficit problem. We have a deficit this year and a relatively large debt that is growing because of that deficit. The dilemma is that the government of Nova Scotia must provide services to people. It must meet the needs of Nova Scotians. It must ensure those services can be paid for, today and in the future. The government must ensure that providing services today does not compromise our ability to provide services in the future.

But, also important, government must ensure that savings derived from reduced services today do not cause additional costs in the future. Advocates of balanced budgets say attacking the deficit gives our children and grandchildren a better, debt-free (or debt-reduced) future. But what about the future of the growing number of children being raised in poverty? What about the future of school children, who face education cutbacks almost every year of their school career?

What about the university student whose private debt is over $30,000? Is a student better off when tuition fees are increased and a dollar of private debt (at a higher intererest rate) is substituted for a dollar of public debt? Are the students and the Nova Scotia economy not worse off if it is decided that education is getting too expensive? We need to question the value of a debt-reduced future for which our young people have not been properly prepared, yet have a higher personal debt. We need to recognize that a “spend less” approach for the provincial government means downloading debt to local communities, to families, and to individuals. Clearly, we need an approach to our fiscal problems that strikes a balance between the government’s need to provide services for our collective good and the need for long-term fiscal sustainability.

A framework for defining deficit goals

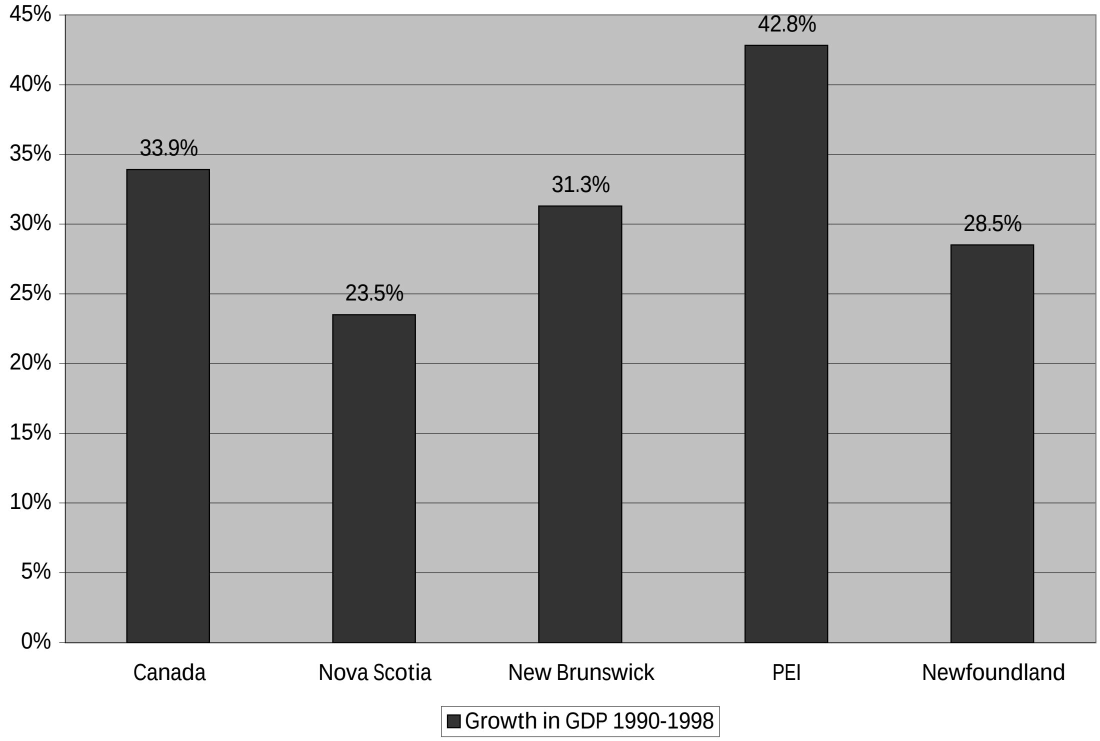
The Conservative government wants a balanced budget in 2002. What would be the benefit of a balanced budget in 2002-2003? A balanced budget in 2002-2003 would mean that Nova Scotia would not add to its net debt that year. As long as interest rates

Table 15 Growth in GDP, Canada and Atlantic 1990-98

	Canada	Nova Scotia	New Brunswick	Prince Edward Island	Newfoundland
1990	$668.6 billion	$16.75 billion	$13.1 billion	$2.01 billion	$8.8 billion
1998	$895.5 billion	$20.69 billion	$17.2 billion	$2.87 billion	$11.3 billion
Increase	33.9%	23.5%	31.3%	42.8%	28.5%

Source: Statistics Canada

Figure 2 Growth in GDP, Canada and Atlantic 1990-98



and the value of the Canadian dollar did not change, Nova Scotia could count on stable debt-servicing costs. Of course, such stability never happens. Interest rates and the value of the dollar go up and down all the time, affecting debt service costs in the process. Even though our debt went up between 1995 and 1998, the amount we paid out in debt servicing went down—from $810 million in 1995 to $665 million in 1998.

The costs are easier to predict. Civil service managers are now going through an "exercise" in which they have been told to prepare budgets with 15% and 30% reductions. A 15% decrease in spending by the Department of Education would force school boards to cut $100 million, the equivalent of more than 2,000 teaching positions. This would extract a dramatic toll across the province, as would a 15% reduction in health spending. And how can anyone justify a 15% cut in social assistance, knowing it would lead to more homelessness and massive increases in those forced to use the food banks? What value does a balanced budget in 2002-2003 have if it is achieved at such horrendous cost? The level of cuts contemplated in the government's "exercise" are simply social irresponsibility.

We need a different framework for managing our debt and deficit—a balanced approach that does not set an arbitrary date for balancing the books nor require destructive program cuts to achieve it. Rather than setting zero deficit as a goal, we need to ensure that the debt and deficit are sustainable. A balanced approach also ensures that social deficits are kept under control as well—that needed investments are made in public services.

7. Summing up and moving forward

Nova Scotians believed the sacrifices they made during the 1990s had put the province on a better financial footing. The post-election revelation that we are deeper in debt is a disappointment, but not a crisis. New accounting methods applied to the 1999-2000 budget raised our reported deficit and debt to GDP ratio significantly, but did not affect our credit-worthiness or our ability to pay.

Nova Scotia does not have a deficit crisis. More than 55% of the most recent deficit figure, used by the provincial government to justify the contemplated drastic cuts in program spending and reduced services, is made up of one-time items such as costs related to Sysco and Y2K. To emphsize the one-time high deficit figure contributes to a general hysteria which undermines Nova Scotians' ability to rationally assess the province's fiscal situation, and it obscures the options we have as a province and the choices the government makes.

The government has targeted program spending as the root of our fiscal problems. But the assessment of expenditures presented in this paper shows that, rather than spending excessively on programs, Nova Scotia, on a per capita basis, has consistently spent the second lowest among all provinces throughout the 1990s.

Program expenditures are not the root cause of our fiscal problems. Our current problems stem from the slow growth of our economy. This is a result of ongoing regional disparities within Canada which characterize the Atlantic regional economy. The Atlantic provinces have been affected disproportionately to other provinces due to the historically predominant role that federal spending and programs have had in the region. Our economies were particularly vulnerable to the shocks of high interest rates and federal government cuts during the 1990s.

By going after the wrong target—i.e., program spending—the Nova Scotia government is imposing an unacceptable toll on public services and the quality of life in a province already suffering from the massive cuts of the 1990s. It risks undermining the viability of Nova Scotia as a desirable place to live, work, and invest.

While this paper shows that we do not have a deficit and debt crisis, it does recognize that we have a fiscal problem that has to be addressed. Nova Scotia needs a balanced approach to addressing these problems; fiscal prudence and socially just policies need to be balanced to meet Nova Scotia's long-term needs

Appendix A

Re-writing the books and political agendas

New governments in 1993 and 1999 took as one of their first tasks a thorough audit of the province's accounts. In 1993, that process produced a deficit of $471 million for 1992-93, about three times higher than that predicted by the previous government. The process also led to accounting changes which contributed to a year-over-year increase of $1.473 billion in the province's net direct debt. The audit created the climate for the government to carry out deep cuts to the public service.

In 1999, the audit again produced dramatic results. A small $1.5 million surplus predicted by the previous government was transformed into a whopping deficit—initially projected at $497 million in September 1999, then raised to $767 million in March 2000 with the booking of $378.5 million in future costs related to Sysco. Again significant debt, this time more than $2 billion, was added to the province's books because of the accounting changes. And again, some are trying to set the stage for a round of public service cuts.

The post-election accounting events of 1999 had several things in common with events in 1993. They suited the political agenda of the incoming governments, providing them with a clear, measurable task during their mandate, as well as a pretext for ignoring any election promises that were not a priority. Yet neither audit materially changed the province's well-being.

A devastating storm, a severe drought, a drop in the value of the dollar, a sharp rise in the price of oil or the depletion of fish stocks—all can have a real impact on Nova Scotians' economic well-being. However, the dramatic post-election audits had little real economic effect. They produced large headlines, rhetoric about "living beyond our means," and concern among public employees and the public at large. But nothing about Nova Scotia's true fiscal picture changed. Our credit rating remained the same, the cost of borrowing money remained the same, and the amount of debt to service remained the same. The Minister of Finance, had this to say on Sept. 28, 1999:

> "An increase in the net direct debt and the cost of servicing that debt is not directly connected, e.g., the increase in pension unfunded liabilities does not affect debt service payments, and the majority of the health and hospital board deficits were in the form of non-interest-bearing loans from the province, and so the expense had already been included in debt servicing costs."

There was one significant difference between the post-election audit of 1999 and that of 1993. The 1999 audit was carried out by the provincial Auditor-General, in accordance with generally accepted auditing standards. Acceptance of the recommendations of the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants was an approach endorsed by all three parties during the election campaign and implemented by the new Conservative government in September 28, 1999.

In time, adherence to CICA rules should have a positive effect on Nova Scotia's political culture. It should put a stop to governments "balancing" the budget by hiding hospital, health board and school construction costs "off-book." More important, it will ensure that new governments will not find (or create) nasty fiscal surprises that provide them with reasons for executing a 180-degree policy turn once they take office. In the short term, however, adoption of the CICA rules seems to have left Nova Scotia with what some see as a major problem: a large deficit for 1999-2000 and a bigger net direct debt than most people thought we had a year ago.

Impact of accounting changes

Two key changes to accounting policies were implemented.

1. The province's financial statements were consolidated. This brought onto the books the operating deficits of hospitals and regional health boards as well as the losses for Sysco and Nova Scotia Resources Limited. For 1999-2000, this accounting change, combined with a decision by the new government not to proceed with the Health Investment Fund (HIF), but to carry out the health expenditures planned for the first year of the HIF, had a negative effect on the balance sheet of about $300 million.

2. The amortization period for foreign exchange gains and losses was changed, adding $257 million to the debt and contributing to a $76.5 million increase in debt service costs recorded for 1999-2000.

In addition, the impact of the public service pension contribution holiday was restated, adding another $252 million to the debt. The government also decided that accounting purity demanded that $55 million worth of privately-owned P-3 school construction should be put on the books as a capital expense for 1998-99.

The accounting changes were retroactive, turning small surpluses reported in 1997, 1998 and 1999 into deficits totalling $744 million. Those accumulated deficits, combined with other accounting changes, pushed up the provincial debt from the $8.369 billion reported on March 31, 1998, to the $9.928 billion reported at the end of fiscal 1998-99. The year-over-year increase in net direct debt from accounting changes is $1.559 billion. But, as the Minister of Finance himself acknowledged, the increase in reported direct debt resulting from the accounting changes has no effect on actual debt-servicing costs. Those charges will be affected by interest rates, the value of the Canadian dollar, and any future increases in net direct debt. It is good to have a clear idea of what the debt actually is, but this knowledge does not suddenly create a debt and deficit crisis.

Endnotes

[1] Spending to meet the needs of Nova Scotians

The government of Nova Scotia performs many important roles: providing necessary services, redistributing income and maintaining the institutions which make our civil society and economy work in the public interest. These needed government functions are financed through taxes, fees and transfers from other levels of government. If the cost of providing these services exceeds revenues in a given year, an operating deficit is created. Such an annual operating deficit is added to the provincial debt. This has the effect of increasing the debt and the ongoing cost of servicing the debt. Deficits and rising debt are not good or bad, per se. The issue is whether the government is providing the services Nova Scotians need and demand, and whether the cost of doing so is sustainable.

Expenditures

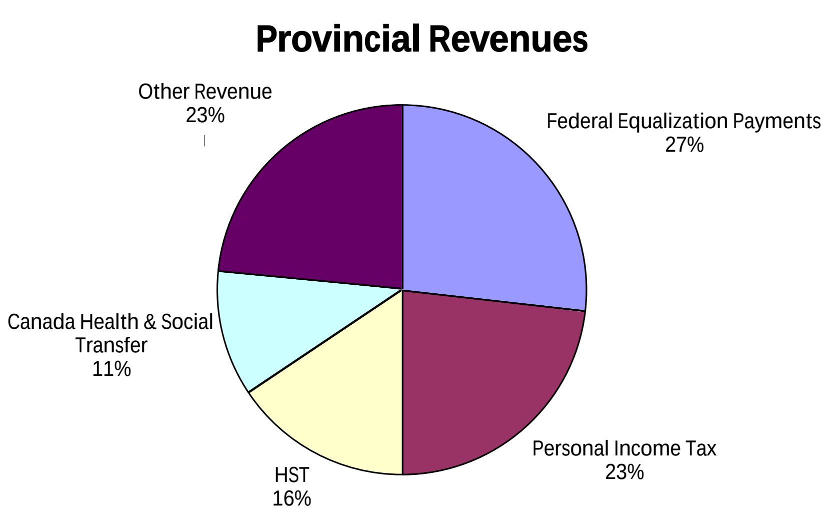
In the fiscal year ending March 31, 2000, the Nova Scotia government is forecasting total spending slightly in excess of $5 billion.

Nova Scotia Expenditures (in millions)		Percent of Total Spending
Health	$1,764	35%
Education & Universities	1,075	21%
Debt Servicing	808	16 %
Community Services	582	12%
Other Government Activities	830	16%
Total Expendures	$5,059	

Other activities include the justice system, environmental protection, transportation, public works, municipal affairs, agriculture, fisheries, natural resources, assistance to business, tourism promotion and cultural development.

Revenue sources

The province expects to collect $4.763 billion in revenue in the current fiscal year.



Other revenue includes fuel and tobacco taxes, corporate taxes, and income from the gaming corporation and the Liquor Commission.

[2] Other factors, as cited in the October 14, 1999 budget speech were:

- Unrealized productivity savings and recoveries from the federal government – $95 million;
- Additional education costs – $21 million;
- Additional community services costs – $5 million;
- Economic development commitments – $12.3 million;
- Increased debt servicing costs from a decline in the Canadian dollar – $5 million;
- Election, severance and mandate implementation costs – $27.4 million;
- Drought and flood spending – $8 million

[3] Discounting inflation, the 1980 to 1990 increase was 51.9%; the increase between 1990 and 1997 was only 3.6%. With Canada's population increasing by about 7% during that period, the result was a constant dollar decline in per capita health spending from $1645 in 1990 to $1574 in 1997.

[4] Victory declared too soon

The provincial budget of 1996-97 was notable for two things: 1) it was the first "balanced" budget in nearly 20 years and; 2) it announced the introduction of the Harmonized Sales Tax (HST) and several other taxation measures, including a two-point reduction in the provincial income tax rate. Application of the Canadian Institute of Chartered Accountants rules later showed that the balanced budget was in fact a $115 million deficit. But the Finance Minister had prematurely declared victory over the deficit in another way as well. The tax changes contained in the budget reduced provincial revenues when we could not afford it.

[5] The biggest HST break went to business. Under the HST, business is entitled to recover HST paid on goods and services. By one estimate, this saving was worth about $200 million a year when it was introduced. The 1996-97 budget also introduced the Corporate Capital Tax which takes back some (estimated at $47 million this year) of the HST windfall from large corporations.

In recognition that the province would lose money under the HST, the federal government offered a $249 million transitional assistance program which was drawn down at the rate of $118.6 million in the first year of the GST, $77.7 million in the second and $52.7 million this year. That compensation actually made Nova Scotia's books look better for the years between 1997 and 2000. The province is now faced with paying back part of that compensation if revenue losses under the HST do not equal.