



Renewed prosperity for Nova Scotia

Prebudget Submission to the
Government of Nova Scotia

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About the Canadian Taxpayers Federation

The Canadian Taxpayers Federation is a federally incorporated, not-for-profit citizen's group dedicated to lower taxes, less waste and accountable government. The CTF was founded in Saskatchewan in 1990 when the Association of Saskatchewan Taxpayers and the Resolution One Association of Alberta joined forces to create a national organization. Today, the CTF has 235,000 supporters nation-wide.

The CTF maintains a federal office in Ottawa and regional offices in British Columbia, Alberta, Prairie (SK and MB), Ontario, Quebec and Atlantic. Regional offices conduct research and advocacy activities specific to their provinces in addition to acting as regional organizers of Canada-wide initiatives.

CTF offices field hundreds of media interviews each month, hold press conferences and issue regular news releases, commentaries, online postings and publications to advocate on behalf of CTF supporters. CTF representatives speak at functions, make presentations to government, meet with politicians, and organize petition drives, events and campaigns to mobilize citizens to affect public policy change.

Any Canadian taxpayer committed to the CTF's mission is welcome to [join at no cost and receive issue and Action Updates](#). Financial supporters can additionally receive the CTF's flagship publication *The Taxpayer* magazine published three times a year.

The CTF is independent of any institutional or partisan affiliations. All CTF staff, board and representatives are prohibited from holding a membership in any political party. In 2019-20, the CTF raised [\\$4.8 million](#) on the strength of 31,655 donations. Donations to the CTF are not deductible as a charitable contribution.



Executive Summary

News of a balanced operational budget for 2021-22 gave Nova Scotia taxpayers a glimpse into a more sustainable future. Unfortunately, it seems like this bit of good news is more circumstantial as opposed to a long-term trend.

Estimates from the independent Parliamentary Budget Officer¹ show the government of Nova Scotia has a \$284 million gap between its current spending levels and those necessary to keep the budget balanced in the long term.

Despite years of balanced operational budgets before the pandemic, the province's debt has been going up, with estimates putting it around \$16.9 billion² by March 31, 2022. This is costing Nova Scotians \$689 million³ in interest payments this year.

For this budget year, the government's challenge will be to find enough efficiency savings to bring it back to sustainability, while doing enough to help the local economy grow.

The measures outlined in this report aim to do just that. They are providing tax cuts to individuals and businesses

to grow the economy. They are also highlighting specific areas of government where efficiencies can be found, as well as tools to identify further savings. They are:

- Cutting income tax bills by 10 per cent to help families face cost-of-living increases.
- Replacing business subsidies with business tax relief to stimulate growth.
- Bringing government employee compensation in line with the Nova Scotia labour market.
- Indexing personal income tax brackets to end inflation-based tax hikes.
- Eliminating the Yarmouth-Maine Ferry Operating Grant.
- Conducting a thorough program review to reduce spending.

With these proposed measures, we are confident that Nova Scotia will emerge from this crisis in a strong financial position and with a stronger and more resilient economy.

TABLE 1

Costed Measures	Fiscal Stimulus	Budgetary Savings
Cutting all income tax bills by 10 per cent	\$317.0	
Replacing business subsidies with business tax cuts	\$157.2	\$157.2
Bringing employee compensation to market levels		\$667.0
Eliminating the Yarmouth-Maine Ferry Operating Grant		\$15.3
Total per category	\$474.2	\$839.5
Net budget impact:		\$365.3

All numbers are in millions

¹ <https://www.pbo-dpb.gc.ca/en/blog/news/RP-2122-010-S-fiscal-sustainability-report-2021-rapport-viabilite-financiere-2021>

² <https://notices.novascotia.ca/files/budget-forecast-notices/Budget-Forecast-Update-December-2021.pdf>

³ <https://notices.novascotia.ca/files/budget-forecast-notices/Budget-Forecast-Update-December-2021.pdf>

Fiscal stimulus

There exists prosperity gap between Nova Scotia and other Canadian jurisdictions. Out of ten provinces, Nova Scotia's GDP per capita was ninth in the country in 2020, coming in at \$41,412 compared to the national average of \$53,174.⁴

This translates to lower salaries for workers, lower profits for local businesses and lower tax revenues for the government. As the government aims for the economy to rebound, addressing this gap should be at the top of its economic priorities.

Neighbouring New Brunswick came to the same realization and identified five strategic objectives that would help the province close this gap. They are:

1. Increasing private sector investment.
2. Increasing productivity.
3. Diversifying and growing exports.
4. Increasing immigration and repatriation.
5. Growing Gross Domestic Product.

There is nothing to indicate those objectives wouldn't help Nova Scotia lift itself to a more prosperous level.

They are also intrinsically linked. Growing private sector investment creates new jobs, which in turn increase GDP and make the region more attractive for workers to move to.

Growing private sector investment involves making sure individuals and businesses have the funds available to make said investments or grow the local market via their consumption.

An effective way for the government to do this is to take less cash out of citizens and local businesses' pockets by reducing their taxes.

Peer-reviewed studies^{6 7 8 9 10} have found a clear link between tax cuts and economic growth. Given the heavy tax burden that Nova Scotians shoulder, at nearly 36 per cent of GDP,¹¹ there is room to reduce it to stimulate the province's economy.

As such, the suggestions from this section will focus on reducing Nova Scotians' tax burden for the province to grow its way to prosperity.

⁴ <https://royal-bank-of-canada-2124.docs.contently.com/v/provinces-enter-advanced-stages-of-recovery-in-2022-pdf>

⁵ <https://onbcanada.ca/wp-content/uploads/2020/10/ERGAP-final-ENG.pdf>

⁶ <https://academic.oup.com/qje/article-abstract/133/4/1803/4880451?redirectedFrom=fulltext>

⁷ <https://www.aeaweb.org/articles?id=10.1257/pol.20170241&&from=f>

⁸ https://www.nber.org/system/files/working_papers/w20753/w20753.pdf

⁹ <https://www.journals.uchicago.edu/doi/abs/10.1086/701424>

¹⁰ <https://www.jstor.org/stable/41789231>

¹¹ <https://cftp.recherche.usherbrooke.ca/wp-content/uploads/2021/01/Bilan-de-la-fiscalite-Edition-2021.pdf>

Cut income tax bills by 10 per cent to help families face cost of living increases

Estimated fiscal stimulus: \$317.0 million

Nova Scotia families have been hit hard by inflation in the last year. Canadians had to deal with an average 4.7 per cent¹² increase in the cost-of-living last year. Nova Scotians were the third hardest hit in the country, with prices increasing by 5.4 per cent year-over-year.¹³

This increase contrasts with the average¹⁴ 1.3 per cent annual increase in the province's cost of living for the previous five years.

One of the best ways for the government to help families afford their new bills is not to do more, but rather to take less cash out of their pockets.

In 2019, the last fiscal year for which data is available, income taxes represented an expense equivalent to 17 per cent¹⁵ of Nova Scotians' total income. This is a significant amount of money and is only one of the many types of taxes levied on Nova Scotian families.

It's also important to note that economic research is very clear about the link between tax relief measures and economic growth.^{16 17 18}

One of the many tools with which governments can bolster consumer confidence is by increasing household incomes through tax relief. By taking less cash out of taxpayers' pockets, governments can boost household incomes and grow the economy.

As the Progressive Conservatives rightly recognized in their election platform,¹⁹ Nova Scotia has one of the lowest level of GDP per capita in the country. At \$41,412 per person,²⁰ in 2012 adjusted dollars, only Prince Edward Island has lower levels.

One of the factors explaining this poor economic performance is that fact Nova Scotia's households have an after-tax disposable income level that's nine per cent below the national average.²¹ After Nova Scotians have paid all of their taxes, they have less cash available to spend in local businesses or to invest in the local economy.

¹² <https://www150.statcan.gc.ca/n1/daily-quotidien/211117/cg-a006-eng.htm>

¹³ <https://www150.statcan.gc.ca/n1/daily-quotidien/211117/cg-a006-eng.htm>

¹⁴ <https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=1810000501&pickMembers%5B0%5D=1.7&cubeTimeFrame.startYear=2015&cubeTimeFrame.endYear=2020&referencePeriods=20150101%2C20200101>

¹⁵ <https://www150.statcan.gc.ca/t1/tbl1/en/cv.action?pid=1110005501>

¹⁶ https://www.brookings.edu/wp-content/uploads/2016/06/09_effects_income_tax_changes_economic_growth_gale_samwick.pdf

¹⁷ <https://www.taxpolicycenter.org/briefing-book/how-do-taxes-affect-economy-long-run>

¹⁸ <https://taxfoundation.org/what-evidence-taxes-and-growth/#:~:text=In%20sum%2C%20the%20U.S.%20tax,a%20higher%20standard%20of%20living>

¹⁹ https://issuu.com/nspcparty/docs/11611_pcns-2021_platform-c_update_v9a

²⁰ <https://royal-bank-of-canada-2124.docs.contently.com/v/provinces-enter-advanced-stages-of-recovery-in-2022-pdf>

²¹ <https://royal-bank-of-canada-2124.docs.contently.com/v/provinces-enter-advanced-stages-of-recovery-in-2022-pdf>

There is a clear relationship between household disposable income and household consumption,^{22 23} and between consumer spending and GDP growth. There is also a clear relationship between household savings and private investment.²⁴

By lowering the province's income tax bills by 10 per cent, the government would directly reinject \$317 million dollars into the local economy.²⁵

TABLE 2

Taxable income	Current tax bill	Tax bill with proposed tax cut	Savings under proposed plan
\$50,000	\$4,775	\$4,298	\$478
\$70,000	\$8,057	\$7,251	\$806
\$90,000	\$11,417	\$10,275	\$1,142

Source: UFile

Replacing business subsidies with business tax relief to stimulate growth

Estimated savings: \$157.2 million in budget savings and \$157.2 million in tax relief

While the province's labour market seems to have largely recovered from the pandemic, the province's 8.1 per cent²⁶ unemployment rate remains a cause for concern.

Finding employment for out-of-work Nova Scotians and making sure existing jobs don't disappear is not a matter of helping a handful of sectors of the economy. It rather depends on creating a good business environment for all sectors to thrive in. Given this, a governmental approach favouring specific sectors or companies does not reflect the needs of Nova Scotia's economy.

It is also important to note that subsidies are not the most effective tool for governments to attract business investment. Instead, governments should focus on creating the right business environment to attract job creators. When job creators decide where to relocate or expand, their primary focus is usually on long-term profitability rather than one-off subsidy packages.²⁷

Other factors, such as regulatory burdens, workforce education, and availability of transportation infrastructure, lead to market access having a much bigger impact on decisions to locate in one jurisdiction rather than a one-off financial aid packages at taxpayers' expense.²⁸ Subsidies merely act as icing on the cake for job creators who have already analyzed the risks and potential returns in establishing a viable location for their investment project.

²² <http://www.econ2.jhu.edu/people/ccarroll/papers/cos-wealth-effects-literature/papers/macklem.pdf>

²³ <https://www.atlantis-press.com/proceedings/emehss-17/25874812>

²⁴ <https://www.jstor.org/stable/2117526?seq=1>

²⁵ <https://notices.novascotia.ca/files/budget-forecast-notices/Budget-Forecast-Update-December-2021.pdf>

Economic research found no statistically significant relationship between business subsidies and economic growth or per capita GDP levels.²⁹ What is clear, is that the level of corporate taxation, compared to competing jurisdictions, affects a company's productivity, and ultimately its bottom-line and pace of growth.³⁰

Competitive tax rates attract job creators and direct investment.³¹ Lower tax rates also contribute to lowering the cost of capital³² for job creators, thus increasing their ability to re-invest in their company.

Compared with other provinces, Nova Scotia's corporate tax rate puts the province at an investment disadvantage, with a significantly higher rate of 14 per cent versus the 12.6 per cent national average.³³

Last year, the government of Nova Scotia spent \$157 million sending direct and indirect subsidies for specific economic sectors through a variety of government funds and programs.³⁴ This is equivalent to 38 per cent of what the province collected through corporate income taxes over the same period.

Replacing business subsidies with corporate tax cuts would have an added advantage: reducing the economic distortion associated with targeted financial measures.³⁵ Nova Scotia's economic strength should not be based on growth expectations in a few targeted sectors, but rather by a broad-based growth of its economic pie and the associated employment and incomes that come with it.

The province should replace these subsidies with an equivalent tax cut in the general and small business corporate income tax rates. Lowering the small business tax rate from its current 2.5 percentage points to 1.72 percentage points, and the general corporate tax rate from its current 14 percentage points to 9.67 percentage points would represent \$157 million in savings for Nova Scotian businesses of all sizes, based on the numbers provided in the December update.³⁶

TABLE 3

Provincial general corporate tax rates

Canadian Jurisdiction	General corporate tax rate
Prince Edward Island	16%
Newfoundland and Labrador	15%
Nova Scotia	14%
New Brunswick	14%
Canadian provincial average	12.6%
Manitoba	12%
Saskatchewan	12%
British Columbia	12%
Quebec	11.6%
Ontario	11.5%
Alberta	8%

Sources: Provincial government websites

³¹ <https://www.oecd.org/mena/competitiveness/41997578.pdf>

³² https://files.taxfoundation.org/legacy/docs/TaxFoundation_FF477.pdf

³³ <https://www.canada.ca/en/revenue-agency/services/tax/businesses/topics/corporations/corporation-tax-rates.html>

³⁴ <https://notices.novascotia.ca/files/public-accounts/2021/pa-volume-1-financial-statements-2021.pdf>

³⁵ https://www.jec.senate.gov/public/_cache/files/fe2eafaa-f355-462f-b515-15ad4a8f5e74/the-inefficiency-of-targeted-tax-policies-april-1997.pdf

³⁶ <https://notices.novascotia.ca/files/budget-forecast-notices/Budget-Forecast-Update-December-2021.pdf>

Indexing personal income tax brackets to end inflation-based tax hikes

Estimated fiscal stimulus: N/A

Nova Scotia is one of the few provinces that fails to index its tax brackets. That means taxpayers are forced into higher tax brackets by inflation, even though their actual buying power hasn't gone up. The federal government and most provinces fix this problem by indexing tax brackets to inflation. Failing to index brackets is a form of covert tax hike known as bracket creep.

Apart from a few changes to the basic personal amount, tax brackets in Nova Scotia have remained unchanged since 2000,³⁷ except for the addition of high-income brackets in 2004 and 2010. Meanwhile, the purchasing power of a dollar has gone down by 45 per cent in Nova Scotia.³⁸

TABLE 4

Tax rate	Current bracket minimum	Bracket minimum if it had followed inflation
8.79%	\$0	\$0
14.95%	\$29,590	\$42,817
16.67%	\$59,180	\$85,663
17.50%*	\$93,000	\$121,792
21.00%**	\$150,000	\$175,000

* Indexed according to its introduction in 2004.

** Indexed according to its introduction in 2010.

Across the country, most governments have recognized the negative impacts of bracket creep and have elected to index their tax brackets to inflation. Only Prince Edward Island, Nova Scotia and Alberta fail to index their all their tax brackets.

This indexation would have a significant impact on Nova Scotians in the long-run as the impact of bracket creep compounds year over year.

Nova Scotia should change its Income Tax Act so the basic minimum amount and tax brackets are indexed to the consumer price index starting this fiscal year. The table below provides an overview of tax savings at different income levels that would result from indexing tax rates, based on September's CPI data, as numerous other provinces are using.³⁹

TABLE 5

Income	Impact of bracket creep
\$50,000	\$75
\$70,000	\$104
\$90,000	\$246

Source: Canadian Taxpayers Federation

³⁷ <https://nslslegislature.ca/sites/default/files/legc/statutes/income%20tax.pdf>

³⁸ <https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=1810000501&pickMembers%5B0%5D=1.7&cubeTimeFrame.startYear=2000&cubeTimeFrame.endYear=2020&referencePeriods=20000101%2C20200101>

³⁹ <http://www.taxpayer.com/media/New-Years-Tax-Changes-2022.pdf>

Finding savings in government operations

High levels of government debt and long-term deficit projections have an adverse effect on an economy. Economic research finds that, the higher the level of government debt – especially when gross debt runs past the 75 to 100 per cent of GDP threshold – the lesser the growth.^{40 41 42}

This is worrying in the Canadian context as gross debt for all levels of government represented 133 per cent of GDP in the second quarter of 2021.⁴³ At such levels, high public debt represents a drag on our economy, meaning less jobs, slower wage growth and a local market not able to reach its full potential.

Nova Scotia is not exempt from this problem, carrying gross debt equivalent to \$17.5 billion.⁴⁴ Given the province's GDP of \$46.8 billion last year, provincial government debt is equivalent to 37.4 per cent of the province's economy.⁴⁵ Add to that local and federal debt and you quickly reach a level of debt detrimental to growth.

Notwithstanding its negative economic impact, Nova Scotia's government debt represents a significant burden for taxpayers. Government projections put debt interest payments at \$689 million⁴⁶ this year.

With inflation at record-highs,⁴⁷ the Bank of Canada signaled⁴⁸ it would increase its overnight rate as early as 2022. When the Bank of Canada increases its rates, the rest of the market tends to follow.

Given the province's \$17.5 billion gross debt,⁴⁹ an increase of one percentage point in interest rates would lead its debt service tab to increase by \$175 million. This is money the province doesn't have and is unlikely to have in the future.

According to the Parliamentary Budget Officer's Fiscal Sustainability analysis,⁵⁰ Nova Scotia is faced with a long-term deficit⁵¹ equivalent to 0.7 per cent of its economy. This represents a \$284 million⁵² hole based on finalized 2020 figures.

⁴⁰ https://www.mercatus.org/system/files/de_rugy_and_salmon_-_policy_brief_-_debt_and_growth_a_decade_of_studies_-_v1.pdf

⁴¹ <https://publications.iadb.org/publications/english/document/Government-Debt-and-Economic-Growth.pdf>

⁴² <https://www.cairn.info/revue-economique-2011-6-page-1015.htm>

⁴³ <https://www150.statcan.gc.ca/t1/tbl1/en/cv.action?pid=3810023701>

⁴⁴ <https://notices.novascotia.ca/files/public-accounts/2021/pa-volume-1-financial-statements-2021.pdf>

⁴⁵ <https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=3610022101&pickMembers%5B0%5D=1.4&cubeTimeFrame.startYear=2016&cubeTimeFrame.endYear=2020&referencePeriods=20160101%2C20200101>

⁴⁶ <https://notices.novascotia.ca/files/budget-forecast-notices/Budget-Forecast-Update-December-2021.pdf>

⁴⁷ <https://www150.statcan.gc.ca/n1/daily-quotidien/211117/cg-a006-eng.htm>

⁴⁸ <https://www.bloomberg.com/news/articles/2021-10-27/bank-of-canada-accelerates-potential-timing-of-rate-hikes>

⁴⁹ <https://notices.novascotia.ca/files/public-accounts/2021/pa-volume-1-financial-statements-2021.pdf>

⁵⁰ <https://www.pbo-dpb.gc.ca/en/blog/news/RP-2122-010-S-fiscal-sustainability-report-2021-rapport-viability-financiere-2021>

⁵¹ A province's long term deficit is calculated by adding its fiscal gap to average GDP growth projections

⁵² <https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=3610022101&pickMembers%5B0%5D=1.4&cubeTimeFrame.startYear=2016&cubeTimeFrame.endYear=2020&referencePeriods=20160101%2C20200101>

Bringing government employee compensation in line with the Nova Scotia labour market

Estimated savings: \$667.0 million

Employee compensation continues to represent a significant share of the government of Nova Scotia's expenses. Salaries and wages have represented the second largest line-item in the government's budget over the past 5 years.⁵³

Last year, the province spent over \$4.5 billion on employee compensation, representing nearly 80 per cent of what it collected from tax revenues.⁵⁴ To stabilize the province's long term fiscal situation and free up resources to provide services to the population, tax relief or both, the government must make sure its compensation costs are in line with what's available for non-government workers in Nova Scotia.

Prior to the pandemic, government employees enjoyed a roughly 17.4 per cent wage premium over the rest of the labour market in Nova Scotia, when adjusting for education.⁵⁵

TABLE 6

	2017	2018	2019	2020	2021
Employee compensation	\$3,907	\$4,091	\$4,085	\$4,381	\$4,507
Total Consolidated Expenditures	\$11,079	\$11,750	\$11,752	\$12,282	\$12,627
Share of Total Consolidated Expenditures	35.3%	34.8%	34.8%	35.7%	35.7%

Source: Government of Nova Scotia, Department of Finance. All numbers in millions.

TABLE 7

	Nova Scotia Labour Market	Composite Labour Market Adjusting for Education of Provincial Employees	Provincial Government Employees	Government Employee Premium
Average Employment Income	\$42,096	\$49,914	\$60,444	17.4%

Source: Statistics Canada and authors' calculations.

⁵³ <https://beta.novascotia.ca/public-accounts>

⁵⁴ <https://notices.novascotia.ca/files/public-accounts/2021/pa-volume-1-financial-statements-2021.pdf>

⁵⁵ <https://www12.statcan.gc.ca/census-recensement/2016/dp-pd/dt-tid/Rp-fra.cfm?LANG=F&APATH=3&DETAIL=0&DIM=0&FL=A&FREE=0&GC=0&GID=0&GK=0&GRP=1&PID=112127&PRID=10&PTYPE=109445&S=0&SHOWALL=0&SUB=0&Temporal=2017&THEME=124&V=0&VNAMEF=&VNAMEF=>

⁵⁶ <https://www150.statcan.gc.ca/t1/tbl1/en/cv.action?pid=1110013301&fbclid=IwAR2pwhhk1uSgWqQ2ufZRkqz6ZY53z8ZL1pEdaP0SOX6g-H9f0IGFYSPGT7o>

⁵⁷ <https://doi.org/10.25318/1410002701-eng>

This composite model excludes pension, as well as other non-wage benefits afforded to government employees which ultimately contribute to the province's higher compensation expenditures.

For instance, government employees have higher enrollment numbers for registered pension plans in comparison to private sector employees. Data from Statistics Canada show a 94 per cent pension enrollment rate for all government employees in Nova Scotia, compared to only 25 per cent of private sector workers^{56 57}.

Government employees also enjoy other non-wage benefits such as earlier retirement, and better job security compared to the average private-sector employee⁵⁹. These non-wage employee benefits overwhelmingly favour government employees over their private sector counterparts and, while there is no direct compensation cost associated with them, they are still part of the economic calculations that individuals make and should be considered when looking into compensation data.

Government employees also enjoy other non-wage benefits such as earlier retirement, and better job security compared to the average private-sector employee⁶⁰.

While there is no direct compensation cost associated with them, they contribute to the discrepancy between government and private sector employees.

Given the province's long term financial unsustainability⁶¹ and ever-increasing compensation costs, Nova Scotia needs to look at one of its biggest line-item expense: employee compensation.

To bring government employee wages in line with private sector practices, the government of Nova Scotia must

implement a 14.8 per cent reduction in compensation costs.

TABLE 8

	Total Employment (2020)	Registered Pension Plan Enrollment	Percentage of employees with Registered Pension Plans
Government Employees	113,400	106,264	93.71%
Private Sector Employees	270,200	68,900	25.50%

Source: Statistics Canada

Government employees also tend to be covered by plans that shift some or all of the risk to taxpayers, as opposed to private sector workers. This results in taxpayer funded bailouts when pension funds do not perform well. Unfortunately, Nova Scotia's pension funds have a combined actuarial pension liability of \$2.8 billion⁵⁸ at the moment.

⁵⁶ <https://www150.statcan.gc.ca/t1/tbl1/en/cv.action?pid=1110013301&fbclid=IwAR2pwhhk1uSgWqQ2ufZRkqz6ZY53z8ZL1pEdaP0SOX6g-H9fOIGFYSPGT7o>

⁵⁷ <https://doi.org/10.25318/1410002701-eng>

⁵⁸ <https://notices.novascotia.ca/files/budget-forecast-notices/Budget-Forecast-Update-December-2021.pdf>

⁵⁹ <https://www.fraserinstitute.org/sites/default/files/comparing-govt-and-private-sector-compensation-in-canada-2020.pdf>

⁶⁰ <https://www.fraserinstitute.org/sites/default/files/comparing-govt-and-private-sector-compensation-in-canada-2020.pdf>

⁶¹ <https://distribution-a617274656661637473.pbo-dpb.ca/93a1e3bc1b4432c0b2eac192241b866d36c048b5efc1aa8224e15364551f0c8e>

This will reduce the estimated cost for government salaries and benefits from \$4.5 billion to \$3.8 billion,⁶² saving New Brunswick taxpayers an estimated \$667.0 million by the end of the fiscal year. These savings can be used to provide much needed tax-relief for taxpayers, while securing the fiscal sustainability of the government of Nova Scotia.

TABLE 9

	Current Costs	Projected Costs with Proposed Reductions
Employee Benefits	\$4,507	\$3,840
Budgetary Savings:		\$667

Source: Government of Nova Scotia, Department of Finance. All numbers in millions.

Eliminating the Yarmouth-Maine Ferry Operating Grant

Estimated impact: \$15.3 million

With health care and social expenses on the rise due to the pandemic,⁶³ Nova Scotia must find savings in other areas. One such service is the infamous Cat, or Yarmouth ferry, that links the province to Maine.

Since its reintroduction in 2015, the Yarmouth-Maine ferry has become a bottomless money-pit for Nova Scotians, costing an estimated \$32 million in taxpayer-funded subsidies from 2015 to 2019⁶⁴. The total cost of subsidies

for the Yarmouth Ferry has more than doubled since, adding an additional \$49.4 million, despite two years of idled service and zero commercial trips^{65 66 67}.

TABLE 10

	Number of commercial trips	Annual Yarmouth Ferry subsidies
2019-2020	0	\$17,800,000.00
2020-2021	0	\$16,335,000.00
2021-2022	0	\$15,309,000.00

Source: Nova Scotia Finance and Treasury Board and Global News Canada

In the seven years since its reintroduction, the province has, on average, spent \$11.6 million every year on the Yarmouth ferry via the operating grant and one-time expenses such as the \$8.5 million⁶⁸ Bar Harbour renovations in Maine. In recent years, the cost of the operating grant has increased to reach \$15.3 million in 2021-22.⁶⁹

To save Nova Scotians an initial \$15.3 million for 2022-23 and potentially tens of millions more in the future, the government must cancel the Yarmouth-Maine ferry operating grant and leave the operations and financing of this ferry service to private-sector operators.

⁶² <https://notices.novascotia.ca/files/public-accounts/2021/pa-volume-1-financial-statements-2021.pdf>

⁶³ <https://notices.novascotia.ca/files/budget-forecast-notices/Budget-Forecast-Update-December-2021.pdf>

⁶⁴ <https://www.taxpayer.com/news-room-archive/shut-down-or-sell-the-yarmouth-ferry>

⁶⁵ <https://globalnews.ca/news/6595917/nova-scotia-subsidy-maine-ferry-2020/>

⁶⁶ <https://globalnews.ca/news/7113709/covid-concerns-nova-scotia-cancels-yarmouth-maine-ferry-service-for-2020/>

⁶⁷ <https://beta.novascotia.ca/sites/default/files/documents/7-2634/estimates-and-supplementary-detail-budget-2021-2022-en.pdf>

⁶⁸ <https://novascotia.ca/news/release/?id=20190320004>

⁶⁹ <https://beta.novascotia.ca/sites/default/files/documents/7-2634/estimates-and-supplementary-detail-budget-2021-2022-en.pdf>

Conducting a thorough program review with the aim of reducing spending

Estimated savings: unknown

Bureaucracy grows to meet the needs of the expanding bureaucracy, as the saying goes. Over the last five years, spending in Nova Scotia has gone up by \$1.1 billion, or 9.4 per cent.^{70 71}

The savings identified thanks to this process led to \$9.8 billion in spending reductions, equivalent to 18.9 per cent⁷³ of federal program spending at the time.

This program review allowed the federal government to balance the budget in 1997-98 and pay down more than \$100 billion⁷⁴ in federal debt before the financial crisis hit in 2008. This reduced the proportion of tax dollars going towards debt interest payments from 30 per cent in 1996-97 down to 13 per cent in 2008-09.⁷⁵

TABLE 11

	2017-18	2018-19	2019-20	2020-21	2021-22 *Forecast
Expenses	\$11,750	\$11,752	\$12,282	\$12,627	12,852

Source: Government of Nova Scotia, Department of Finance, all numbers in millions.

The savings also allowed for significant tax relief, such as GST reduction, business and personal income tax relief, and the establishment of TFSAs as a vehicle to boost household savings.⁷⁶

In its efforts to balance the budget in the nineties, Prime Minister Jean Chrétien's government set forth the best practices for program reviews. The review was comprehensive and applied six tests to every expense:

1. Does it serve the public interest?
2. Is government involvement necessary?
3. Is this an appropriate role for this level of government?
4. Are public-private partnerships possible / desirable?
5. Are there ways to make it more efficient?
6. Can taxpayers afford this expense?

While Nova Scotia's budget situation is not as dire as other provinces faced with significant deficits, its overall fiscal situation, including its significant debt level and high tax rates and long-term deficit projections are worrisome.

As it stands, the province projects its debt will reach \$16.9 billion by the end of the year,⁷⁷ up from \$16.4 billion a year prior.⁷⁸ Interest payments on this debt will cost Nova Scotians \$689 million this year,⁷⁹ despite record-low interest rates.

⁷⁰ <https://notices.novascotia.ca/files/public-accounts/2019/2019public-accounts-volume-i.pdf>

⁷¹ <https://notices.novascotia.ca/files/budget-forecast-notices/Budget-Forecast-Update-December-2021.pdf>

⁷² https://macdonaldlaurier.ca/files/pdf/MLI-Anglosphere-CanadaPaper_Web_F.pdf

⁷³ https://macdonaldlaurier.ca/files/pdf/MLI-Anglosphere-CanadaPaper_Web_F.pdf

⁷⁴ http://www.rbc.com/economics/economic-reports/pdf/canadian-fiscal/prov_fiscal.pdf

⁷⁵ https://macdonaldlaurier.ca/files/pdf/MLI-Anglosphere-CanadaPaper_Web_F.pdf

⁷⁶ https://macdonaldlaurier.ca/files/pdf/MLI-Anglosphere-CanadaPaper_Web_F.pdf

⁷⁷ <https://notices.novascotia.ca/files/budget-forecast-notices/Budget-Forecast-Update-December-2021.pdf>

⁷⁸ <https://notices.novascotia.ca/files/public-accounts/2021/pa-volume-1-financial-statements-2021.pdf>

⁷⁹ <https://notices.novascotia.ca/files/budget-forecast-notices/Budget-Forecast-Update-December-2021.pdf>

With an overheated housing market⁸⁰ and inflation at decades-high,⁸¹ one can expect interest rates to rise in the coming months and years. Such an increase would be reflected in the province's interest payments. Given the province's \$17.5 billion gross debt,⁸² an increase of one percentage point in interest rates would lead its debt service tab to increase by \$175 million.

The government of Nova Scotia should conduct a thorough program review, with the aim of reducing spending to make its finances sustainable in the long run, using the six tests the federal government developed in the nineties. Doing so will help the province close its \$284 million⁸³ long term deficit.

⁸⁰ <https://nationalpost.com/news/canada/canadas-unhinged-housing-market-captured-in-one-chart>

⁸¹ <https://www.cp24.com/news/annual-inflation-rate-rises-to-4-7-per-cent-in-october-statistics-canada-says-1.5669615>

⁸² <https://notices.novascotia.ca/files/budget-forecast-notices/Budget-Forecast-Update-December-2021.pdf>

⁸³ <https://www.pbo-dpb.gc.ca/en/blog/news/RP-2122-010-S--fiscal-sustainability-report-2021--rapport-viabilite-financiere-2021>

Conclusion

Nova Scotia's fiscal situation remains a cause for concern. Rising debt and a \$284 million gap⁸⁴ between current spending levels and sustainable spending levels means Nova Scotians will have to make tough choices in the coming years. The earlier the government makes those decisions, the lesser the impact will be.

Given the fact employee compensation accounts for nearly 36 cents⁸⁵ out of every dollar the government of Nova Scotia spends, reductions in employee compensation will be necessary to address this gap. Eliminating the compensation gap between private sector Nova Scotians and those working for the provincial government would be a good place to start.

The province's Yarmouth to Maine Ferry service has been a drain on taxpayers for years. Last year alone, Nova Scotia's taxpayers paid \$15.3 million in subsidies to the ferry operator despite the fact no crossings occurred.⁸⁶ Since its reintroduction in 2015, the ferry service has needed taxpayers support every single year. We recommend ending the Yarmouth ferry operating grant to save the province's taxpayers from having to bail it out again every single year.

To address its long-term deficit, Nova Scotia will need to identify efficiency savings to reduce the cost of government operations. We recommend that the province conducts a thorough program review with the aim of reducing spending.

To help the province's economy recover and grow, the province must take steps to make the province more attractive to investment in all industries by replacing its subsidies with corporate tax cuts.

Economic research is clear about the positive relationship between disposable incomes and economic growth.

Given this, the government should also use part of the savings outlined to bring tax relief to all Nova Scotians as a way to boost household incomes and increase Nova Scotians ability to spend and invest in local businesses.

Nova Scotia is one of only three provinces that fail to index all income tax rates to inflation. This leads to a situation where families are faced with a tax hike year after year, even if their incomes haven't actually grown. As the cost of living is increasing fast in the province and families have to make tough choices as a result, we recommend that the government index tax brackets to inflation starting in the coming fiscal year.

Overall, the proposed measures will put \$474.2 million back in Nova Scotians' pockets and help save \$839.5 million in government operations. This would ameliorate the province's fiscal situation by \$365.3 million.

⁸⁴ <https://www.pbc-dpb.gc.ca/en/blog/news/RP-2122-010-S-fiscal-sustainability-report-2021-rapport-viabilite-financiere-2021>

⁸⁵ <https://beta.novascotia.ca/public-accounts>

⁸⁶ <https://beta.novascotia.ca/sites/default/files/documents/7-2634/estimates-and-supplementary-detail-budget-2021-2022-en.pdf>