A good news budget that's short on long-term gain.

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Think about this, for six years Nova Scotia has balanced its budget, and in those six years the government added $1.2 billion to the province's debt. So how does that happen? The province increased spending, borrowed to do it, and increased our taxes to pay for that borrowing. Each of us is now on the hook for $13,302 in provincial debt.

Spending is up, so is revenue, the books are balanced, so what's the problem? Without a plan to actually reduce the debt, it's clear that simply balancing the books isn't enough, because little will change. This budget did confirm an earlier government pledge to pay down $830 million in debt thanks to the offshore deal negotiated with Ottawa. Saving $50 to $60 million per year in interest costs <u>is</u> good news, but it will only produce gains if the government doesn't let the black hole of debt get deeper.

Enter the federal government, which through ever growing transfers now cover 35 per cent of Nova Scotia's spending. So in effect, this year's good news is being underwritten by someone else.

Nova Scotia Finance Minister Peter Christie said he delivered a good news budget. But if this is a good news budget, why is Nova Scotia expected to post the worst economic growth in Atlantic Canada, and expected to lag behind the national average by 23 per cent? This shouldn't come as a surprise, just look at last year's budget that substantially hiked capital taxes, which discourages business investment, reducing growth and limiting opportunities for Nova Scotians.

In February, the Atlantic Institute for Market Studies (AIMS) released an evaluation of provincial finances. In that paper by UNB economist David Murrell, Nova Scotia earned a C/C+ grade, largely as a result of backtracking on personal income tax cuts, increasing business taxes and hiking per capita program spending by seven per cent. Since 1999, the year the Hamm government was elected, per capita program spending has increased by 31 per cent. The biggest increases are in health care and education spending, which now account for 60 per cent of the province's budget. Sure, the Hamm government trimmed spending for a couple of years, but as federal transfers to the province increased, the spending taps have been opened a bit more each year. The latest budget continued to increase that flow of government spending.

Throwing businesses a small consolation prize, the government introduced a plan to cut large business tax rates. Last year Finance Minister Christie increased large business tax rates by 20 per cent. This year the government has seen the error of its ways, but will take four years to correct it. Even with this meager reduction, Nova Scotia cannot match the big business tax rates of zero in PEI, Newfoundland & Labrador and British Columbia.

In terms of the province's overall business climate, the general corporate tax rate of 16 per cent outpaces rival business tax rates of 9.25 per cent in New Hampshire, 8.93 per cent in Maine, and is 70 per cent higher than Massachusetts' corporate taxes. With high capital taxes on business, high business taxes and high personal tax rates, it's not hard to see why many companies decide not to invest here. What this means for Nova Scotians, is an economy that is not growing fast enough nor producing enough wealth to support the province's wants and needs.

A six per cent increase in education spending and seven per cent more for health sounds good, but without the right economic foundation to maintain this level of spending Nova Scotia fiscal health remains in peril. The way ahead will require much slower growth in spending, prudent tax reductions and long-term debt repayment. Until Nova Scotia's government adopts this formula, the good news will be short lived.

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