ATLANTIC INSTITUTE FOR MARKET STUDIES

Policy Paper

Dearth of Opportunity

TAX BURDEN AND YOUTH OUT-MIGRATION IN ATLANTIC CANADA

By Matthew Lau
and Marco Navarro-Génie

Halifax, Nova Scotia,

November 2018

The Atlantic Institute for Market Studies (AIMS)

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Executive Summary

Young residents of all four Atlantic provinces have made clear for decades that the best economic opportunities lie outside their home province. For every year since 1985-1986, more young people in their early 20s moved out of each Atlantic province than moved into it from elsewhere in Canada. Over the past two decades, the outflow of youth from the Maritimes has been approximately steady. In Newfoundland and Labrador, previously very high levels of youth out-migration have fallen in the past decade.

It is no surprise that youth have been leaving Atlantic Canada to seek economic opportunity elsewhere. A recent study showed that of 60 jurisdictions (10 Canadian provinces and 50 American states), the four Atlantic provinces ranked among the five weakest labour markets. Business investment per capita is lower in the Maritimes than anywhere else in Canada. Resource-rich Newfoundland and Labrador has seen an investment boom in recent years and a reduction in the outflow of youth, but its unemployment rate remains the highest in Canada.

The root of the problem faced by workers in the Atlantic Provinces is a lack of demand for labour. One of the major reasons for this lack of demand for labour is that the major consumers of labour—private businesses—are more heavily taxed by provincial governments in Atlantic Canada than in other provinces. According to the economic research, since capital is mobile, the burden of high corporate taxes falls primarily on workers in the form of less employment and lower wages.

As long as Atlantic Provinces maintain uncompetitive corporate tax rates and overall tax burdens that are heavier than in other provinces, the outflow of youth seeking better economic opportunity elsewhere should be of no surprise. Indeed, the Canadian evidence and analyses from the United States point strongly toward low taxes as a driver of both economic growth and domestic migration into a jurisdiction.

As this paper argues, the decades-long outflow of youth out of Atlantic Provinces hurts the region economically. Substantial tax reductions, especially to the corporate tax rate, are key to increasing demand for labour in Atlantic Canada and creating the economic opportunities that attract youth and workers of all ages.

Introduction

By voting with their feet, young residents of the Atlantic Provinces have made clear for decades that better economic opportunity lies elsewhere. For every year since 1985-1986, and in each Atlantic province, more people in their early 20s left the province than moved into it from elsewhere in Canada. This persistent out-migration of youth is a long-standing indictment of, and contributor to, the lack of economic opportunity in the Atlantic region.

When young workers exit a province, economic growth slows. At the same time, the fiscal burden becomes heavier because the tax base shrinks while healthcare and education costs continue to rise.[1] The negative economic and fiscal impacts of out-migration encourage yet more youth to move out. The root of this unvirtuous cycle is the lack of good job opportunities due to the low demand for labour in the Atlantic Provinces.

This paper focuses on one of the leading causes of this low demand for labour: the fact that the major consumers of labour—private businesses—are taxed more heavily in the Atlantic Provinces than they are anywhere else in the country. The purpose of this paper is both to explore the problem of youth out-migration in Atlantic Canada and explain how a high tax burden has contributed to this problem by depressing economic opportunity.

This paper is comprised of eight sections. Following this introductory section is a discussion on the rate at which youth are leaving the Atlantic Provinces. Next is a section that reviews the evidence showing that employment and income affect migration decisions, and explains why the Atlantic region is unattractive to many workers who seek greater economic opportunity.

The fourth and fifth sections describe how, over a 12-year period ending in 2014-2015, Ontario actually experienced net out-migration to Atlantic Canada. During this time, residents of the Atlantic Provinces were moving instead to Alberta, where economic opportunity was most abundant. This was in large part due to divergent tax policies. In the early 2000s, businesses and workers in Alberta enjoyed substantial tax cuts while those in Ontario faced significant tax hikes.

The sixth section reviews the evidence from the United States, where recent research has made clear that jurisdictions with lower taxes enjoy more robust economic growth and are more attractive to domestic migrants searching for better opportunities and higher incomes. This section is followed by a discussion that shines a light on how Atlantic Canada's high taxes reduce employment opportunities and make the region less attractive to youth and workers of all ages.

The eighth and concluding section reviews the paper's main points. In short, all four Atlantic provinces need a more disciplined fiscal approach that reduces the tax burden. As long as the region is the most heavily taxed in Canada, supporting some of the largest per capita provincial public sectors in the country, it should be no surprise that youth are heading elsewhere in search of better economic opportunities.

How Many Youth Are Leaving Atlantic Canada?

Some data are necessary in order to understand the magnitude of the out-migration problem for the Atlantic Provinces. Table 1 below summarizes the net interprovincial migration numbers for Atlantic Canadians in their early 20s in each Atlantic province over a period of 45 years.

Table 1

Average Annual Net Interprovincial Migration - Ages 20-24

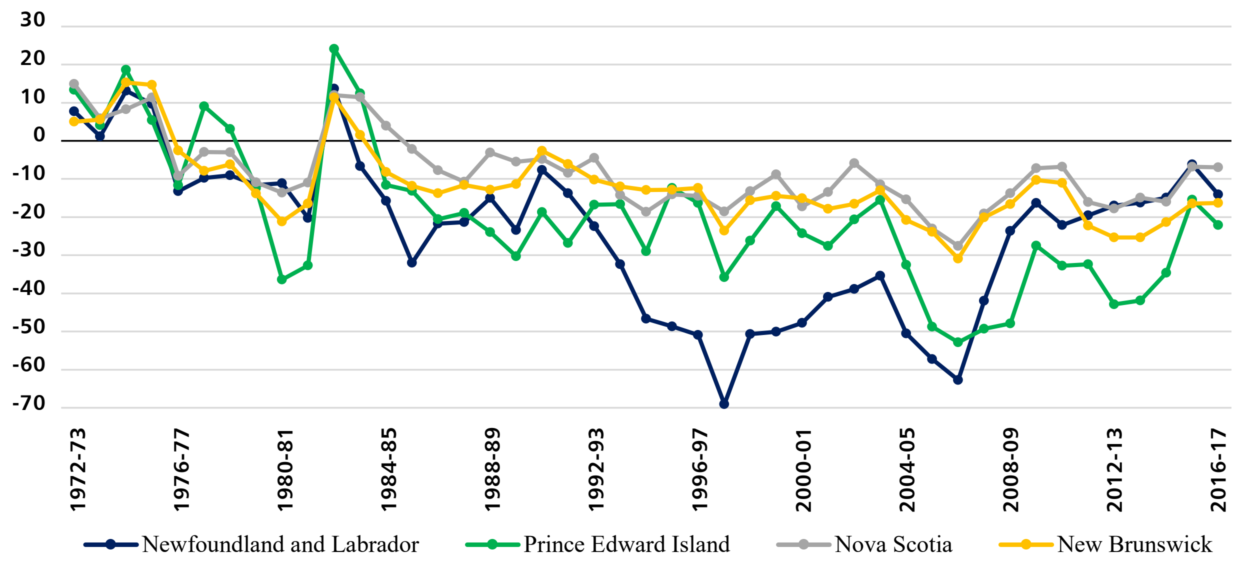
Period	Nfld. & Lbdr.	PEI	NS	NB
1972-73 to 1976-77	181	56	444	472
1977-78 to 1981-82	-661	-153	-666	-892
1982-83 to 1986-87	-685	-28	287	-293
1987-88 to 1991-92	-839	-244	-494	-550
1992-93 to 1996-97	-1,905	-174	-883	-680
1997-98 to 2001-02	-1,991	-238	-878	-897
2002-03 to 2006-07	-1,674	-315	-1,030	-1,035
2007-08 to 2011-12	-791	-348	-781	-758
2012-13 to 2016-17	-428	-306	-791	-981

Source: Statistics Canada. Table 17-10-0015-01 Estimates of the components of interprovincial migration, by age and sex, annual.

To put Table 1 into context, it is important to compare the number of youth leaving with the size of the population in this age range. These numbers are presented in Figure 1, next page, and show that for every year since 1985-1986, more people in their early 20s left each Atlantic province than had moved into that province from elsewhere in Canada.

Figure 1

Net Interprovincial Migration Per 1,000 Residents, Ages 20-24



Source: Statistics Canada. Table 17-10-0015-01 Estimates of the components of interprovincial migration, by age and sex, annually. Statistics Canada. Table 17-10-0005-01 Population estimates on July 1st, by age and sex.

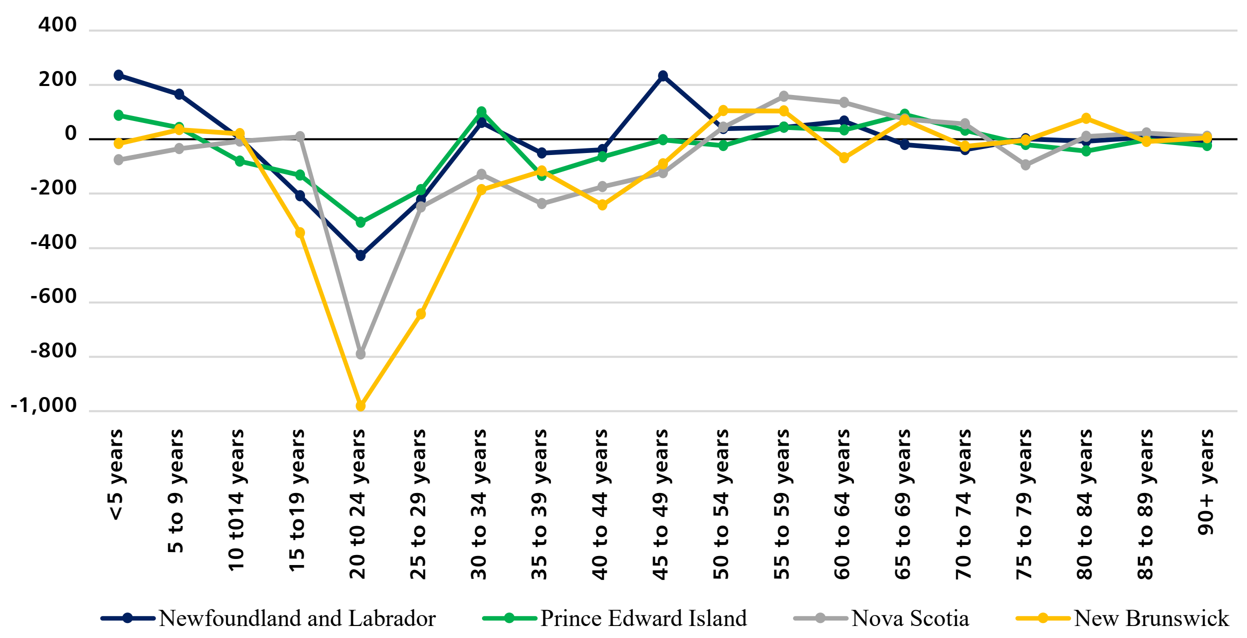
Figure 1 shows the outflow of youth was bleakest for Newfoundland and Labrador from 1994-1995 to 2007-2008. During these 14 years, the average annual net outflow of people in their early 20s from Newfoundland and Labrador to other Canadian provinces represented 4.9 percent of the people in that age group. However, in the past decade, the outflow of youth from Newfoundland and Labrador subsided substantially.

In more recent years, Prince Edward Island has fared the worst. Since 2004-2005, average annual net outflow of people in their early 20s to elsewhere in Canada represented 3.7 percent of P.E.I. residents in that age group. Meanwhile, in Nova Scotia and New Brunswick, the net outflow of youth has held roughly steady for the last two decades.

Notably, while the migration of Atlantic residents to other provinces is most prevalent among those in their early 20s, it exists also among teenagers and people in their late 20s and 30s. A summary of the average annual interprovincial net migration in recent years for each age group in each Atlantic province is presented in Figure 2, next page.

Figure 2

Net Interprovincial Migration (2012-13 to 2016-17 Annual Average)



Source: Statistics Canada. Table 17-10-0015-01 Estimates of the components of interprovincial migration, by age and sex, annual.

The pursuit of better economic opportunities motivates workers in various age groups to leave the Atlantic Provinces, but it should not be any surprise that the outflow of residents is most pronounced for those in their early 20s. They are more independent than teenagers, and their moving costs are lower than those of older workers who are more likely to have children or own homes.

To summarize, the data in this section of the paper show two key facts. First, the net outflow of youth from Atlantic Canada is persistent, spanning three decades. Second, there is some distinction to be made between the Maritimes and Newfoundland and Labrador. In the Maritimes, the out-migration of youth has been relatively steady for the past two decades, whereas in Newfoundland and Labrador, the formerly very high level of out-migration has been significantly curtailed in recent years.

In Search Of Jobs And Income

The Canadian academic literature supports this paper's supposition that a dearth of economic opportunity is responsible for the out-migration of Atlantic youth. Numerous studies point to better employment opportunities and higher incomes in other jurisdictions as a driver of domestic migration.

For instance, a study published in the *Canadian Journal of Economics* in 1994 found that "the interindustry mobility of labour is dominated by the availability of employment hours." The possibility of earning a higher wage also drives workers to move, while "there is no evidence" that the receipt of transfer payments reduces the probability that workers move.[2]

More recently, a Bank of Canada analysis concluded that high unemployment and low incomes contribute to out-migration, while high employment rates and high household incomes contributed to in-migration.[3] Another recent analysis, by Mark Milke in 2014, had a particular focus on young workers and sought to answer the question: "If a young Canadian seeks economic opportunity—defined as employment and the chance to achieve at least a middle class income—which provinces can best provide these opportunities?"[4]

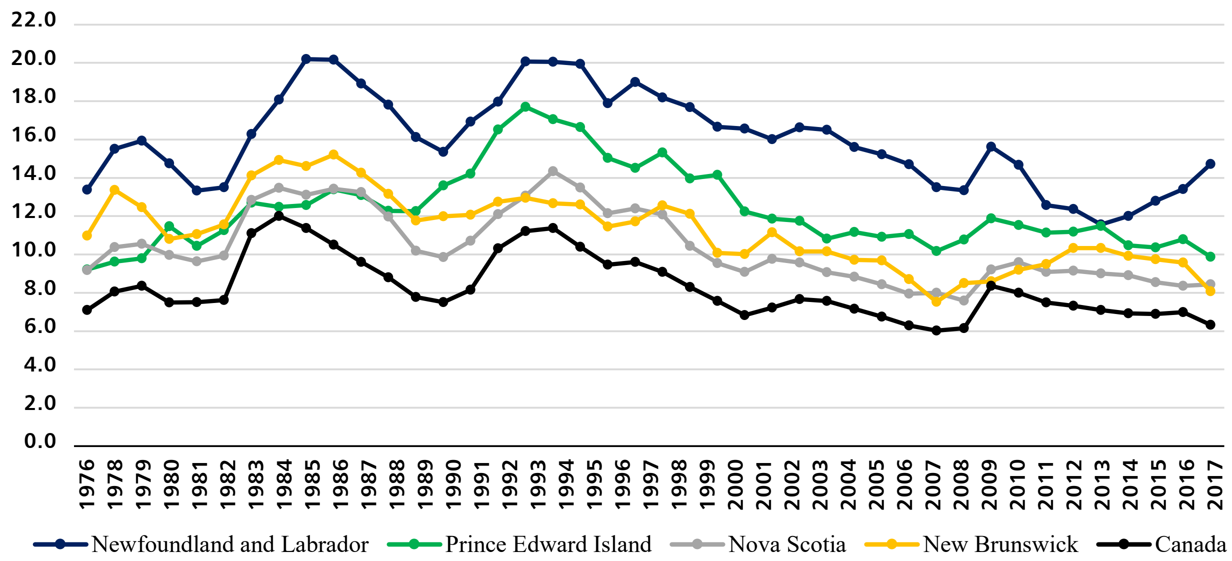
Milke found that young Canadians were moving to Western Canada, which offered youth the greatest chances for prosperity, and leaving Ontario, Quebec, and the Atlantic Provinces. In particular, he drew a connection between young adults moving to the West and the low unemployment rates, shorter unemployment durations, and higher incomes in this region.

A Fraser Institute study of labour markets in 2018 similarly noted that the "flow of workers into and out of jurisdictions is an important indicator of the performance of labour markets and of economic performance generally. These flows can often be explained by a lack of labour opportunities in the worker's home province or state."[5]

Among the 60 jurisdictions included in the study—10 Canadian provinces and the 50 states—the labour markets in the four Atlantic provinces all ranked among the five weakest. One of the key indications of a weak labour market in Atlantic Canada is the region's chronically high unemployment rate, which is shown in Figure 3, next page.

Figure 3

Unemployment Rate

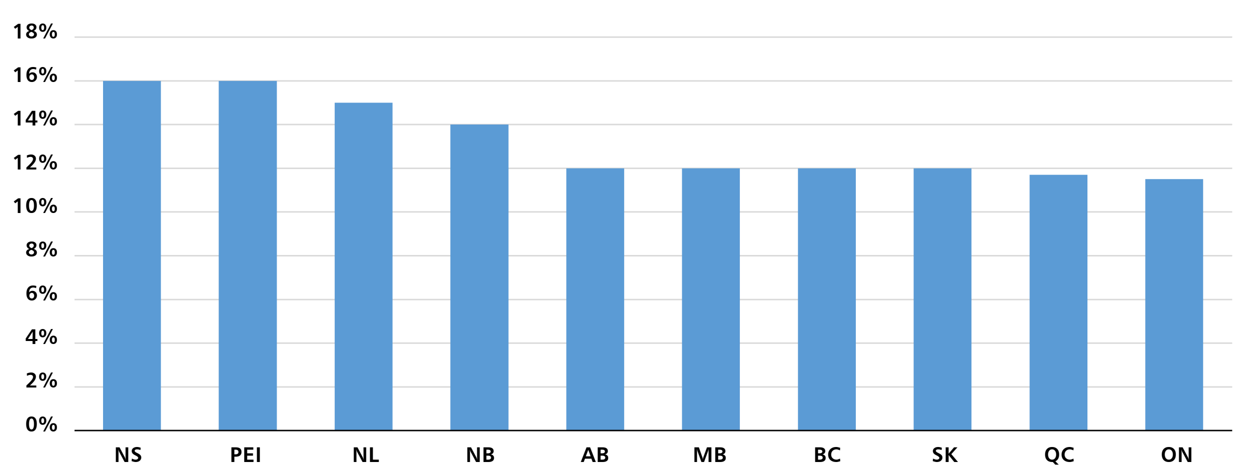


Source: Statistics Canada. Table 14-10-0287-01 Labour force characteristics, monthly, seasonally adjusted and trend-cycle, last 5 months.

The unemployment rate is so high in the Atlantic Provinces for a simple reason: the low demand for labour. This lack of demand is no mystery, given how heavily taxed the major consumers of labour—private businesses—are. Atlantic governments tax corporations more heavily than do other provinces, as Figure 4 shows. This is problematic because high corporate taxes drive away capital, leaving workers to bear the economic burden of the tax through less employment and lower wages.

Figure 4

Corporate Tax Rate (September 2018)

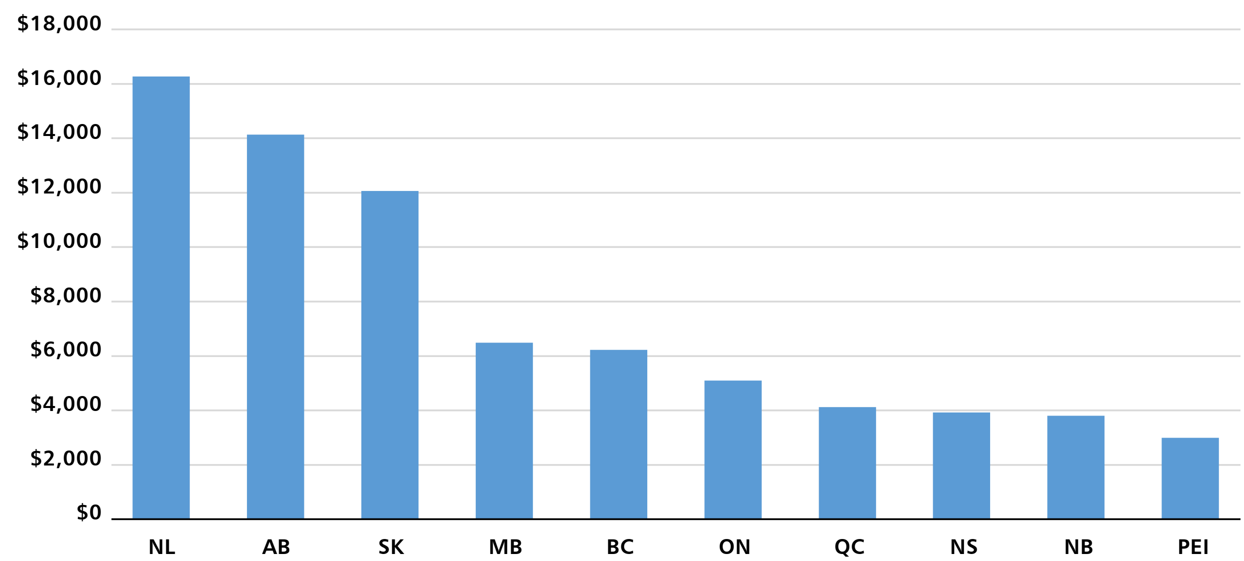


Source: KPMG. "Canadian Corporate Tax Tables." See https://home.kpmg.com/ca/en/home/services/tax/canadian-corporate-tax-tables.html.

In the Maritimes, the aversion of businesses to the region is evidenced by the low levels of business investment. In 2017, the three Maritime provinces ranked worst in Canada, on a per capita basis, in investment in non-residential structures, machinery and equipment, and intellectual property products.

Figure 5

Investment Per Capita (2017)



Source: Statistics Canada. Table 36-10-0222-01 Gross domestic product, expenditure-based, provincial and territorial, annual (x 1,000,000). Statistics Canada. Table 17-10-0005-01 Population estimates on July 1st, by age and sex.

As with the numbers on interprovincial migration, the recent story in Newfoundland and Labrador is different from the experience in the Maritimes. Newfoundland and Labrador is resource-rich, and has in recent years enjoyed high levels of business investment, as a result of rapid real investment growth of 155 percent from 2010 to 2013. Over this time period, unemployment fell from 14.7 percent in 2010 to a low of 11.3 percent by 2013.

However, while Newfoundland and Labrador, which has a strong oil and gas sector, has benefited from investment growth and a reduction in the outflow of young people in the past decade, the unemployment rate has trended upward since 2013 and the province continues to experience the out-migration of youth. This shows that, as in the Maritime provinces, much work is needed to increase economic opportunity in Newfoundland and Labrador.

The best way all four Atlantic provinces can provide better opportunity to workers is through a more robust private labour market. The key to this, as later sections of this paper show, is by reducing taxes, especially on the major consumers of labour—private businesses.

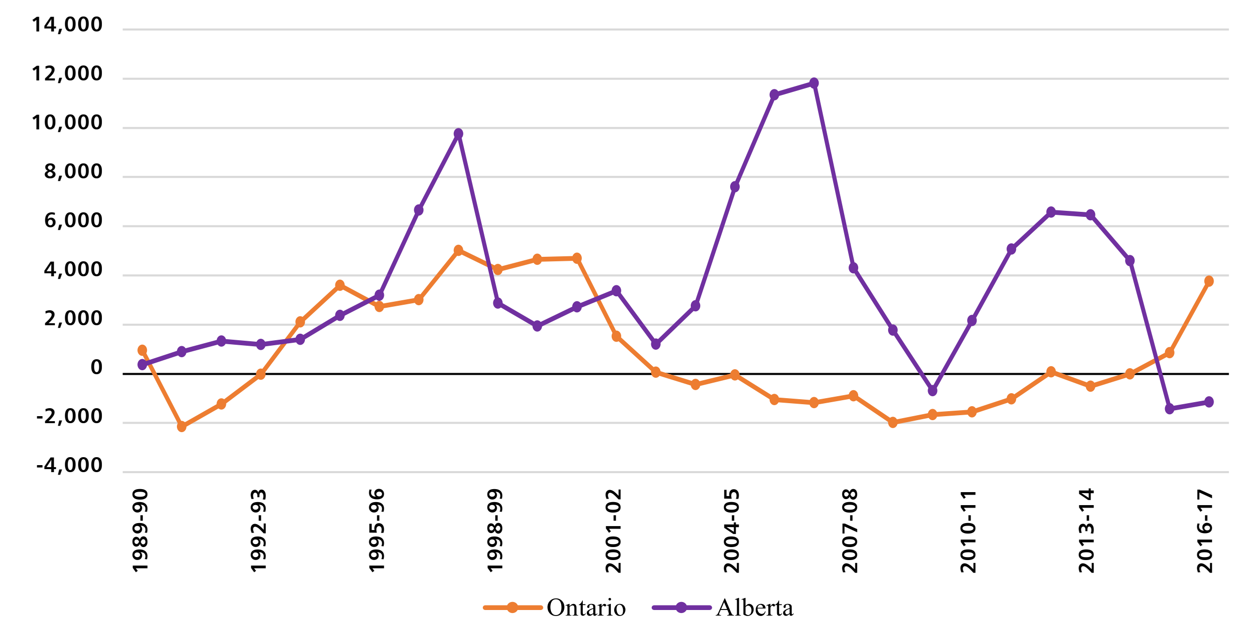
Headed For Ontario, Or Alberta?

The recent experiences of Ontario and Alberta offer important lessons for Atlantic Canada when it comes to economic policy and interprovincial migration. For the decade ending in 2002-2003, net migration from Atlantic Canada to Ontario averaged over 3,100 people per year.

However, for 11 of the 12 years from 2003-2004 to 2014-2015, more people actually moved from Ontario to Atlantic Canada than from Atlantic Canada to Ontario, with total net migration from Ontario to the Atlantic Provinces topping 10,200 people over this period. During this stretch of time, people were still leaving Atlantic Canada—not for Ontario, but rather for Alberta.

Figure 6

Net Migration from Atlantic Provinces to Ontario and Alberta



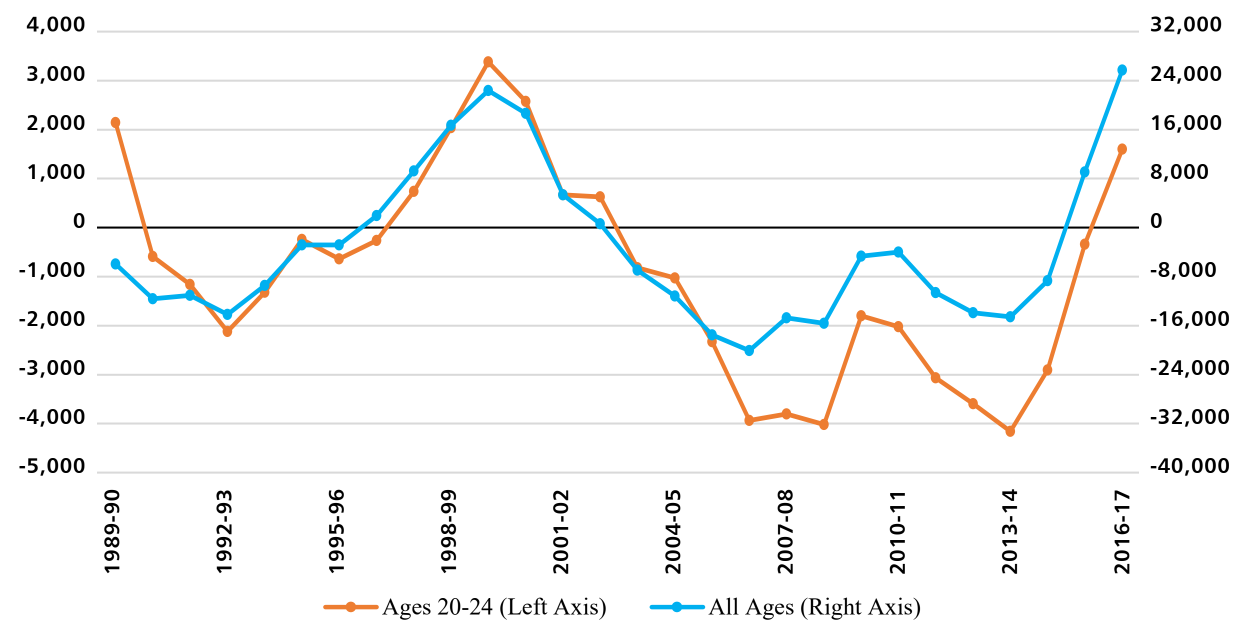
Source: Statistics Canada. Table 17-10-0022-01 Estimates of interprovincial migrants by province or territory of origin and destination, annual.

As Milke noted in 2014, "Western Canada is the land of opportunity for young adults, especially Alberta and Saskatchewan … In contrast, Ontario and Quebec now mimic the traditional Atlantic Canada 'malaise'."[6] Indeed, for every year from 2003-2004 to 2015-2016, more people in their early 20s left Ontario for other provinces than moved to Ontario from elsewhere in Canada.

In fact, for the 12 years ending 2014-2015, over 142,000 more people of all ages left Ontario for other provinces than moved to Ontario from elsewhere in Canada, a

Figure 7

Net Interprovincial Migration, Ontario



Source: Statistics Canada. Table 17-10-0015-01 Estimates of the components of interprovincial migration, by age and sex, annual.

trend that finally ended in 2015-2016. Philip Cross, formerly chief economic analyst at Statistics Canada, noted in a 2015 study that this was "the largest and most sustained migration of people from Ontario on record, nearly double the loss in the late 1970s and early 1980s."[7]

Meanwhile, Cross continued, "the inflow of immigrations from abroad to Ontario has slowed." In 2002, Ontario accounted for 59.6 percent of immigration to Canada; this fell to only 38.0 percent by 2014. At the same time, emigration from Ontario to other countries rose.[8]

Cross put the blame for this squarely on Ontario's economic struggles, writing that the "reality of Ontario's flagging economy is well understood by ordinary people, as reflected in their choice to leave or avoid Ontario in increasing numbers." The "real problem in Ontario," wrote Cross, was the "wide array of government policies that mistakenly signal that the public sector, not the private sector, is the engine of economic growth."[9]

The rapid increase in government spending exacerbated the province's fiscal burden; meanwhile, the "tactic of expecting public sector hiring to lead to more job creation," according to Cross, was "a complete failure."[10] In other words, Ontario's fiscal strategy of increasing government spending was flattening the private economy, making it less attractive relative to other provinces as a destination for domestic and international migration.

A Tale Of Two Tax Policy Directions

A) Tax Hikes in Ontario

As a recent Fraser Institute report put it, interprovincial migration "can be a powerful indicator of a jurisdiction's success or failure. Jurisdictions that attract people from other places can provide positive lessons for success. Alternatively, jurisdictions that consistently lose people to other places can provide lessons on policies to avoid."[11]

The Atlantic Provinces can certainly learn from Ontario's policies and experience. Notably, Ontario's declining share of immigration to Canada and the province's lengthy period of negative net interprovincial migration—including migration to and from Atlantic Canada—coincided with a drastic change in government policy. In particular, the fiscal policy direction reversed towards higher taxes and higher spending in the early 2000s.

For the seven fiscal years ending in 2001-2002, nominal government spending in Ontario rose less than 2 percent annually, compared to a total increase of 99.4 percent from 2001-2002 to 2013-2014.[12] On taxes, the Ontario government dramatically reduced personal and business income taxes between 1996 and 2001, but began deviating from this strategy in 2002.[13]

Ontario's fiscal strategy completely reversed in 2003, when the government changed hands from the Progressive Conservatives to the Liberals and taxes immediately began going up. In addition to announcing new taxes, then-newly elected premier Dalton McGuinty cancelled the future tax cuts proposed in the previous budget.[14]

In the Liberal government's first budget, a scheduled corporate tax cut to 11 percent and future scheduled cuts to 8 percent by 2006 were cancelled, and instead the tax rate was raised from 12.5 percent to 14 percent. The 2004 budget also introduced a new tax on income, called the Ontario Health Premium, which cost workers up to $900 annually, depending on their income level, when fully implemented.[15]

In later years, the Liberals partially reversed course. The capital tax was eliminated in 2010 and the corporate tax was reduced to 11.5 percent (although the government cancelled its plans to further cut it to 10 percent).[16] However, these positive moves were offset by other damaging policies, including a disastrous energy program that inflated electricity prices, costing residents and business billions of dollars annually.[17] In addition, income taxes on top earners were hiked in 2012, and again in 2014, worsening the province's competitive position.[18]

Ontario's fiscal strategy of more than a decade of raising taxes and increasing government spending achieved no good results. The province's employment rate plunged below the national average, real disposable income growth per capita from

2003 to 2016 was the worst among the 10 provinces, business investment growth lagged behind the national average, and public debt sharply rose.[19]

B) Tax Cuts in Alberta

Contrast the Ontario experience with the tax policy direction in Alberta. Recall from Figure 6 that for every year from 2001-2002 to 2014-2015, annual net interprovincial migration from Atlantic Canada was higher to Alberta than to Ontario. Importantly, as Ontario was raising taxes at the beginning of this period, Alberta was drastically lowering them.

One of the reasons for Alberta's tax cuts was to attract business investment and skilled workers. The 2001 budget document cited strong interprovincial migration numbers as evidence of growing economic opportunity within the province, but also noted that tax cuts would be needed to help retain businesses and skilled workers; failure to cut taxes would mean the province would "risk losing increasingly mobile capital and highly skilled people."[20]

In 2001, Alberta implemented a single-rate income tax of 10 percent with a $12,900 personal exemption. The tax rate was even lower and the personal exemption higher than what the government had announced only two years earlier. The 2001 budget also cut taxes on capital gains, eliminated the financial institutions' capital tax, and cut taxes on businesses.[21]

Specifically, the corporate income tax was cut from 15.5 percent to 10 percent by 2006, and the small business income threshold was doubled from $200,000 to $400,000.[22] In addition to tax cuts, rising oil prices also significantly contributed to Alberta's economic boom. The importance of cutting taxes, however, cannot be denied.

From 2000 to 2014, the real growth in Alberta's services sector was 78.8 percent, compared to 30.4 percent growth in mining, quarrying, and oil and gas extraction.[23] Clearly, other factors besides rising oil prices contributed to Alberta's economic success, making it an attractive destination for Canadians in other provinces.

One of the objectives of the tax cuts was to make Alberta more competitive than other provinces; the data indicate that this strategy worked. Alberta became a magnet for Canadians, including from the Atlantic Provinces, in search of greater economic opportunity. By contrast, Ontario's fiscal strategy—higher taxes and more government spending—led to poor economic performance and made it an unattractive destination for workers.

Evidence From The United States

The recent data from the United States suggest a strong relationship between taxes and domestic migration. For instance, from 2010 to 2016, there was a net domestic migration of over 2.1 million Americans from states with income taxes to the nine states without income taxes.[24] Other analyses have shown that this trend holds also over a longer time period, and that states without income taxes exhibit better economic performance.

A brief analysis from the Kansas Policy Institute showed that from 1998 to 2015, private sector job creation in states without income taxes was double that of those with income taxes. Over the same time period, the states without income taxes also enjoyed superior growth in wages and salaries, higher GDP growth, and better domestic migration numbers than states with income taxes.[25]

The *Rich States, Poor States* report published annually by the American Legislative Exchange Council similarly found that low taxes make states an attractive destination for domestic migration. The 2017 edition of the report noted that many "states have witnessed benefits like higher in-migration and economic growth after implementing policy tools that include lowering corporate and personal income taxes, reducing overall tax burdens, reducing or eliminating state death taxes" and making tax codes simpler.[26]

Summarizing his decade of research on the *Rich States, Poor States* reports, co-author Jonathan Williams wrote that the report, which links migration to policy decisions and economic competitiveness, found that in general, "states that keep taxes low and provide a competitive business climate perform far better than the states that follow the tax-and-spend approach."[27]

Indeed, just as out-migration from the Atlantic Provinces both signals and contributes to lacklustre economic performance, the *Rich States, Poor States* report noted that states with lighter taxes "tend to experience sustained in-migration" which "fuels the economy even further, enhancing business and entrepreneurial opportunities in the market."[28]

The movement in recent years of Americans from high-tax states to low-tax states is substantial. In a recent Cato Institute study, Chris Edwards noted that "in 2016, almost 600,000 people with aggregate income of $33-billion moved, on net, from the 25 highest-tax states to the 25 lowest-tax states in that single year." In fact "of the 25 highest-tax states, 24 of them had net out-migration in 2016. Of the 25 lowest-tax states, 17 had net in-migration."[29]

Some American researchers, however, dispute that low taxes attract domestic migration. For instance, a paper by Michael Mazerov of the Center on Budget and Policy Priorities argued that of Americans who move across state borders, only "a miniscule share of them report that they moved because of taxes." Migration to Texas and Florida, according to Mazerov, is driven by factors other than income taxes—such as warmer climate.[30]

However, Mazerov's analysis fell short in two key areas. First, research shows that fiscal policy is a driver of domestic migration, even after controlling for climate and other factors. Researchers with the Cato Institute found fiscal freedom (characterized by lower taxes and less government spending) to be positively and statistically significantly correlated with net migration even after controlling for factors such as cost of living, tourism, retirees, violent crime, climate, and precipitation.[31]

Notably, the Cato study found that these results held both for the 2001 to 2008 time period, and for 2008 to 2017. Earlier editions of the same study, written by the same authors and published by both the Cato Institute and the Mercatus Center at George Mason University, came to similar conclusions about the relationship between fiscal policy and domestic migration.[32]

Second, while it is true that taxes are not a frequently cited motivation for migration, employment is. People move in search of job opportunities, which are most abundant where demand for labour is highest. Therefore, tax policy—especially when it comes to taxing businesses, the major source of labour demand—has an indirect but significant effect on migration decisions through its effects on jobs and economic growth.

As Williams has written, "migration to pursue economic opportunity is a key take away from a decade of our research." He noted that it "goes back to Economics 101. When you tax something, you get less of it, and when you tax something less, you get more of it. Pro-growth policies, such as lighter tax and regulatory burdens, boost state economic activity and attract citizens looking to enhance their wellbeing."[33]

Lightening The Tax Burden In Atlantic Canada

A) Cutting the Corporate Income Tax

The evidence provided in previous sections on fiscal policy and domestic migration suggests that one of the most important steps the Atlantic Provinces can take in expanding the economic opportunities youth seek is to cut their most economically damaging and uncompetitively high tax rates. In particular, to improve conditions for workers, the demand for labour must be increased.

This means provincial governments should prioritize corporate tax cuts, since businesses are the major consumers of labour. Corporate taxes in Atlantic Canada are currently both uncompetitive with other provinces and unreasonably high. As shown in Figure 4 earlier in this paper, the provincial corporate income tax ranges from 14 to 16 percent in Atlantic Canada, significantly higher than the range of 11.5 to 12 percent in the rest of the country.

Economists have decried corporate income taxes as among the most inefficient of taxes because of “double taxation”—the corporation income is taxed, and then when business owners or shareholders realize this income through dividends or by selling shares, the income is taxed again.[34]

In the long run, since capital is mobile and can be shifted to other jurisdictions, the burden of corporate taxes falls largely on workers in the form of lower wages. As Stephen Gordon has pointed out, saying that corporate taxes are simply paid by “rich corporations” makes as little sense as saying “rich buildings” pay property taxes.[35]

The burden of corporate taxes on workers is substantial. A study published last year by economists writing for the University of Calgary estimated that raising an additional $1 in government revenues through the provincial corporate tax would reduce workers’ wages by $3.12 in New Brunswick, $2.86 in Nova Scotia, $3.85 in Prince Edward Island, and $1.95 in Newfoundland and Labrador.[36] Other recent studies corroborate the negative effect of corporate taxes on wages.[37]

The adverse effect of corporate taxes, on the margin, is higher in the Maritimes than elsewhere in Canada.[38] Clearly, the high corporate tax burden is a strong force that flattens wages and decreases employment opportunities in Atlantic Canada, which helps explain why youth in search of jobs and higher income are migrating west.

While proponents of high corporate taxes might suggest that they are needed to raise revenue for government, this claim, at least at the margin, does not ring true. Economists Ergete Ferede and Bev Dahlby found in a 2016 study that the high corporate tax rates in Atlantic Canada are so economically damaging that provincial governments are losing tax revenues when they raise corporate income tax rates.

In other words, cutting corporate taxes would lead to more government revenue.[39]

Ferede and Dahlby estimated that tax revenues would be maximized by reducing the corporate income tax rate to 6.5 percent in Newfoundland and Labrador, 6.5 percent in Prince Edward Island, 9.1 percent in Nova Scotia, and 5.7 percent in New Brunswick.[40] Ideally, corporate taxes should be lowered even further than this. The goal of tax policy should not be to raise as much money as possible for government.

Corporations facilitate mutually beneficial economic transactions between investors, workers, and consumers. This is not a function that should be heavily taxed, if at all. As the evidence clearly shows, substantial corporate tax cuts should be a priority for the Atlantic Provinces. Cutting corporate taxes would raise workers' wages and even improve provincial finances by increasing tax revenues in the long run.

B) Cutting the Personal Income Tax

In order to improve conditions for workers, the Atlantic Provinces also need to cut personal income taxes. In particular, top marginal income tax rates are too high and uncompetitive with other provinces, with top earners in all four Atlantic provinces paying a combined federal and provincial marginal tax rate of more than 50 percent; in Nova Scotia top earners pay a marginal income tax rate of 54 percent—the highest in Canada.[41]

High marginal income tax rates on top earners may have little direct impact on the migration of youth, who tend not to earn high wages, but there is a strong indirect effect: these tax rates discourage entrepreneurship. In 2014, the Nova Scotia Tax and Regulatory Review recommended eliminating the province's top tax bracket. "The OECD points out that high top marginal tax rates reduce the payoff for risk taking, so reducing them should boost entrepreneurship," the review noted, which "is exactly what Nova Scotia needs."[42]

Another takeaway from the Nova Scotia tax review was that at "every income level, and for almost every family configuration, Nova Scotians pay the highest or second highest personal income taxes in Canada." The review continued: "When it comes to spending, as if to add insult to injury, Nova Scotia has the highest consumption tax—the 15 per cent HST."[43] (The other three Atlantic provinces have since joined Nova Scotia in having the highest consumption tax).[44]

The Nova Scotia tax review also recommended eliminating bracket creep—"tax by stealth"—by indexing personal income tax brackets to price inflation.[45] In 2018, Prince Edward Island and Nova Scotia did not index tax brackets at all.[46] In Newfoundland and Labrador, regular income taxes are indexed but the Temporary Deficit Reduction Levy, a tax on workers earning over $50,000, is not tied to price inflation.[47] This means that in these three provinces, workers whose wages change only to keep pace with price inflation will face a higher tax bill each year.

To summarize, the Atlantic Provinces have much to do when it comes to tax reform. Corporate tax rates are the highest in Canada, driving businesses and employment opportunities to other jurisdictions. Additional jobs are lost due to high marginal personal income taxes on top earners, discouraging entrepreneurship. And further down the income scale, workers in three provinces—even if their incomes rise only to keep pace with price inflation—pay higher income taxes each year due to bracket creep.

Atlantic Canada needs significant tax cuts in order to improve economic growth, boost workers' wages, and make the region more attractive to youth and workers. As the evidence has shown, uncompetitive tax rates in the Atlantic Provinces are an important contributing factor to the relatively lacklustre economy, weak labour market, and out-migration of workers to more competitive jurisdictions.

Conclusion

The evidence is clear that for decades, many young residents in Atlantic Canada have found that better economic opportunity lies elsewhere in the country. Business investment, on a per capita basis, is lower in the Maritimes than anywhere else in Canada. Resource-rich Newfoundland and Labrador enjoys high levels of investment, accompanied by some reduction in the net out-migration of youth in the past decade, but its economic problems persist and its unemployment rate is the highest in Canada.

The major reason many young workers see the Atlantic region as having a dearth of opportunity is the low demand for labour, which means fewer good jobs available in the region. This low demand for labour is no mystery: The major consumers of labour—private business—are more heavily taxed by provincial governments in Atlantic Canada than they are anywhere else in the country.

High taxes are compounded by other counterproductive practices and policies. For example, the sizes of the provincial public sectors in three of the four Atlantic Provinces are among the highest per capita in Canada.[48] Hydraulic fracturing bans in Nova Scotia and New Brunswick directly deprive the region of private investment, tax revenues, and thousands of good jobs.[49] Overturning these bans and allowing a strong natural resource sector to develop could—as a strong oil and gas sector has done for Newfoundland—lift business investment, improve economic opportunity, and curtail the outflow of young workers.[50]

Indeed, evidence shows that corporate tax cuts and a strong resource sector are both contributors to economic opportunity and domestic in-migration, as shown by the large numbers of people who have moved from Atlantic Canada to Alberta over the years. In the United States, numerous studies similarly show that a lighter tax burden encourages economic growth, higher incomes, and domestic in-migration.

To be sure, jobs and income aren’t the only drivers of migration decisions. However, they are the major drivers. To stem the outflow of youth, provincial governments in Atlantic Canada should learn from the successes of Canadian provinces and American states that, through keeping taxes low, enjoy a more vibrant economy that is more attractive to youth and workers of all ages.

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