

# Do it yourself budgeting

## How Nova Scotia and New Brunswick avoid hard choices

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### **WHEN BUDGETS WERE STATEMENTS OF ACCOUNT**

Once upon a time, government budgets were straightforward bookkeeping exercises, detailing revenues and expenditures. By the late 1930s under the persuasive influence of British economic guru John Maynard Keynes, fiscal policy spread to Canada—the concept that economic outcomes could be finessed by shifting tax incidence or by kick-starting spending initiatives. That notion has come to dominate budgetary exercises, but, even into the 1960s, budgets were still simple exercises introduced through speeches delivered in the House of Commons. Reporters stationed in the Press Gallery scribbled their notes with no greater advantage than their colleagues recording the official version for Hansard. Indeed, Prime Minister Louis St Laurent even insisted that his Finance Minister personally type his own Budget Speech, to ensure against accidental leakage.

### **I'M FROM THE GOVERNMENT – I'M HERE TO LEARN!**

Things are completely different these days. Budgets, both federal and provincial, are highly orchestrated performances—involving the production of volumes of documentary support and entailing elaborate schemes to obscure some detail while ensuring that others are leaked or at least widely anticipated. The interventionist belief that fiscal maneuvering can magically impact economic prospects continues—with the result that each budget contains a new quiver of tax and expenditure measures designed to influence spending decisions.

For decades, during the period running-up to the budget, various interest groups and “expert” witnesses have offered their advice concerning what should be in the budget and what should be emphatically avoided. That practice is referred to as Pre-Budget Consultation. Politicized as the process inevitably is, it serves a valuable purpose as a foil against which evolving ideas can be tested. Even the best-intentioned bureaucrats cannot be expected to possess the industry-

specific business savvy that hands-on main street practitioners have developed. The practice leads to better budget construction.

Ultimately, however, under the parliamentary system, it is for the governing party to propose the budget in detail and to defend it against opposition arguments. That reflects the reality that, in Canada and in each of the provinces, the government is the executive branch. That contrasts with the situation in the United States where the President is the Executive power and Congress, through independently elected Senators and *Representatives* can propose legislative alternatives to the President's budget.

Although we loosely refer to our MPs and MLAs as elected *representatives*—they are, in reality, not. Under the Canadian system, once elected, their duty is not to the electors but to the party to which they belong—if that is the governing party, then to the Prime Minister/Premier and the party Whip. Our system calls on the government to propose a budget and for party members to defend that position.

All of this would simply be constitutional semantics except for an unfortunate development in the budgetary process in certain provinces. In Atlantic Canada, both New Brunswick and Nova Scotia have begun canvassing residents during pre-budget consultations seeking to engage public opinion on where expenditure savings could best be achieved and on what taxes should be increased to stem the growth of debt.

Sounds innocuous enough? What harm can be done by sounding the opinion of those who foot the bill? None whatsoever, so long as “government by consensus” does not undermine the duty of the executive branch, with its army of economic and fiscal technocrats from itself framing a budget that is financially sound as well as fulfilling the fiduciary responsibility of

governing. But that is exactly what has been happening.

## NOVA SCOTIA'S BACK TO BALANCE

During the 2010 budgetary process, Nova Scotia published a document called “Back to Balance” that outlined the fiscal situation and proposed spending and revenue measures to address the deficit. Subsequently it produced a budget that relied heavily on the responses of just some 1500 participants in the Back to Balance process.

In its current version of Back to Balance, the Nova Scotia government refers to the 2010 exercise this way: *“With your help, we were able to identify the core values and priorities that you wanted us to use in addressing our fiscal challenges. What we learned formed the backbone of the April 2010 budget, in which we laid out our four-year plan.”* That seems to suggest that what drove budget formulation was a facilitated public engagement exercise in which a tiny sample of the public participated.

Financial and economic management are sophisticated branches of public policy that rely on understanding and skill-sets not likely to be substantially evident in a 1500-person cross-section of the general public.

Not only is it a dereliction of executive responsibility to place reliance on public opinion in framing complex budgetary measures, but that opinion itself can be significantly slanted by the introductory background provided to participants and in the manipulated processes associated with “Town Hall” meetings

In the 2010 exercise the Nova Scotia government asserted in its introductory guide that: *a sustainable solution will require a combination of measures in all three areas* [i.e. reduced expenditure, higher taxes and “investment” in economic enterprise]. It then went on to present participants with a range of revenue measures

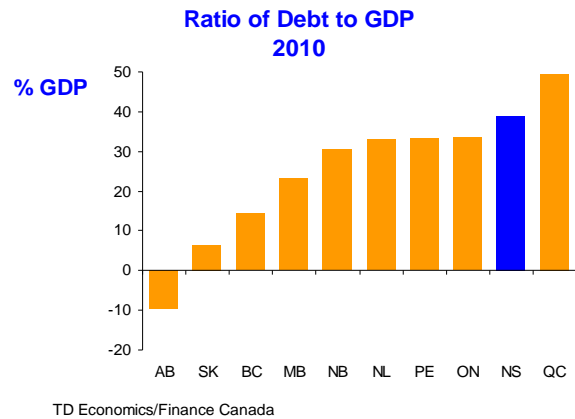
that would contribute to the predetermined target, with the result that a plurality of participants indicated that a 2 percent hike in the Harmonized Sales Tax would be optimal. Outcome—despite a more fiscally sound approach that would have required greater spending restraint, the HST was raised 2 percent! Ah—the power of persuasion!

Prior to the 2011-12 budget, the Nova Scotia government issued new Back to Balance guidelines, setting out updated conditions and asking the public to respond by email or mail to the following questions:

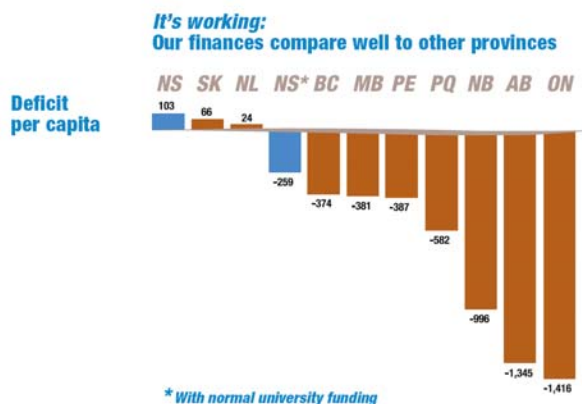
1. Is the province on the right path in getting back to balance?
2. Do you agree that this year’s Budget should focus on spending restraint and economic growth?
3. Do you agree that the spending reduction targets are reasonable?
4. Do you agree the province is striking the right balance between taxes and services?

While these questions are markedly less prescriptive than the previous year’s scheme they are all cast in deliberately positive language—slanted towards validating the current policy stance. A good example of the “leading” nature is provided by the first question. To help you answer whether the government is on the right track they provide the following chart::

A superficial reading of that evidence might lead to the conclusion that Nova Scotia is in an enviably sound fiscal position. It seems to show that the shortfall in a single year is quite modest (after adjusting for the government’s deliberate pre-payment of university transfers). However, contrast that with the following chart that the government does not provide:



This chart demonstrates that Nova Scotia’s debt burden—the accumulation of annual deficits—is the second worst in the country, relative to the size of its economy. That presents a very different image than the “aren’t we doing a good job” message presented to survey participants. Such suggestive manipulation clearly skews the outcome of responses and further invalidates the utility of this approach of “inclusive” budget creation.



Nova Scotia Finance: Back to Balance 2011

**HOW MANY NEW BRUNSWICKERS DOES IT TAKE TO WRITE A BUDGET? Answer: 2957!**

The Government of New Brunswick pursued a similar populist approach in its pre-budget consultations. It arranged 10 meetings with specific interest groups and 10 separate “town hall” meetings. At each the Finance Minister outlined the fiscal position and invited participants to air their suggestions. The Finance Ministry summarized much of this advise prior

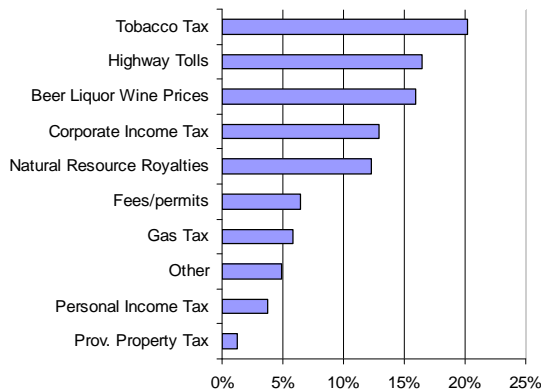


to drafting the budget—and, little surprise, some of the more popular measures were reflected in the final document. Overall the government tabulated 2957 responses.

Setting the scene is crucial if you want to elicit the right response. When asked how best to balance the budget, 43 percent of New Brunswickers favoured reduced spending/programs; only 11 percent agreed with raising taxes; but 46 percent were willing to accept a mixture of tax and expenditure measures.

What sort of taxes were they willing to countenance? Anything that didn't touch them directly! Most people don't smoke—so tobacco taxes are a popular item. People aren't corporations—so raise corporate taxes along with natural resource royalties for good measure. Basically, in the immortal words of the late Louisiana Senator Russell Billiu Long: don't tax you; don't tax me...tax that fellow behind the tree!

**Preferred Tax Increases**

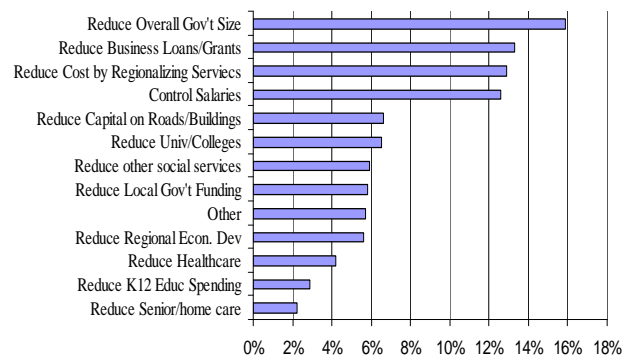


And what transpired in the New Brunswick budget? Finance Minister Blaine Higgs announced in the Budget Speech: “New Brunswickers sent a clear message to government that tobacco taxes should be increased to help discourage smoking and help pay for the additional costs smoking imposes on our health care system.” And so tobacco taxes

were hiked \$25 million and for good measure the New Brunswick Liquor Corporation is expected to raise prices by \$10 million annually. Planned reductions in the corporate tax rate were curtailed.

The vague and poorly enlightened contribution of public opinion is equally evident in the pre-budget consultations concerning desirable means of reducing spending.

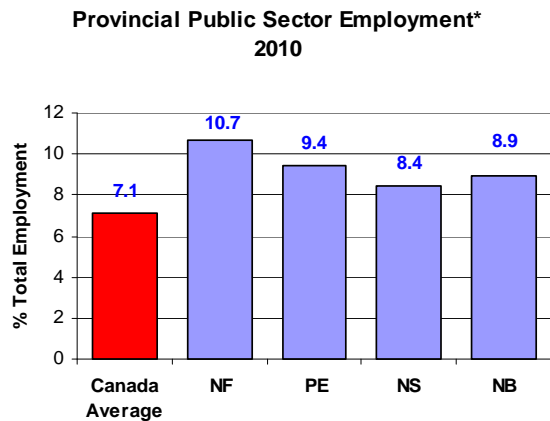
**Preferred Expenditure Measures**



Few people actually want to see cuts in services. If not a senior today, people recognize that some day they will be. Not many are so mean spirited as to favour cutting back on society's most needy. Education is largely seen as a necessary “investment” in the future—so cutting spending on schools and universities is also low on the list.

That said, many continue to believe that governments remain bloated—overstaffed and overpaid. Indeed, as the following chart illustrates, last year the proportion of the workforce in Atlantic Canada employed in general provincial government, health, university and public education as well as in provincial government enterprise was significantly higher than the Canadian average.





\*incl. Health, School, Universities,  
& Gov't Enterprise (Stats Can)

So ask the public how to cut spending and an obvious response is to reduce overall size and control salaries. As the chart shows, those who participated in the survey also liked the idea of regionalizing services. Since it is unlikely that such a large proportion would have answered extemporaneously in that manner, it is clear that their response would have been influenced by the introductory scene-setting. New Brunswick bureaucrats have been pushing the virtues of aggregating more local services into broader regional delivery models for some time. The attraction is obvious: it appears to deliver the same services at lower cost.

The fundamental flaw with this approach is that there are essentially two ways of affecting the savings: 1) enforce an across-the board spending cut and a wage/hiring freeze; 2) selectively restrain overall expenditure by shedding the least beneficial services and introducing staffing efficiencies.

## CUT AND FREEZE

Both New Brunswick and Nova Scotia have introduced aspects of the first approach: broad spending/staffing cuts and wages freezes. Shortly after taking office the new government

of Premier Alward imposed a 1 percent spending cut on all New Brunswick government departments and an ongoing 2 percent annual cut over the next three years. In the latest budget a third year of wage freezes for MLAs was announced, as well as a continuation of the hiring freeze for civil servants. Moreover a one-year suspension of salary progression increases and performance pay increases was imposed. In Nova Scotia's latest budget a continued commitment to reducing overall staffing levels was announced.

However, such broad approaches can only be stop-gap. Wage restraint will eventually lead to staffing attrition as workers seek better opportunities in other sectors or jurisdictions—and essential services will be impacted to the same degree as the least efficient programs. Is it responsible to impose spending constraints of similar magnitude on healthcare and K12 education—at a time when demographics are increasing the demand for the former and shrinking it, in the case of the latter?

## HOW A BUDGET *SHOULD* BE WRITTEN

That leaves the second alternative—a comprehensive and judicious program review. That is precisely the ideal prescription. But, this is where the fallacy of community consultation becomes most evident. Only those with a comprehensive knowledge of program demand (both present and expected) as well as the intricacies of delivery alternatives can possibly be expected to chart a rational course—certainly not a self-selected few members of the public. That brings us full circle. The mandate for such a review must lie in the hands of the executive branch. In other words, government should get on with what it was elected to do—and not slough off hard decision making on the electors.

The general public may intuitively recognize that there are inherent efficiencies to be gained by streamlining and rationalizing government services, but how to actually generate them, requires a detailed understanding of operating principles and practices. Consider a single example—primary and secondary school education. It is easy to conclude that in an era of declining school enrolment, staffing levels should be shrinking commensurately. But, how to achieve that outcome requires intricate knowledge of existing policies, the relative responsibilities of ministries and local authorities, potentially conflicting social and community objectives, existing legal commitments, constraints imposed by existing infrastructure considerations etc. That sort of knowledge is only likely to reside with professional administrators—not with a cross-section of the general public.

So how can necessary change be implemented? By government accepting its executive responsibilities—establishing policy objectives and ensuring that all potentially conflicting considerations are addressed and resolved.

How should provincial governments (and, indeed, the federal government) approach the task of crafting a budget? They should start from the perspective of a fundamental policy review. For decades, the clear impetus for successive annual deficits has been the unwillingness to fund current programs from current revenue—amplified in the last several years by stimulus spending arising from the recent financial crisis/recession. The massive demographic shifts impacting Canada—and most especially Atlantic Canada—mean that it is no longer a question of borrowing from the future to pay for today's spending. When experts tell us that our established programs—notably healthcare—are unsustainable, they are saying that even without the huge overhang of existing debt, steps will have to be taken to curtail costs. The alternative is to risk a

confrontation between the consumers of government services (chiefly the aged and the more vulnerable) and the shrinking proportion of the population who will be called upon to support them through taxation.

While only recently filtering into the policy debate, and still barely perceived by the broader public, the dynamic is urgent. A recent United Nations report harshly assesses developments facing much of the industrial world: *“Population ageing is unprecedented, a process without parallel in the history of humanity.”* The report goes on to say: *“Population ageing is profound, having major consequences and implications for all facets of human life. In the economic area, population ageing will have an impact on economic growth, savings, investment, consumption, labour markets, pensions, taxation and intergenerational transfers. In the social sphere, population ageing influences family composition and living arrangements, housing demand, migration trends, epidemiology and the need for healthcare services. In the political arena, population ageing may shape voting patterns and political representation”.*

Population aging is not merely an abstract that might affect coming generations; it is an established fact—right now—and it is especially evident in Atlantic Canada. In fact it is no exaggeration to assert that, within North America, Atlantic Canada is ground zero for the slowly ticking population time bomb.

The Atlantic Canadian population is already significantly older than the Canadian average. Last year 15.8 percent of the population of the four eastern provinces was aged 65 or older. In the remaining provinces the average was 14.0 percent. Moreover only 15 percent of Atlantic Canada's population is younger than 15—well below that of every other Canadian province. The future implications of that are important, since as that age group grows older they will enter the primary tax-paying category that will be expected to support the aged.

The greatest challenge presented by population aging is undoubtedly how to provide and pay for healthcare. For Atlantic Canada, that is likely to constitute a serious trial. By 2036—less than two-and-a-half decades from now—the proportion of the population over sixty-five in each of the Atlantic Provinces could easily be in the region of 30 percent. Current levels in the region are roughly 22 percent. That represents a substantial increase. Of even greater significance is the reality that present levels already represent a 2 percentage point differential above national averages. By 2036, that difference is projected to widen to around five percent or more above the Canadian average.<sup>i</sup>

What turns those statistics from being merely significant sociological shifts into potentially alarming developments is the widely disproportionate utilization of the health system by older age groups.

Persons in the 65-plus age category account for more than three times the total health care expenditure of the overall population. Those in the 85-plus category utilize something like eight-times the per-capita national average. A major reason for this hike is accounted for by lengthy stays in residential care facilities, such as nursing homes, and the use of palliative care beds in long-term care hospitals.<sup>ii</sup>

As if these portentous facts were not serious enough reason for major concern, consider also that post-retirement age populations rely to an increased extent on publicly-funded programs—as provincially-financed pharmaceutical plans kick-in.

Of course the impact of aging is even wider than the admittedly significant effect on healthcare. Enrolments in primary and secondary education in New Brunswick and Nova Scotia have slipped by more than 15 percent over the past decade<sup>iii</sup>—in keeping with other jurisdictions across the country but in contrast with

developments in Ontario where declines are scarcely evident. The noteworthy explanation being the attraction of that province for immigrants whose influence is little felt in Atlantic Canada. Another upshot of these dramatic shifts may also be evident in employment where skilled labour shortages may emerge—especially as seasoned employees reach retirement age.

In such unparalleled circumstances, fundamental budgetary reform is called for—not just superficial patchwork. Reining-in travel costs and trimming wasteful practices are laudable, but should long ago have been established as the norm in a high-debt setting. Across-the-board cuts are inappropriate when demographic pressures are increasing demand on some services while diminishing the need for others. Wage freezes and job cuts are only effective up to the point where staffing levels have been restored to a level that is appropriate to satisfy policy objectives. Beyond that, further austerity threatens efficient service delivery. The challenge is, of course, to determine what those policy objectives should be, and once having done so, to ensure that they are met in a cost-effective and equitable manner.

Such comprehensive policy reforms require a commitment on the part of all levels of government serving a particular jurisdiction. There is, as yet, little evidence of any resolve on the part of any Canadian government to address the bigger issues. Certainly, efforts to enlist public participation in write-your-own budgets, such as New Brunswick and Nova Scotia do not begin to provide the leadership needed to deal with fiscal crises.

<sup>i</sup>Statistics Canada Catalogue no. 91-520-X Population Projections for Canada, Provinces and Territories 2009 to 2036

<http://www.statcan.gc.ca/pub/91-520-x/91-520-x2010001-eng.pdf>

<sup>ii</sup> Health Expenditures in Canada by Age and Sex, 1980-81 to 2000-01 Health Policy and Communications Branch Health Canada August 2001

<sup>iii</sup> Headcount enrolments in public elementary and secondary schools, Canada, provinces and territories, 2001/2002 to 2007/2008

<http://www.statcan.gc.ca/pub/11-402-x/2010000/chap/edu/tbl/tbl03-eng.htm>



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