



Four Policy Pillars for Prosperity

Pillar IV: Exercise Prudent Fiscal Management

ACC Position

The ACC supports efforts to balance budgets and pay down the accumulated provincial debt.

Issue

The reality is that Atlantic Canada is a region with a very high proportion of population living in rural areas—more than twice the national average. This dispersion imposes a significant financial burden on government in terms of providing services and infrastructure. Slow growth and highly taxed economies have been unable to provide adequate tax revenue to pay for government programs. Decades of borrowing has resulted in mounting public debt which must be serviced largely at the expense of essential services such as health, education and maintaining public infrastructure.

Why it is important

There is a growing acceptance among our political leaders that it is okay to borrow to pay for government services. The pros and cons are that government spending, or overspending, adds to our GDP, but reality dictates that we cannot endlessly borrow to prop up our economies. The burdens of provincial public debts have grown to the point where an excessive portion of our tax dollars are required to simply pay the interest on the money we collectively owe. As our provinces acquire more debt, we run the risk of destroying our credit ratings, further reducing our ability to provide services, and we become less attractive to potential investors and immigrants.

Focus on Controlling Costs

The most effective way to reduce deficits is to not spend money or find a less expensive ways to accomplish objectives. The Atlantic provinces must accept the challenges associated with providing services to a highly dispersed population, set equitable service standards and allocate assets in the most effective manner. The region can no longer afford the construction and maintenance of politically motivated infrastructure. We need leadership at all levels of government to develop alternatives for underused health and education facilities.

Avoid Deficits

There are two occasions when our governments should consider acquiring additional debt—when the economy is in recession and requires stimulation, or when the government needs to construct or acquire assets that will produce positive long-term economic benefits. In any other instances, such as it is now during a multi-year growth phase, governments have an obligation to address the debt legacy and make substantial efforts to avoid further borrowing and/or to pay down the debt.

Stop Borrowing for the Future

As some of our provinces inch closer to fiscal insolvency, it is quite clear we cannot continue to spend on credit. We need a commitment from our leaders that they will reduce the portion of the provincial budget spent on debt service by expanding the tax base and reducing the size of government. Under current conditions (the highest taxes and debt per capita in the country), we should only borrow to support projects that have a net financial benefit to the province.

Private Sector Service Delivery

Additional consideration needs to be given as to whether the private sector, instead of the government, is the appropriate entity for delivering specific services including regulation, inspections, and retail operations. Performance-based partnerships hold the opportunity for government to retain authority of standards of service, while benefiting from potential private sector experience and economies of scale.

Recommendations

The Atlantic Chamber of Commerce recommends that provincial governments:

- Acknowledge Atlantic Canada has reached its limit in the level of taxation and fees and emphasize policies resulting in new business creation, and facilitating economic growth;
- Move to reduce personal and payroll tax rates - further increases will have a negative effect on government revenues;
- Commit to the concept of balanced budgets, and refrain from burdening future generations with the cost of current government operations; and
- Except in times of economic contraction, commit to paying down the provincial debt.

Key Messages

- If we do not pay down the debt during periods of growth, then when will government do so?
- The costs of essential services in health and education are likely to continue to grow—the best source of funds is focus on non-productive costs like debt service.
- Businesses and individuals will avoid jurisdictions that adjust revenues through unpredictable and excessive increases in taxes and fees.

