

NEW BRUNSWICK, CLOSE TO OUR HEART



Brief presented to

Minister Blaine Higgs
Government of New Brunswick

For consideration in the 2012-2013 Budget

By

The Common Front for Social Justice (CFSJ)

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I. Introduction

The Common Front for Social Justice (CFSJ) is a non-profit organization whose mandate is to lobby for more justice, better social policy and a greater solidarity within society, especially with those living in poverty. Given that a provincial budget concretely demonstrates the priorities of a government and is a statement on the intentions of the government regarding its allocation of revenue, CFSJ wants to express its views on how more financial resources could be brought into the province's coffers so that additional funds are available to reach out to people in need.

This brief will first discuss the essential role of government as a collector of revenue and as a distributor of funds. Secondly, CFSJ will make three proposals for the 2012-2013 budget: (1) Reduce the deficit through fair taxes; (2) Increase revenue through other measures; (3) Invest in people. For the latter, what we have in mind are higher social assistance rates, well planned services for the senior population, a decent minimum wage and additional training to increase the skills of potential workers. We conclude with a list of recommendations for measures which we want the 2012-2013 budget to contain to increase revenue. We also propose ways to invest for the long-term financial wellbeing of the province.

II. Essential role of government

The government must carry out three functions¹: (1) Manage the province for the common good of its citizens; (2) Pass laws and regulations; (3) Protect its residents and their propriety.

Elected members of the Legislative Assembly are democratically chosen by the citizens to govern the affairs of the province. To this effect, they prepare a budget based on the revenue from federal transfers plus provincial income coming from taxes imposed on individuals and corporations, from Harmonized Sales Tax, other consumer taxes as well as miscellaneous revenues.

The provincial budget indicates how funds are to be allocated to the various Departments to cover operational expenses, infrastructure, Legislative Assembly expenses, provincial court expenses, etc.

The 2011-2012 NB budget totaled \$7.02 billion in revenue and its breakdown, percentage-wise, is presented in Figure 1. The largest contributor was the

¹ <http://society.ezinemark.com/the-essential-role-of-government-4dd262428/html>

Federal government through **federal transfers**, the latter representing **39.6%** of the revenue. Second in importance and contributing **30.7%** of total revenue, are the **personal and consumer taxes**. Thirdly, Harmonized Sales Tax represented **15%** of revenue. **Only 4.0% of revenue came from corporate taxes**. **Royalties** only brought in **1.2%** of the total funds in the provincial coffers. Revenue from miscellaneous other sources, at 9.2%, completed the balance, making up \$7.02 billion in total.

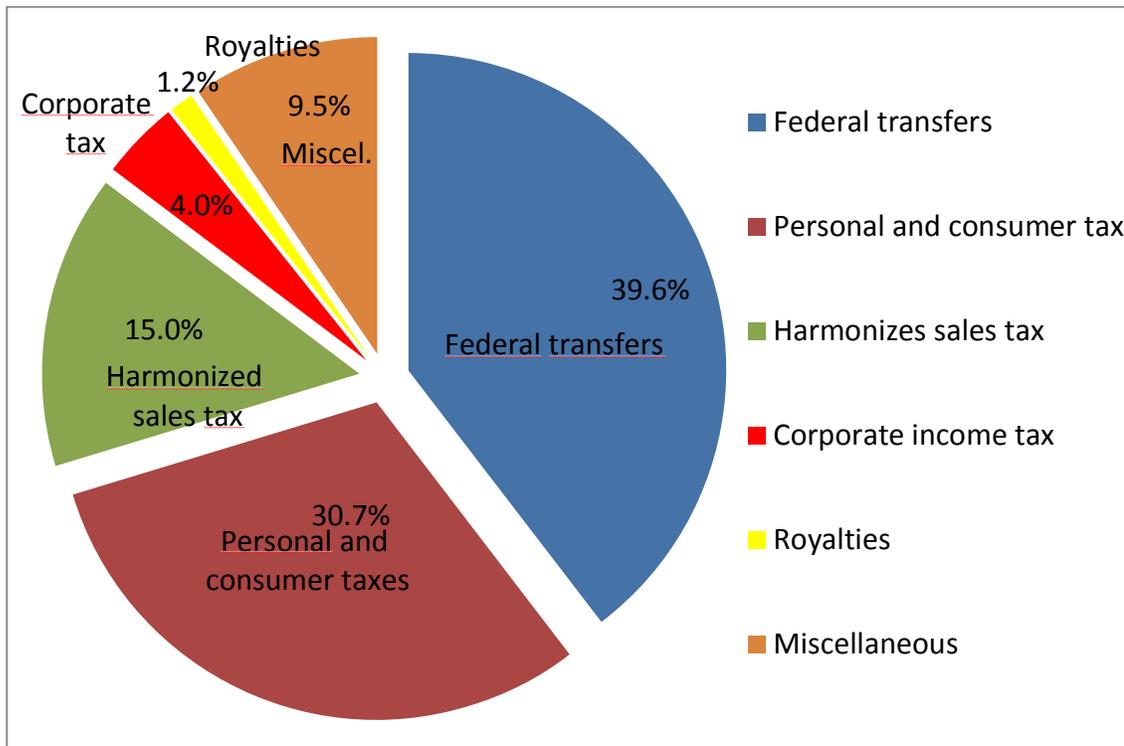


Figure 1. Breakdown, percentagewise, of the 2010-2011 NB Budget²

How is the revenue spent? The funds available to the province through taxes are used to:

- Provide free health services (doctors, hospitals, extra mural programs, etc.);
- Pay for education from kindergarten to grade 12, assist students at the post-secondary education level and invest in other types of training;
- Provide roads (Construction, repair, plowing, etc.);
- Support people in need: seniors, social assistance recipients, handicapped people, etc.;
- Cover other expenses.

² Higgs, Blaine. 2011-2012 Budget. New Brunswick, New Direction, p. 26.

Provincial money is also spent on loans, grants and subsidies to small, medium and large NB businesses. Examples of corporate assistance handed out in 2010-2011 include³:

- A \$3 million repayable amount given to Ganong in St. Stephen;
- Working capital amounting to \$3.3 million given to Innovatia in St. John;
- A \$291,000 forgivable loan given to Hostopia in Miramichi/Fort Lauderdale;
- A payroll rebate of \$500,000 given to Kent Home (Irving Group) in Buctouche.

The responsibility of the Legislative Assembly is to manage the provincial revenue in such a way that expenses are in line with revenue. Concerns about a deficit for the province of New Brunswick became a problem in 2008-2009 but the situation worsened from 2009-2010 onward. This fact is illustrated in Figure 2.

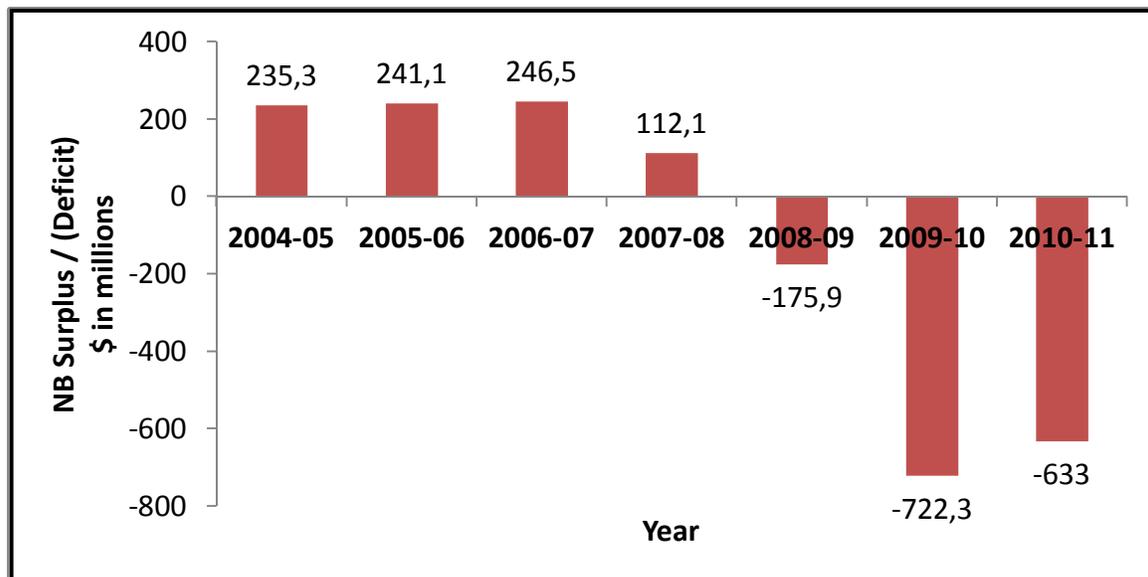


Figure 2. New Brunswick Surplus-(Deficit) from 2004-05 to 2010-11 (\$ millions)⁴

Provincial Deficit

We have heard, over and over again, by this government and by the business community, about the sad state of our economy. If we believe Mr. Higgs, we are going bankrupt.

The deficit started in 2008-09, at the beginning of the global economic crisis brought upon us by the corporate world. We have to remember that it was we, the Canadian

³ Personal communication between L. McCaustlin and the personnel of the NB Dept. of Finance.

⁴ New Brunswick. Finance Facts Sheet. Indicators of Financial Health, p. 1.

citizens, through our tax dollars, who provided hundreds of millions of dollars to bail out companies.

It was also in 2009 that the Liberal government decided to drastically reduce the income taxes imposed on individuals and corporations, depleting the government's coffers of hundreds of millions of dollars. These major cuts reduced the amount of revenue going to the province at the exact time we needed it the most. This decision made by the former government, followed through by the present one, is responsible for a good portion of the present deficit.

The CFSJ will later indicate that the provincial deficit can be attributed to several other factors but a major one is the tax cuts implemented in 2009.

III. Three Proposals by CFSJ for the 2012-2013 Budget

CFSJ wants to present three proposals to the Minister of Finance and these will be elaborated upon in the following order:

1. Reduce the deficit and debt through fair taxes;
2. Increase revenue through other measures;
3. Invest in people.

A. Reduce the deficit and debt through fair taxes.

1. Comment on the Net Debt/GDP Ratio

We must keep in mind that New Brunswick's **Net Debt**, at close to \$10 billion, is not among the most alarming one in Canada. As illustrated in Figure 3, NB's value for its Net Debt/GDP⁵ ratio, is intermediate, compared to that of other Canadian provinces. NB's Net Debt to GDP ratio is lower than that of Ontario, Quebec, Nova Scotia, Prince Edward Island and that of the Federal government. Yet, Mr. Higgs is telling us that our debt is unmanageable. We don't think so! We agree it is high but it is not the highest in the country. In a troubled economic period, it is certainly not the time to reduce services to NB citizens. It really should be the contrary.

⁵ Gross Domestic Product, or GDP, refers to the market value of all final goods and services produced per year.

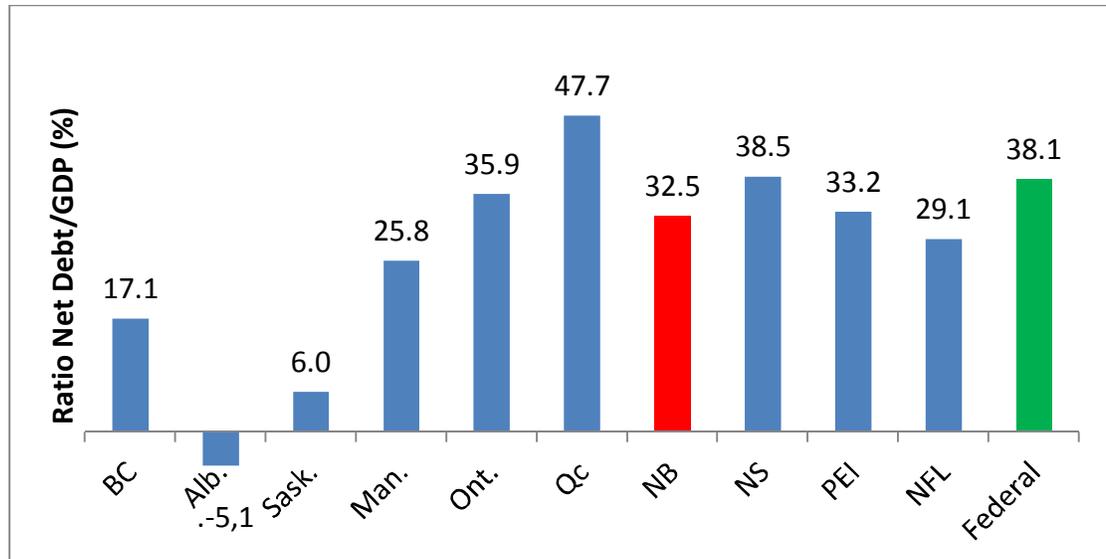


Figure 3. Net Debt/GDP ratio of Canadian Provinces⁶

Although the provincial debt needs to be gradually reduced, it is not crucial that it be brought to zero in the shortest time span possible.

2. Major causes of NB's deficit

The major causes of NB's deficit can be attributed to the following causes:

- Economic crisis of 2008 brought upon by the corporate world, not by ordinary citizens; yet billions of our tax dollars served to bail out corporations;
- Slowdown of the Canadian economy (hundreds of thousands of jobs lost, closure of plants, etc.);
- Job losses in forestry because of closures of pulp mills and saw mills (Miramichi, Bathurst, Dalhousie, etc.) when good paying jobs were lost;
- Strong Canadian dollars affecting our exports and the tourism sector;
- Personal and corporate tax cuts implemented in 2009.

3. Negative impacts of the 2009 Liberal government tax cuts

The 2009 taxation cuts attacked the principle of progressivity which is fundamental to a modern tax system. Less revenue comes from what should be a progressive income tax system and more from a regressive consumption-based tax. Indeed, the tax cuts adopted in 2009 reduced

⁶ Federal Department of Finance. Canada-Net Debt/GDP. March 31, 2011.

individuals and corporate income tax rates so less money is now coming to the provinces. The government offers to help reduce the deficit and the debt. The projected loss for 2011-2012 was \$288 million in personal income tax rate reductions and \$37 from the general corporate income tax rate reduction. Imagine if we were collecting this kind of money now! Our present deficit would be considerably lower. We don't understand why the government is not taking action.

As indicated in Table 1, New Brunswick citizens saw the rate of their income tax reduced and the level of their consumption taxes and other types of taxes increased. If we look at Table 1, we clearly see that citizens making more money are the ones having a higher income tax reduction.

Table 1. Impact of the tax cuts according to income bracket (2008-2012)

Income bracket in 2008 (Annual earnings)	Rate in 2008	Income Bracket in 2012 (Annual earnings)	Rate in 2012	% reduction between 2008 and 2012
1. On the first \$34,835	10.12%	0 to \$38,190	9.1%	-1.00%
2. \$34,836 to \$69,672	15.48%	\$38,191 to \$76,380	12.1%	-3.38%
3. \$69,673 to \$113,273	16.80%	\$76,381 to \$124,178	12.4%	-4.40%
4. Over \$113,273	17.95%	Over \$124,178	14.3%	-3.65%

The Liberal government, in their document *The Plan for Lower Taxes in New Brunswick . 2009-2012*, published in March 2009 by the Department of Finance, had calculated how much savings the citizens at different levels of revenue would make when the whole package of income tax cuts would be completely implemented in 2012. Table 2 presents their figures.

Table 2. Amounts of annual personal tax savings for a single person and a one-earner family, according to taxable income level (2008 versus 2012).

Taxable Income	Single person	One-earner family
\$15,000	\$65	\$0
\$30,000	\$395	\$583
\$60,000	\$1,307	\$1,283
\$90,000	\$2,619	\$2,596
\$150,000	\$5,922	\$5,898

When one compares the amount of savings, in dollars, that various levels of earners make in 2012, with the taxation level in place in 2008, it is evident

that the tax modifications greatly favoured citizens who are the wealthiest, compared to the least wealthy.

We acknowledge that the present Conservative government has not implemented the last bracket of income tax reduction for the highest earners (over \$124,178) for 2012 but we believe the figures in Table 2 give us a very good picture of who benefited the most from these tax cuts.

4. Tax reductions for the wealthy widen the income gap

Figure 4 illustrates the NB income gap between rich and poor in 2008. The 2008 data, from the 1st to the 9th decile were obtained from Armine Yalnizyan from the Canadian Centre for Policy Alternatives. The number (\$185,386) for the 10th decile comes from a publication by *Campaign 2000* and it represents a 2009 average⁷.

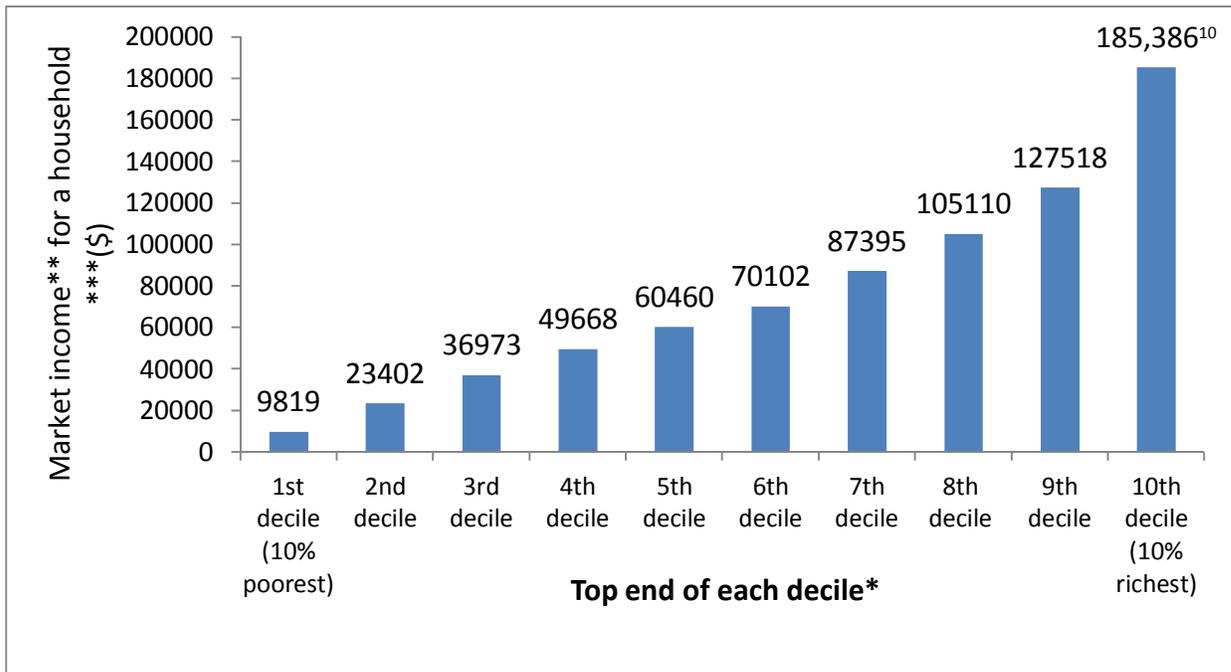


Figure 4. New Brunswick market income by household from poorest to richest

*Top values for 1st to 9th decile are for 2008; value for 10th decile is a 2009 average.

**Market income includes wages, investment and income from rent.

***Household includes at least one adult under 65 and at least one child under 18.

Indeed, a higher personal tax on wealthy people would reduce the gap between rich and poor. The Conference Board of Canada says that a wide gap between

⁷ Campaign 2000 - Human Development Council. 2011. Child Poverty Report Card, p. 7.

rich and poor is bad for society: High inequality can diminish economic growth if it means that the country is not fully using the skills and capabilities of all its citizens or undermines social cohesion, leading to increased social tensions. High inequality also raises a moral question about fairness and social justice⁸.

5. Proposal for a fairer tax contribution

a. Proposal for a fairer personal income tax

As indicated in the previous tables, the 2009 tax cuts were in favour of the wealthiest New Brunswickers. CFSJ supports a progressive tax system and wishes the Minister of Finance to roll back the income tax brackets for individual to where they were in 2008. Moreover, CFSJ's proposal includes the addition of a fifth tax bracket for individuals earning \$150,000 per year or more. These proposed income tax bracket levels are specified in Table 3.

Table 3. CFSJ's proposal for the income brackets to be implemented in the 2012-2013 provincial budget

Income bracket (earnings per year)	Taxation level
1. \$0 ⁹ to \$34,835	10.12%
2. \$34,836 to \$69,672	15.48%
3. \$69,673 to \$113,273	16.80%
4. \$113,274 to \$150,000	17.95%
5. Over \$150,000	21.00%

b. Proposal for a fairer corporate income tax contribution

The Liberal government had planned to lower the corporate income tax from 13% to 8% between 2008 and 2012. In its 2010-2011 budget, the Conservative government stopped the general corporate income tax reduction at 10% effective July 2011. **CFSJ proposes that the corporate income tax rate returns to the 2008 level of 13%**

Small and medium size businesses have seen their tax level decrease in the last budget. It will go from 5% to 2.5% (a 50% reduction) at the end of the current Conservative government's mandate. CFSJ proposes that this government bring

⁸ Conference Board of Canada quoted by Canadian Centre for Policy Alternatives Monitor, Vol., 18(6), Nov. 2011.

⁹ People earning less than \$8,953 don't pay income tax.

back their level to 5%. If we are asking citizens to contribute more to the economy of our province, we believe that the business sector should also do its fair share.

Corporate tax breaks are not the key element which influences the decision of a company to open a new factory or new offices. Factors that attract companies are valuable natural resources, skilled labour, good roads, adequate health care and social services, a good education system and appealing cultural and sports facilities.

III. Increase revenue through ways other than taxes

In CFSJ's view, there are several ways of increasing revenue besides raising taxes. Four of these are examples of potential strategies to fill the provincial coffers:

- Increase royalties on natural resources;
- Put a stop to Public-Private Partnerships;
- Adopt a public auto insurance for New Brunswickers;
- Implement pay equity in the private sector.

Details on the above four strategies are briefly described hereafter.

A. Increase royalties on natural resources

Natural resources belong to all NB citizens and can be a revenue generator. In 2010-2011, NB gets \$24 million from the metallic minerals tax, \$2 million from licenses (forest and mines) and \$1 million from oil and gas royalties¹⁰. Royalties represent only 0.6% of provincial revenue. The 2012-2013 budget **should increase royalties on natural resources as this could bring in significantly more revenue.**

B. Put a stop to Public-Private Partnerships

A Public-Private Partnership (PPP) describes a government infrastructure or service which is funded and operated through partnership of government and one or more private sector companies. PPPs don't save money but instead, they cost more, make public institutions less able to manage public initiatives themselves and reduce flexibility, transparency and accountability of government.

¹⁰ New Brunswick. Royalties collected under the Oil and Natural Gas Act.

There are numerous cases of wasteful PPPs. For example, the Evergreen School, built in the 1990s in Moncton was a waste of public money . the cost was nearly \$900,000 more than a publicly financed and owned project. Three more recent examples of PPPs are:

- The construction of the Eleanor W. Graham Middle School and the Moncton North School cost more than 1.7 million \$ in taxpayers money because they were built through a PPP (Statement by Auditor General Kim MacPherson in her January 12th report)
- Route 1 Gateway Project, from the U.S. border to River Glade, is a \$544 million PPP representing 57% of the total provincial capital budget¹¹ for 2012-2013.
- The Moncton Court House: it was to cost \$27 million and to open in May 2008 but it was delayed two and a half year and the final price was over \$50 million¹².

C. Create a Crown Corporation for a public auto insurance

Four Canadian provinces have public auto insurance, Saskatchewan, British Columbia, Québec and Manitoba.

Manitoba abolished private insurance companies and replaced them with the Manitoba Public Insurance (MPI), a Crown Corporation. In 2011, the MPI had excess revenue of \$92 million and could offer a 4% overall average decrease in rate to automobile owners¹³.

In 2004, Elizabeth Weir, chair of the New Brunswick Select Committee on Public Auto Insurance, published a report stating that a NB Public Automobile Insurance would reduce the average premium by \$219 and increase provincial revenues by \$3.5 million per year¹⁴. **The Finance Minister should recommend that a NB Public Auto Insurance Crown Corporation be implemented.**

D. Implement Pay Equity Legislation in the private sector

A study has shown that the introduction of Pay Equity Legislation in the private sector would increase the salary of numerous women in the workforce¹⁵. This

¹¹ New Brunswick. Transportation. 2012-2013 Capital Budget Estimate. Dec.14, 2011. Hon. Claude Williams. Ministerial Statement.

¹² www.cbc.ca/news/caada/new-brunswick/story/2011/02/10/nb-new-moncton-courthouse.htm/Prices Moncton courthouse worth it: sheriff.

¹³ www.mpi.mb.ca/english/newsroom/RateApp/2-11_2012/NewsRelease.html

¹⁴ Weir, Elizabeth. April 2004. Final Report on Public Automobile Insurance.

¹⁵ Akbary, A. H. 2004. The Gender Wage Gap in New Brunswick, p.2.

would place them in a higher income bracket and thus bring in around \$105 million to the provincial coffers.

E. Don't touch the HST to increase provincial revenue

We urge the Minister of Finance to maintain the Harmonized Sales Tax (HST) at the 8% provincial level where it is currently. Don't increase the HST because it penalizes people living in poverty the most since it applies to all basic needs except food. HST is reimbursed to Canadian businesses that register for it so an increase in HST would only penalize consumers.

IV. Invest in people

There are several reasons why the Minister of Finance should prioritize the needs of people in drafting the 2012-2013 budget. CFSJ suggests the following:

- Higher incomes improve the health status of low-income people, particularly that of people on social assistance;
- Increased services for seniors allows them to live longer in their own home;
- Payment of a decent minimum wage is essential for a fairer NB;
- Training adapted to the capacity of workers fulfills a need for manpower.

These four types of investment in people are described more fully hereafter.

A. Investing in poverty reduction saves public funds

The study by Dr. Christine Saulnier (Halifax Office of the CCPA) shows that reducing poverty by 20% could save the NB government \$196 million per year in health care and an additional \$108 to \$190 million per year in productivity loss¹⁶.

Raising social assistance rates to the Atlantic average is a logical way of saving considerable expenses in the overall health budget.

B. Invest in certain seniors' needs

Offering home services to the senior population and to disabled persons in need would:

¹⁶ Saulnier, Christine. 2011. In Focus. Cost of Poverty in New Brunswick. p. 2.

- Lower hospitalization costs;
- Give them a better quality of life;
- Allow them to be more autonomous, a factor related to the determinants of health
- Allow seniors who are at care levels 1 and 2 to remain at home and reserve nursing homes for levels 3 and 4;
- Allow seniors to reside longer at home if they are provided with nursing care and home makerspaid;
- Implement a preventative approach instead of a curative one, thus reducing government expenses in nursing homes, reserving them for levels of care 3 and 4.

C. Implement a decent minimum wage

The postponement, from September 2011 to April 2012, of the \$9.50 per hour wage raise to \$10.00 for the minimum wage, in response to business lobby, affected thousands of hard working citizens of this province, a lot of them living in poverty. The proposal to implement a lower minimum wage for workers receiving tips, following pressure by the Canadian Federation of Independent Businesses, would also be a bad decision and would have a negative impact on the revenue of many women. CFSJ urges the NB government to implement regular minimum wage increases. Low income workers will thus be able to purchase more goods and services, a factor which will stimulate the economy. Their personal income tax will be higher so more money will go the provincial coffers.

D. Offer additional training to increase the skills among targeted groups

Vocational education is lacking for those without a Grade 12 education. Job readiness, as assistants in trades such as carpentry, electricity, plumbing, etc., would be an asset to employers. Such training would provide additional job opportunities and increase the income tax contribution from these workers.

V. Conclusion

CFSJ wants the Finance Minister to increase revenues in order to provide adequate services to New Brunswickers. This overview of the NB socio-economic situation leads us to make recommendations to the Minister of Finance that will contribute to fairness and equity. In summary, CFSJ wants the government to increase its revenue in the following way:

1. Cancel the personal tax reductions of 2009 and move toward higher personal income tax for the wealthy, including a 5th bracket for those earning \$150,000;
2. Raise NB Corporation taxes to the 2008 level, thus bringing in additional millions of dollars in revenue;
3. Raise taxes for small and medium size businesses to the 5% level in place in 2011;
3. Raise royalties to increase revenue from companies exploiting provincial natural resources;
4. Implement a publicly funded auto insurance program to bring in money to the province;
5. Pass pay equity legislation for the private sector to increase tax revenue from female workers who will be in a higher earning category.

CFSJ suggests that the Minister of Finance use the increased revenue to invest in people for initiatives that will decrease long-term expenses:

- Budget more money for social assistance benefits to reduce food insecurity, provide adequate housing, etc.;
- Improve home services for senior services as well as disabled persons;
- Implement regular increases in the minimum wage;
- Offer training tailored to a person's capacity.

CFSJ is in favour of an economy which ensures that all citizens can meet their basic needs. We challenge the myth that tax cuts and leaner social programs will give a better, healthier and more prosperous New Brunswick.

Finally, CFSJ is in full agreement with Nobel Laureate Jean Stiglitz who said "to increase taxes to increase government spending and lower deficit and debt, is the way to go to kick-start the economy"¹⁷. Consequently, the Minister of Finance must increase revenue in order to invest in people and truly create a province which is close to our heart.

¹⁷ Canadian for tax fairness. 2011. Increase taxes to kick-start economy says Stiglitz.