

**New Brunswick 2011-2012 Budget**

**Position of the  
NB Economic Equity  
Working Group**

**March 2011**

## Who we are

The New Brunswick Economic Equity Working Group represents a number of citizens, organizations and unions concerned about the province's future directions to solve the fiscal imbalance and debt. Last November, we took upon ourselves to organize a public Forum: It's Our Economy Too! We did so to evaluate the state of our economy and to look at different options as we move forward.

- Association acadienne et francophone des ainées et ainés du NB
- Canadian Labour Congress, Atlantic region
- Canadian Union of Public Employees - NB Division
- Fredericton Anti-Poverty Organization
- New Brunswick Child Care Coalition
- New Brunswick Coalition for Pay Equity
- New Brunswick Common Front for Social Justice Inc.
- New Brunswick Federation of Labour
- New Brunswick Nurses' Union
- New Brunswick Union of Public and Private Employees
- Regroupement féministe du Nouveau-Brunswick

## Our Values

We believe economic decisions should be guided by the following values and goals:

- Economic security
- Equity
- Democracy and Accountability
- Sustainability

**Economic Security:** The economy should ensure that all citizens are able to provide for their basic needs.

**Equity:** The economy should ensure fairness among different segments of the population such as between women and men and between people of different income levels.

**Democracy and Accountability:** Economic decisions should reflect the citizens' collective needs and priorities. The effectiveness of economic measures should be measured and evaluated.

**Sustainability:** The economy "should maintain the natural environment's ability to provide the resources required to support life and the inputs required for sustained production of goods and services"<sup>1</sup>.

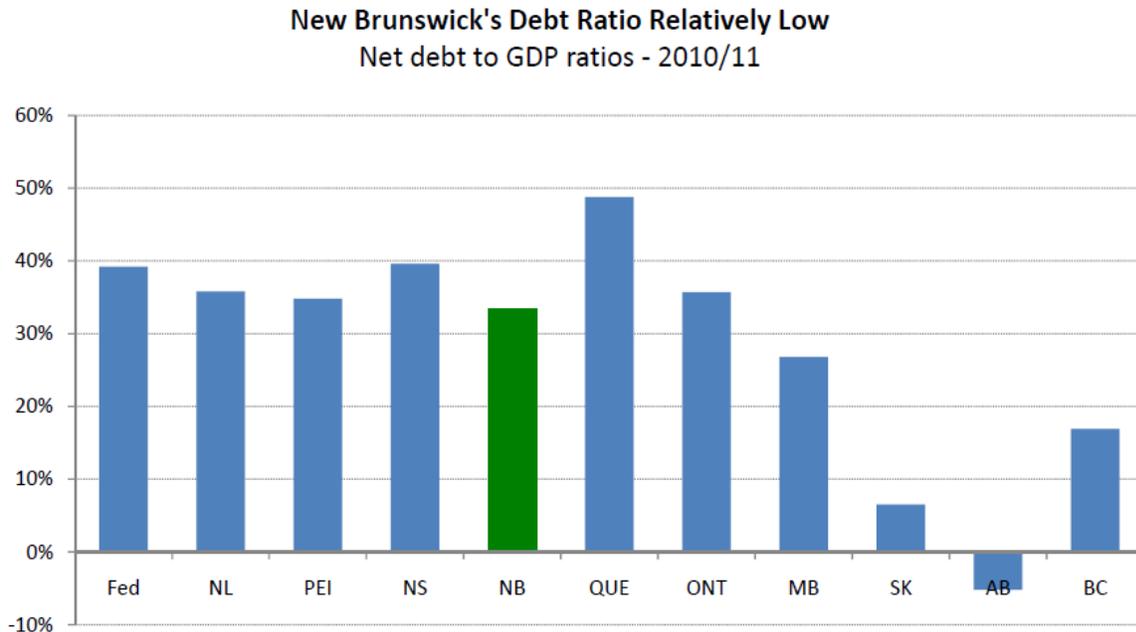
---

<sup>1</sup>Stanford, J. *Economics for Everyone*

## Analysis of the New Brunswick Fiscal Situation

We have heard that New Brunswick is in a debt crisis. However, it bodes well for New Brunswick when we compare our debt-to-GDP ratio to other provinces' (graph 1). We are in the middle of the pack.

**Graph 1**



*Source: RBC Provincial Fiscal Tables November 23, 2010*

Source: Toby Sanger. November 2010. Oral communication at the public forum "It's Our Economy Too!"

While the NB government is not going through a debt crisis, it is currently experiencing a fiscal imbalance, with deficits that threaten to increase the debt-to-GDP ratio in the long term. Two factors have caused this situation. The first is the recession which led to increased spending in social programs and stimulus spending. The second is the Liberal 4 year tax reduction plan, which began in 2009.

The increased spending due to the recession is expected to disappear over time and should not have a major impact on the long term fiscal health of the province.

The tax reduction plan, however, will have a lasting effect and has the potential to reduce considerably the province's ability to ensure economic security for all and environmental sustainability.

In 2009-2010, the first year of the tax reduction plan's implementation, the NB government lost \$143 million in revenue. Without modification, this plan will cost the provincial government another \$325 million in revenue in fiscal year 2011-2012. However, we must remember that once the plan is fully implemented, it will cost the government \$380.2 million in yearly revenue (table 1), creating an important structural fiscal imbalance unless major programme cuts are made.

**Table 1**

**2009-2012 Budget Annual Tax Savings (\$  
Millions)**

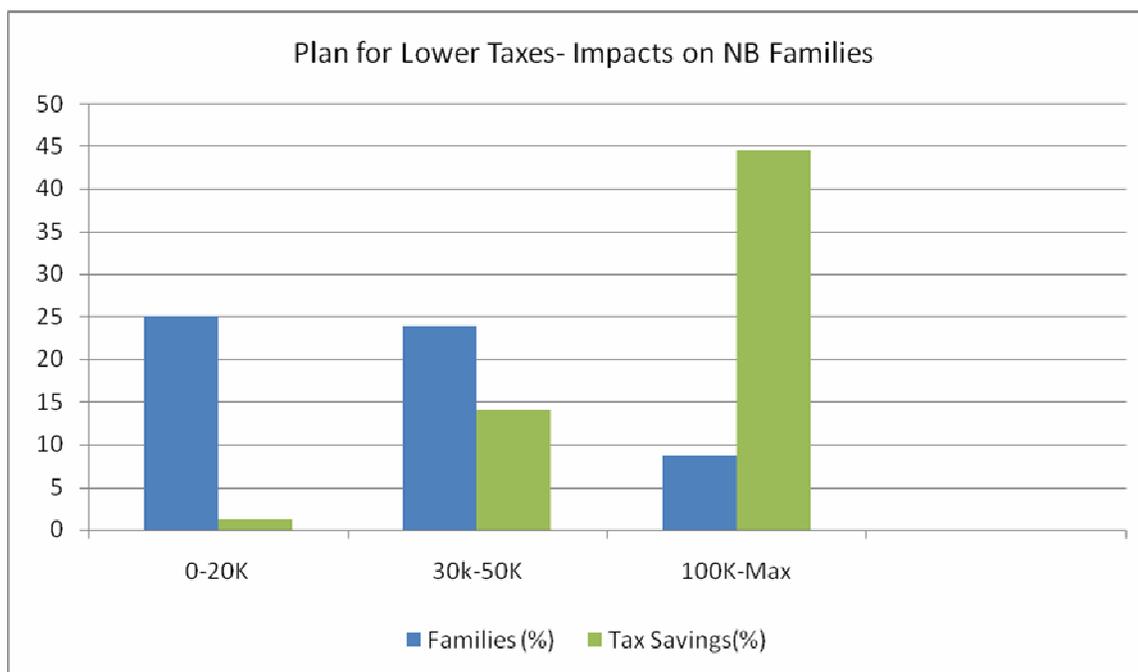
Tax Measure:	2009-2010	2010-2011	2011-2012	2012-2013
Personal Income Tax Rate Reductions	-118.0	-232.0	-288.0	-323.0
Enhanced Tuition Rebate	-2.0	-2.5	-3.5	-5.0
Enhanced Low-Income Seniors' Benefit	-3.5	-7.4	-7.8	-8.2
<i>Tax Savings for Individuals</i>	-123.5	-241.9	-299.3	-336.2
General Corporate Income Tax Rate Reduction	-6.0	-11.0	-20.0	-37.0
Increased Small Business Limit	-1.0	-1.0	-1.0	-1.0
Enhanced Small Business Investor Tax Credit	-2.0	-3.0	-4.0	-5.0
Enhanced Labour Sponsored Venture Capital Tax Credit	-1.0	-1.0	-1.0	-1.0
High Energy Use Tax Rebate	-5.0	0.0	0.0	0.0
Forestry Industry Investment Tax Credit	-5.0	0.0	0.0	0.0
<i>Tax Savings for Business</i>	-20.0	-16.0	-26.0	-44.0
<b>TOTAL TAX SAVINGS</b>	-143.5	-257.9	-325.3	-380.2

Source: Department of Finance, Government of New Brunswick. March 2009. The Plan for Lower Taxes in New Brunswick- 2009-2012.

Moreover, the tax reduction plan reduces the fiscal system's equity. According to a recent study published by economists Joe Ruggeri and Jean-Philippe Bourgeois, the tax reform benefits mostly high income families(Graph 2).

More specifically, families with an income of \$20,000 or less, which represents one quarter of all families in the province, will receive only 1.2 % of the benefits of income tax cuts. The middle income families, between \$30,000 and \$50,000, representing almost one quarter of the families will get 14% of the benefits. The real beneficiaries, however, those who will get the most out of these major cuts to our tax system, are the high income earners. Families with an income \$100,000 and over, who make up less than ten percent of NB families (8.6%), will receive almost half (45%) of all the benefits of income tax cuts. Hence, the fiscal reform is transferring the tax burden from the rich towards the poor and middle income families.

**Graph 2**



Source: Joe Ruggeri and Jean-Philippe Bourgeois. *The Fiscal and Economic Implications of Tax Reform in New Brunswick*. CCPA-NS, December 2010.

Families with the same income are treated differently. Couples, whether in a dual or single income household, benefit more from the tax reform than single-parent families or seniors (table 2). Of all types of families, single-parent families benefit the least. Single-parent families pay \$271 less in taxes under this plan as compared to \$719 less for single income couple families.

The 2009-2013 fiscal plan also has a different impact on women and men. In 2008, NB women's average income was \$24,600, while that of men's was \$37,900<sup>2</sup>. A 2008 study by tax policy expert and law professor, Kathleen Lahey, showed that moving toward a single or double income tax rate, as does the 2009-2012 fiscal plan, would favor the highest earners and therefore, would increase the after-tax income gap between men and women<sup>3</sup>.

Because of the lasting, structural fiscal imbalance it creates and because of its obvious unfairness, the tax reduction plan must be reversed as soon as possible.

<sup>2</sup>Statistics Canada. *Income in Canada 2008*. Table202-0407. <http://www.statcan.gc.ca/pub/75-202-x/2008000/tbl-eng.htm>

<sup>3</sup>Kathleen Lahey, *What About Women? Gender Analysis of Discussion Paper on New Brunswick's Tax System*, July 31, 2008.

**Table 2**

**Change in Tax Payable and in Effective Tax Rates: Select Family Type**

<b>Family Type</b>	<b>Tax Reduction (\$)</b>	<b>Current System Effective tax rate (%)</b>	<b>New System Effective tax rate (%)</b>	<b>Difference (%)</b>
<b>Singles</b>	<b>330</b>	<b>7.38</b>	<b>6.06</b>	<b>-1.32</b>
<b>Single Parents</b>	<b>271</b>	<b>4.4</b>	<b>3.55</b>	<b>-0.85</b>
<b>Seniors</b>	<b>330</b>	<b>5.32</b>	<b>4.33</b>	<b>-0.99</b>
<b>Single income Couples</b>	<b>719</b>	<b>7.26</b>	<b>5.65</b>	<b>-1.62</b>
<b>Two-income Couples</b>	<b>1354</b>	<b>8.87</b>	<b>7.19</b>	<b>-1.69</b>
<b>Average</b>	<b>722</b>	<b>7.79</b>	<b>6.3</b>	<b>-1.49</b>

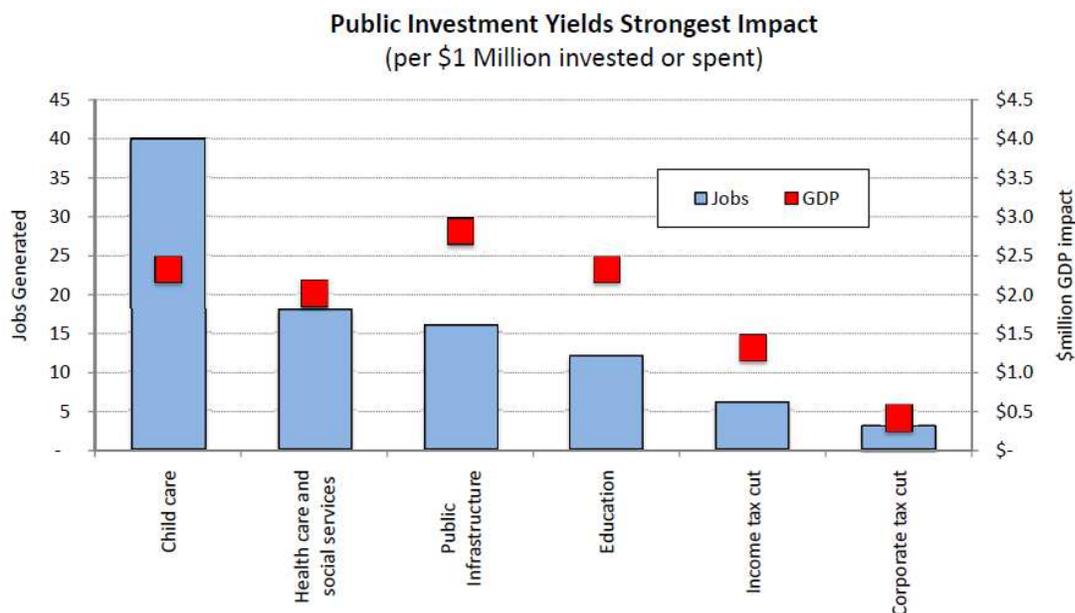
Source: CCPA-NS-The Fiscal and Economic Implications of Tax reform in New Brunswick, Joe Ruggeri and Jean-Philippe Bourgeois.

**Return on Government Investment**

As there are limited government funds available, government should focus its investment in areas where there are high returns on this investment

Government receives the highest economic returns on its investment, not by making tax cuts, but by investing in people (public services). The highest economic returns, measured both in terms of increases to GDP (economic output) and jobs creation, are from investments made in child care services, health care, social services, public infrastructure and education (Graph 3).

**Graph 3**



Sources: Informetrica Ltd, Centre for Spatial Economics, Finance Canada.

Source: Toby Sanger. November 2010. Oral communication at the public forum “It’s Our Economy Too!”

For the past ten years, the provincial and federal governments have been cutting corporate taxes. One of the main reasons given for these tax cuts is to encourage businesses to expand their investment and to attract new investment. There is very little evidence that demonstrates that these corporate tax reductions have had the desired impacts in terms of stimulating the economy, especially in terms of productivity-inducing investments. In fact, investment levels in machinery and equipment as a percentage of GDP have been declining in recent years and are now at a lower level than they were the year 2000(Graph 4).

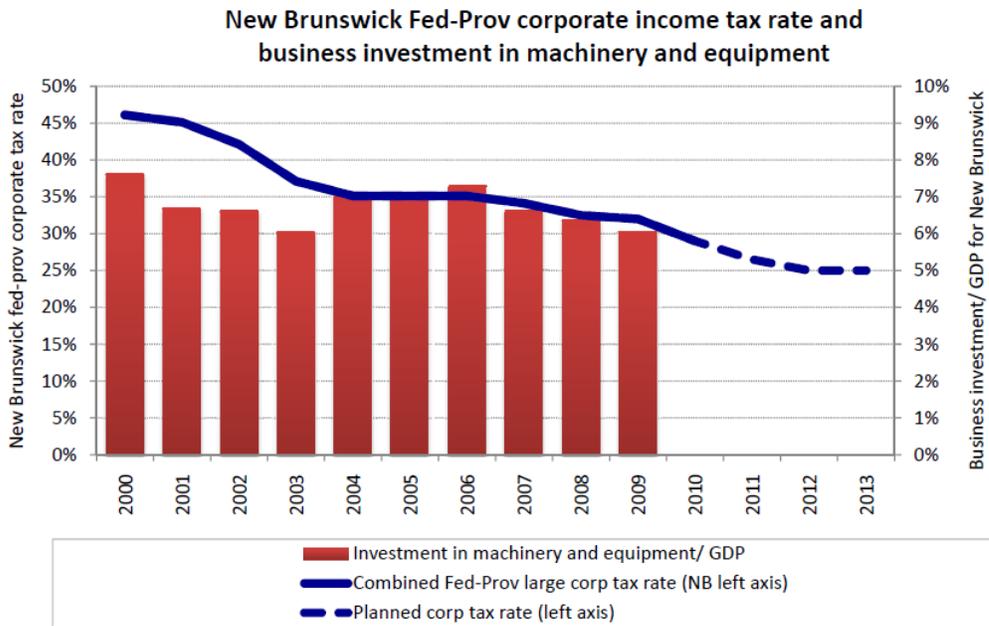
According to economists Ruggeri and Bourgeois:

New Brunswick had one of the lowest costs of doing business in Canada even before the tax reform. The decision to expand investment is based on what economists call the marginal effective tax rate (METR). The METR in New Brunswick, which includes all taxes and credits and not just the corporate income tax, was prior to the 2009 changes, substantially below the national average.<sup>4</sup>

<sup>4</sup>Joe Ruggeri and Jean-Philippe Bourgeois. The Fiscal and Economic Implications of Tax Reform in New Brunswick. December 2010, p. 3.

Also, the evidence does not support the argument that lowering personal income taxes will entice workers to move to New Brunswick. For workers earning the average wage, the personal income tax reduction will increase their weekly take-home pay by \$8. This is hardly an incentive to move to New Brunswick.

**Graph 4**



Source: Toby Sanger. November 2010. Oral communication at the public forum “It’s Our Economy Too!”

## **Recommendations**

We urge the provincial government to make its budget decisions in order to ensure economic security for all, equity, sustainability and democracy. Based on our analysis of the fiscal situation in New Brunswick, we recommend the following:

1. Reverse the recent tax cuts introduced in the Plan for Lower Taxes in New Brunswick, 2009- 2012.
2. Increase social assistance rates to the Atlantic average.
3. Invest in people for high economic and social returns:
  - a. Maintain an adequate level of public services
  - b. Implement a publicly funded non-profit child care system
  - c. Give pay equity adjustments to workers in home support agencies, child care, community residences, transition houses and special care homes.
  - d. Improve home and community based services to allow our aging population to live an active life longer.
4. Maintain an adequate level of publicly owned and operated infrastructures

## **Conclusion**

The decisions that the New Brunswick government will make in the upcoming budget will have long term economic and social implications for the future of our province and the people who live here. There are several roads that lead to economic prosperity. We believe that in assessing economic success we must respect the following criteria:

- Economic success is shared fairly among the different segments of the population, including between women and men, and between people of different income levels.
- Economic decisions reflect citizen's collective needs and priorities.
- Economic development is sustainable.
- We are adequately protecting our environment.

## References

Government of New Brunswick. March 2009. *Plan for Lower Taxes in New Brunswick 2009-2012*. [http://www.gnb.ca/0160/budget/buddoc2009/Plan\\_for\\_lower\\_taxes-e.pdf](http://www.gnb.ca/0160/budget/buddoc2009/Plan_for_lower_taxes-e.pdf).

Lahey, Kathleen. 2008. *What About Women? Gender Analysis of Discussion Paper on New Brunswick's Tax System*. <http://76.12.152.213/media/acsw/files/documents/What%20About%20Women.pdf>

Melanson, Rosella. February 2011. *10 Things I Learned Reading Ruggieri-Bourgeois Report on New Brunswick Finances*. <http://76.12.152.213/media/acsw/files/documents/10%20things%20I%20learned%20reading%20Ruggieri.pdf>.

Ruggieri, Joe and Jean-Philippe Bourgeois. December 2010. *The Fiscal and Economic Implications of Tax Reform in New Brunswick*. <http://bit.ly/qSGobc>.

Sanger, Toby. November 2010. *What are the alternatives?* Oral communication at the public forum "It's Our Economy Too!" <http://76.12.152.213/media/acsw/files/documents/NB%20Peoples%20Summit%20Nov%202010.ppt>.

Statistics Canada, Income in Canada 2008, Table 202-0407 <http://www.statcan.gc.ca/pub/75-202-x/2008000/tbl-eng.htm>