

## **Overheated spending and warmed-over tax cuts won't make New Brunswick competitive.**

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Last week, New Brunswick Finance Minister Jeannot Volpe, delivered a so-called "good news" budget, but what passes for good news among politicians is not good news for New Brunswickers who want to see a faster growing economy in their province and higher incomes in their pockets.

The budget delivered modest tax cuts, increased spending and built on New Brunswick's leading fiscal position among the four Atlantic provinces, but it also did all this in part thanks to big transfers from the federal government.

Growing spending is the dominant theme of this budget. Since taking office in 1999, the Lord government has increased per capita program spending faster than inflation, almost 13 per cent faster. Certainly increasing health care spending from \$1,628 per capita in 1999-2000 to \$2,414 in 2005-2006 has contributed to that program spending growth. In total, the education and health care spending now accounts for more than one-half of all program spending. Priorities or not, higher government spending means both tax revenues and federal transfers must remain high, a recipe that draws money away from savings and investment, with predictably negative consequences for the economy.

Even though New Brunswick has one of the lowest tax regimes in Atlantic Canada, in many key ways its tax regime is nowhere near competitive with other jurisdictions. How attractive is the province to potential new industry when the general corporate tax just across the border in Maine is 45 per cent lower than New Brunswick? Granted the province does have a competitive small business tax regime, and the plan to lower the small business income tax rate to 1 per cent in 2007 is good news. Business income taxes account for only 2.5 per cent of provincial revenues, so more aggressive tax cuts for all businesses wouldn't be very expensive in terms of forgone revenues. However, such cuts would be very beneficial in stimulating economic growth in the province.

Without such aggressive cuts in taxes and spending, overall economic growth for New Brunswick, as predicted in the budget, will lag behind the national average over the next two years.

The centerpiece of the budget's tax cut announced is little more than a retread. Restoring indexation of personal income tax, for the second time since taking office, is less of a tax cut and more of a decision not to proceed with a stealth tax

increase. New Brunswickers may be glad to have the extra \$40 to \$60 from tax savings in their wallets this year, but it is roughly enough money for two coffees per month.

More aggressive personal income tax cuts are needed to stimulate growth and improve after-tax incomes. In particular, reducing the high marginal tax rate will be essential in attracting knowledge workers or health care professionals, and will also be essential in attracting more investment. Pro-growth personal income tax cuts were completely absent in the budget.

At 35 per cent of all provincial revenues, perhaps most troubling is New Brunswick's continued reliance on federal transfers to help pay for the increase in spending. Big cheques from Ottawa helped the province leverage more spending, but unfortunately high spending and tepid tax cuts will do little to strengthen the province's economy and therefore does nothing to reduce that level of dependence on federal funds.

In presenting a balanced budget this year and next, the province's debt will decline by \$59 million. Debt reduction is always welcome news. But without a more focused debt reduction plan, interest costs will continue to chew up more than 10 cents out of every dollar collected by the province. Getting a grip on spending growth over the last six years might have helped to reduce the debt and some of the fiscal dead weight of paying interest on the debt.

What Finance Minister Jeannot Volpe should have delivered was a bold roadmap for greater prosperity: rigorous spending control, rational tax cuts and debt elimination. Instead, there are substantial spending increases that make New Brunswick even more reliant on the uneven and unpredictable generosity of Ottawa. The budget is another lost opportunity to put the province more aggressively on the path of sustainable spending, declining debt and lower taxes.