DEBUNKING THE DEFICIT

How Saskatchewan can get back on fiscal track without cuts or austerity

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Executive Summary

Saskatchewan's deficit is not a fiscal crisis

Saskatchewan Premier Brad Wall is threatening many drastic austerity measures to deal with the deficit, claiming the province is in a fiscal crisis. He is proposing to impose wage rollbacks of 3.5%, force public sector workers to take days off without pay, layoff up to 4,900 public sector workers, cut services and sell off revenue-generating public assets.

While the deficit may seem high, it is still considerably smaller than deficits racked up by former Conservative premier Grant Devine thirty years ago. Devine's deficit of $1.2 billion in 1986/87 was equivalent to almost 7% of Saskatchewan's $18 billion economy in 1986, proportionately much larger than last year's deficit of $1.5 billion, which was equivalent to 2% of Saskatchewan's $76 billion economy that year.

With government borrowing rates close to record lows, Saskatchewan's annual debt payment costs and the ability to pay for this debt are also close to record lows as a share of the province's economy.

Saskatchewan could achieve a balanced budget in a few years without taking any drastic spending cuts by:

- Increasing and diversifying revenues and making the tax system fairer
- Spending more wisely
- Growing the economy

Revenues at historic low

Saskatchewan's revenues are projected to decline to an historic low of 16.1% share of its economy in 2019/20. This would be the lowest since at least 1981/2 and the second lowest in Canada. Revenues from non-renewable resources are expected to drop in half in two years, from $2.6 billion in 2014/15 to $1.3 billion in 2016/17. The government, however, also cut taxes totalling $5.9 billion since 2008, further reducing its revenues.

If the province increased its revenues to its 35-year average of 19.2% of GDP, it would have an additional $1.53 billion in revenues this year: more than enough to balance the budget. The government cannot continue to rely on volatile non-renewable resources.

Some options to increase revenues and put the province's finances on a firmer, stable and more sustainable foundation for the long-term are:

- Closing tax loopholes, such as for stock options and capital gains ($85 million+)
- Cracking down on tax evasion and use of tax havens: about $100+ annually
- Hiking the top income tax rate to 17.5%: $60 million+ annually
- Restoring education property taxes so they provide at least 40% of school board operating revenues: $80 million+ annually

These measures would generate an additional $325 million or more annually and enable the government to balance its budget within four years while maintaining spending growth at 2.5% per year.

Government spending is below 36-year average

Premier Wall has exclusively targeted spending cuts – particularly for public sector workers – to eliminate the government's deficit. Government spending as a share of GDP, however, is at record lows.

Last year's provincial budget proposals (2016/17) freeze overall spending in 2017/18 and then modestly increase it in subsequent years would lower the province's spending to just a 15.9% share of the economy. This would be by far the lowest rate of provincial spending on record and well-below its 36-year average of 19.8%.

Clearly Saskatchewan's deficit hasn't been caused by excessive overall spending, but by a shortfall of revenues. Th government, however, could spend public funds more wisely.

Public Accounts show that this government has committed to pay $4.5 billion over the next 30 years for the four P3s that are under construction or operational—and they'll cost $647 million in 2019/20 alone. The increasing number of P3s in Saskatchewan are creating a growing debt bomb for future taxpayers.

Public sector wages

Premier Wall has focused on cutting public sector wages claiming wages make up 60 percent of all government spending. Statistics Canada data show that total public sector employee compensation for the broader provincial public sector in Saskatchewan amounted to $7.46 billion in 2014, or 41.6% of the $18 billion in broader provincial public sector spending that year. Provincial government spending on employee compensation amounted to $1.2 billion, less than 20% of its total spending.

Over the past five years, wages of public sector workers have not kept up with inflation. Base wage increases for public sector collective agreements increased by an average of 7.3 per cent over the past five years, while Saskatchewan's CPI increased by 8.2 per cent during the same period. Average hourly wages for public sector workers increased by half the rate of wage increases for private sector workers in the province.

Public sector cuts bad for the economy

Balancing the budget through cuts to public services and on the backs of public sector workers isn't just unfair, it would be bad for the economy. Economic multipliers show that cuts to public spending are much worse for the economy than tax increases would be. Recent reports from the International Monetary Fund and Europe admit that austerity measures created economic hardship for the population but also increased their deficits and debts.

Conservative economic forecasts show growth for province

A reasonable medium term fiscal forecast shows Saskatchewan could balance its budget within a few years by 2020 without any drastic spending cuts, by relying on natural revenue growth as the economy grows. The Conference Board of Canada's conservative economic forecast shows that Saskatchewan could balance its budget in a few years largely by growing the economy: maintaining spending growth at 2 percent per year and without increasing tax rates.

Introduction

Saskatchewan Premier Brad Wall claims his province is in a fiscal crisis and is threatening a lot of drastic austerity measures to deal with it, including breaking collective agreements, imposing wage freezes or rollbacks of 3.5%, forcing public sector workers to take days off without pay ("Wallidays"), reducing teachers prep time, significant layoffs and spending cuts, privatization and selling off revenue-generating public assets such as SaskTel.

But is Saskatchewan in a fiscal crisis? What caused it to run larger than expected deficits? Can it get back to balance without drastic measures? These are some of the questions this paper addresses.

Through the looking glass

Examining Saskatchewan's budgets and financial reports is a bit like entering a room full of distorting mirrors – or like Alice going through the looking glass into Wonderland. Things aren't always the way they appear to be and deficits (or surpluses) can be made to look bigger or smaller depending on what way you look at them, or what way they—or you—want them to be.

There are legitimately different conceptual ways that government financial and budgetary statements can and should be presented. There can also be some ambiguity, flexibility or different interpretations about how some items should be accounted for, as the current controversy between the government and Auditor General in Ontario over how pension obligations should be accounted for demonstrates. While all governments play the game of presenting figures the way they want, the Saskatchewan government has a history of being particularly adept at using different accounting tools and tricks to make its surpluses look smaller, or to make deficits either look smaller or bigger, depending on what image they want to present or what they want to achieve.

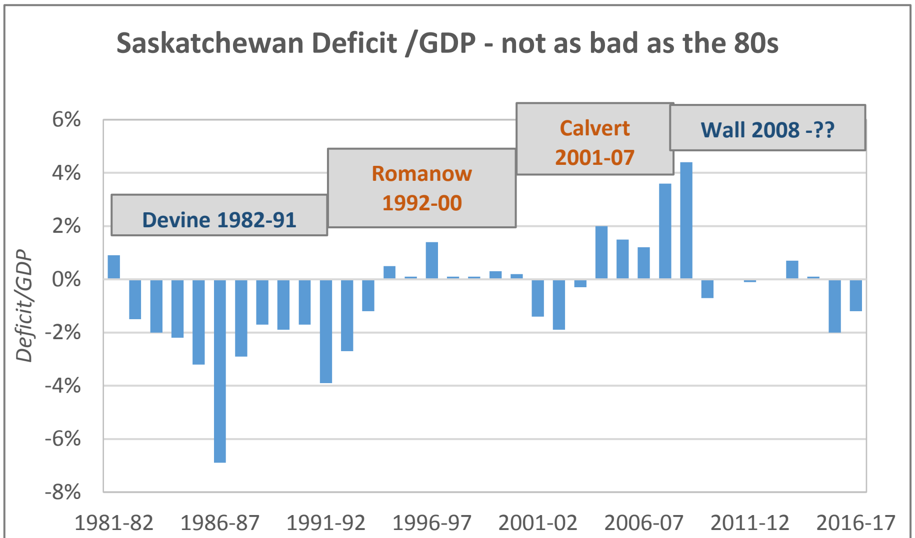
Fiscal crisis: fact or fiction?

Saskatchewan recorded a deficit of $675 million in 2015/16 (or $1.5 billion after including a pension adjustment of $845 million)[1]. According to the Premier, the deficit could reach $1.2 billion in 2016/17. The $1.2 billion figure wasn't reported by the Finance Department; their latest mid-year report in late November projected the deficit would be $1.04 billion after accounting for the Workers Compensation Board distribution of its accumulated surplus to employers, which added another $235 million to the deficit. Excluding the WCB adjustment the projected 2016/17 deficit reported in the mid-year financial update was $806 million.

While these deficits may seem high, they are still considerably smaller than the deficits former Conservative premier Grant Devine racked up thirty years ago, when calculated as a share of the economy, or in terms of fiscal ability to pay the debt. For example, Devine's deficit of $1.2 billion in 1986/87 was equivalent to almost 7% of the size of Saskatchewan's $18 billion economy in 1986. This was proportionately a far larger share than last year's deficit of $1.5 billion, which was equivalent to a 2% share of Saskatchewan's $76 billion economy that year.

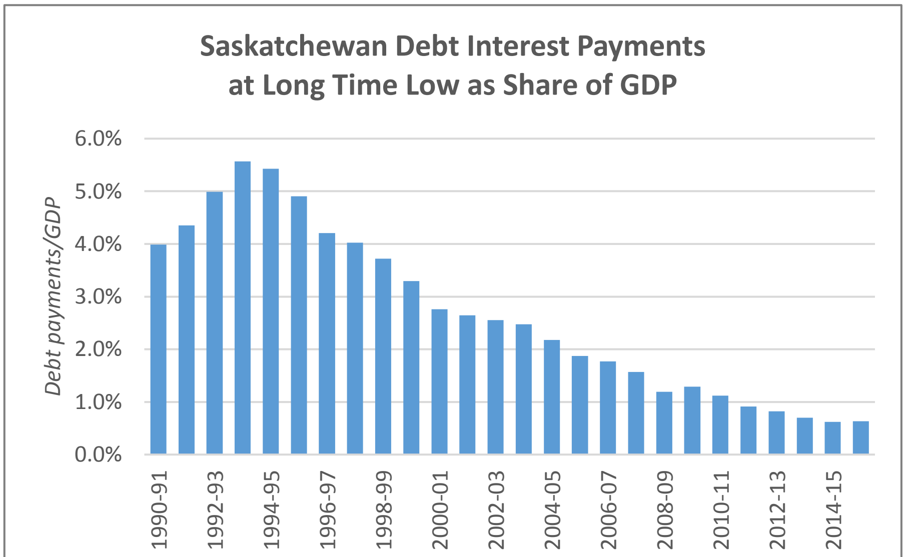
[1] The pension adjustment doesn't involve any actual transfer of money, but is required for accounting purposes to adjust for what would be required to fulfill forecasted remaining defined benefit pension obligations given current conditions. The amount of adjustment required in 2015/16 was a record high because interest rates were so low. The amount of pension adjustment required in following years are expected to be considerably smaller.

Devine inherited a government in good fiscal shape, with no debt and left it ten years later in fiscal shambles, with a net debt of over $6 billion equal to 30% of the province's GDP. Successive NDP governments ran balanced budgets and reduced the debt down to a 5.2% share of the economy in 2008, the second lowest of all provinces. Premier Wall has considerably increased Saskatchewan's net debt since he was first elected in 2008 and it is expected to stand at about 12% of GDP this year. While this is double the debt when Wall was first elected, its still the second lowest of all Canadian provinces.



Sources: RBC Canadian Federal and Provincial Fiscal Tables, February 2017, Saskatchewan Finance Mid-year Report

With government borrowing rates close to record lows, Saskatchewan's annual debt payment costs and the ability to pay for this debt (similar to mortgage or loan payments) are also close to record lows as a share of the province's economy.[2]



Sources: Finance Canada Fiscal Reference Table 25, Statistics Canada Cansim table 384-0038. Figures only available from 1990/91.

Putting the province's current deficit in perspective makes it clear that, while its fiscal situation has worsened in recent years under Premier Wall, Saskatchewan certainly isn't in or anywhere near a fiscal or deficit crisis. In fact, Saskatchewan could achieve a balanced budget in a few years without taking any drastic actions (which could further harm the economy) as will be shown below.

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[2] The ratio of debt interest payments to revenue, potential revenue and economic output is a measure of the ability to pay for the borrowing, just as mortgage and loan payments as a share of income are used as a measure of housing affordability.

What caused Saskatchewan's current deficit and debt situation?

While there may be some ambiguity about what the actual level of the deficit is, there's little question about what has caused it, at least over the short term. Saskatchewan's revenues from non-renewable resources are expected to have dropped in half in two years, from $2.6 billion in 2014/15 to a projected $1.3 billion in 2016/17, a decline of $1.3 billion. If these non-renewable resource revenues—from oil, potash, natural gas, minerals and crown land sales—hadn't declined, then the province would run a surplus this year, as it also would have in 2015/16.

The current fiscal situation should have been predictable and was entirely preventable. Governments shouldn't rely heavily on volatile non-renewable resource revenues to fund current expenses. They are, of course, *non-renewable,* and will eventually decline and run out. More forward thinking governments have put large shares of their non-renewable resource revenues into separate funds for the benefit of future years and future generations, such as Norway's $800 billion oil fund, Alberta's Heritage Fund in the 70s and 80s and the $2 trillion sovereign wealth funds run by Saudi Arabia. This has been done to diversify their economies for when their non-renewable resources inevitably decline and also to prevent their short-term budgets being distorted or vulnerable to volatile commodity prices.

Blakeney's NDP government established a Saskatchewan Heritage Fund in 1978 that rose in value to $1.6 billion by 1991, but the Romanow government absorbed its balances into the Consolidated Revenue Fund to deal with the large debt he inherited. Despite being urged to establish a similar fund with the rise in oil and mineral prices, the Wall government refused to do so[3]. His government also inherited a $1.5 billion Fiscal Stabilization Fund, which they renamed the Growth and Financial Security Fund, but then bled the funds dry. The Wall government benefited from record high oil and potash prices, failed to maintain these funds and also failed to plan for the volatility of resource prices.

Saskatchewan's direct non-renewable resource revenues reached as high as $4.7 billion comprising 38% of Saskatchewan's total revenues in 2008/9, Wall's first year in office, and over 25% of the province's revenues in the following six years. Because the resource boom also increased economic activity, household and corporate incomes and sales in the province, this generated higher incomes, sales and property taxes. Without these direct resource revenues, the Sask Party government would not have balanced its budgets in any of these years, nor would it have been able to cut taxes. The 2016/17 Budget reports that tax reductions since 2008 total $5.9 billion. Much of this has been through education property tax cuts that disproportionately benefitted rural and agricultural properties.[4]

After making these bad economic decisions, the government now proposes drastic actions to balance the budget immediately in the coming 2017/18 year. These would simply compound their previous mistakes with additional mistakes. Saskatchewan doesn't need emergency or drastic actions. Major public sector layoffs, wage freezes, cuts, and public asset sales would make the economic situation

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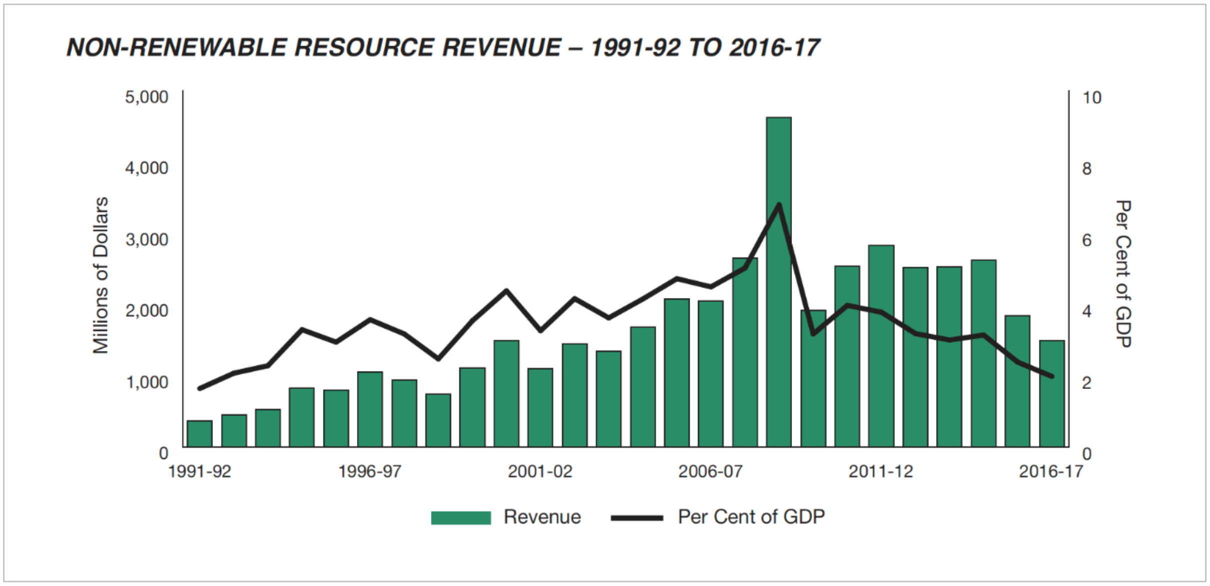
[3] See Wilson, Penner and Demyen, *A Call for a New Saskatchewan Heritage Fund?* University of Regina, October 2012.

[4] See page 69 of the 2009/10 Saskatchewan Budget, which reports that agriculture properties will receive an 80% relief/reduction in their property taxes, residential properties 20% relief in property taxes and commercial properties a 10.2% relief. http://finance.gov.sk.ca/budget2009-10/Budget200910SummaryBook.pdf



worse. Instead Saskatchewan needs a long-term plan—or at least a plan beyond one year—to put its finances on a firm and sustainable foundation for the future.

This should be done in three ways:

1. Increasing and diversifying revenues and making the tax system fairer
2. Spending more wisely
3. Growing the economy

An alternative economic plan for Saskatchewan

Increasing and diversifying revenues

While planning additional drastic actions to cut spending, Premier Wall continues to boast about how "Saskatchewan individuals and families consistently pay the second lowest (or lowest) taxes and utilities in the country,"[5] and about how they had cut taxes by $6 billion since coming to power in 2008.[6]

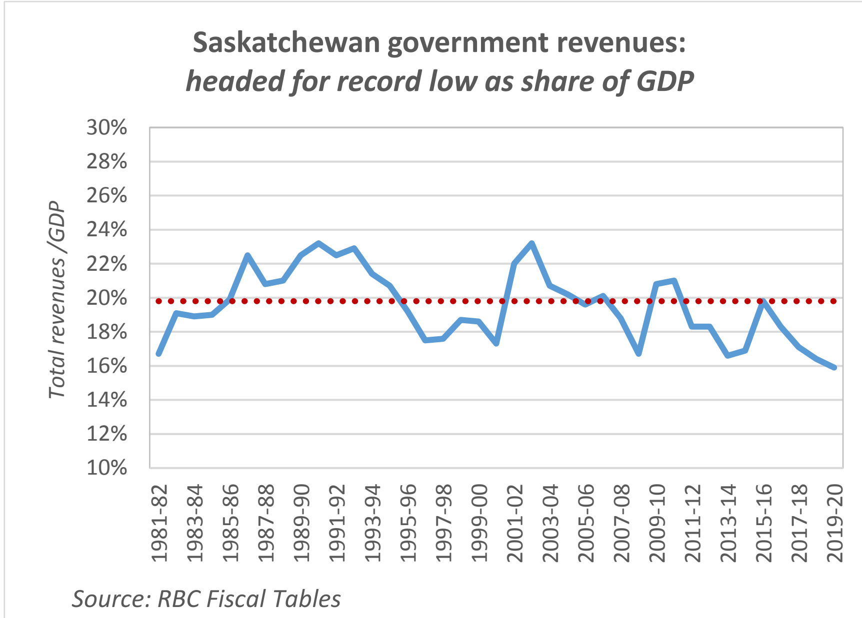
With the recovery of oil prices to about $50 a barrel, non-renewable resource revenues are expected to recover, but they shouldn't be depended upon for ongoing current expenses. Instead the Saskatchewan government should diversify its revenues by relying on more stable and dependable revenue sources.

[5] In fact, Saskatchewan's taxes and utility rates are the lowest in Canada for low income individuals and families only because its publicly run auto insurance and telecommunications services charge far less than privately-run auto insurance and telecom services in other provinces. Rates through Saskatchewan Government Insurance (SGI) are half the average charged by private auto insurers in Alberta, higher only than Manitoba's public auto insurance while SaskTel's rates are the lowest in Canada (SK 2016/17 Budget, pp. 58-60). Privatizing either of these public services would inevitably lead to higher prices and likely worse service for Saskatchewan households.

[6] Saskatchewan's 2016/17 budget, while cutting public services, even increased its dividend tax credit to counteract "a federal change that would have increased provincial tax on dividend income for Saskatchewan people" (p. 9). What the budget doesn't say is that this change largely benefited **higher income** Saskatchewan people: two-thirds of the benefit of this credit goes to the 10 per cent of Saskatchewan tax filers with income over $100,000.

In fact, Saskatchewan's revenues are projected to decline to a 16.1% share of its economy in 2019/20. This would be an all-time low, since at least 1981/2 and the second lowest in Canada, higher than only Alberta. Clearly there's room to increase revenues.

If the province increased its revenues to the same 19.2% average share of the economy they'd been over the 35 years from 1981/2 to 2016/17, the province would have $1.53 billion in additional revenues this coming year: more than enough to balance the budget.



Specific options for increasing and diversifying revenues include:

- **Reduce and eliminate tax loopholes**. The federal Trudeau government plans to reduce and eliminate many tax expenditures, especially those that are regressive. Saskatchewan would also benefit from this because it, like other provinces besides Quebec, uses the same tax bases as the federal government. Its revenues will increase if the federal government eliminates tax loopholes and broadens its tax bases. For instance, taxing income from capital gains and stock options at the same rate as employment income would increase Saskatchewan's revenues by $85 million annually (while preserving the lifetime exemption for farms). The provincial government could also act to restrict some of its own regressive and ineffective tax expenditures[7].
- The government should also **crack down on tax evasion** by corporations such as Cameco and by wealthy individuals who use tax havens to avoid paying taxes. Canadian governments are losing billions in revenues annually through individual and corporate use of tax havens. Official reports on the value of assets of Canadian corporations in the top ten tax havens was $270 billion in 2015. This means Canadian governments are missing out on at least $2.7 billion in revenues annually and an estimated $8 billion from all sources. Saskatchewan's share of this is likely $100 million or more annually. For instance, the Saskatoon-based (and former crown corporation) Cameco made use of tax havens and manipulated tax laws to shift an estimated $7.4 billion in earnings overseas so it wouldn't be taxed in Canada. The Canada Revenue Agency is in court to recover the tax on that, amounting to $2.2 billion. If successful, hundreds of millions should also go to Saskatchewan. By not appropriately taxing companies that ship and sell retail goods and

[7] The estimated annual cost of some of these tax expenditures are listed in the provincial budgets. See pages 53-56 in the 2016/17 Saskatchewan Provincial Budget.

services into Canada, we're also losing out on at least one billion in revenues and exporting jobs and business elsewhere.

- Saskatchewan has one of the lowest **top income tax rates** at 15%, equal to Alberta's top tax rate and just slightly higher than BC's at 14.7%. Ontario, Quebec, Nova Scotia and New Brunswick all have provincial top income tax rates of more than 20%. Increasing Saskatchewan's top income tax rate to 17.4%, the same as Manitoba, would generate an additional $60 million+ annually.[8]
- Education **property taxes** were slashed in the early years of the Wall government, particularly for rural agricultural properties. They averaged 1.7% of GDP in the eight years 2000-2007; now they're half that at about 0.8% of GDP, representing a decline in revenues of about $650 million annually. They now provide a little over 30% of school board revenues, down from over 50% in the years before the Saskatchewan Party came to power. The 2016/17 provincial budget reported that education property taxes provide 36% of school board operating funding, lower than the longstanding goal of 40%. Bringing property tax share up to 40% of operating funding would increase revenues by about $80 million annually.[9]
- Saskatchewan's **sales tax** at 5% is the second lowest in Canada (after Alberta which doesn't have one). The average among other provinces is 9% with the next lowest BC at 7%. Increasing Saskatchewan's retail sales tax by 1% would generate an additional $260 million or more, while increasing it to 7% would generate an additional $500 million annually.
- Saskatchewan's **gas tax** is the 2nd lowest in Canada at 15 cents a litre, higher only than Manitoba at 14 cents a litre and below Alberta at 17.5 cents a litre. Increasing the fuel tax to 17.5 cents a litre would generate an additional $80 million annually.
- Better than increasing fuel taxes would be to introduce **progressive carbon pricing.** Prime Minister Trudeau has said if the provinces don't do it, he'll introduce a carbon price at $10/tonne in 2018, rising by $10/tonne to $50/tonne in 2022. Saskatchewan's greenhouse gas (GHG) emissions were most recently estimated at 76 megatonnes in 2014 and were projected at 75 megatonnes in 2020, the highest per capita emissions in the country. However, about 14 megatonnes of that comes from agriculture. Excluding agriculture, a carbon price at $10/tonne would generate $600 million for the province in 2018, at $30/tonne it would generate $1.8 billion and at $50/tonne, $3 billion a year. The government could devote half this revenue to provide a progressive carbon price refund to ensure most Saskatchewan households were better off and would still have more than enough additional revenue to eliminate the deficit.

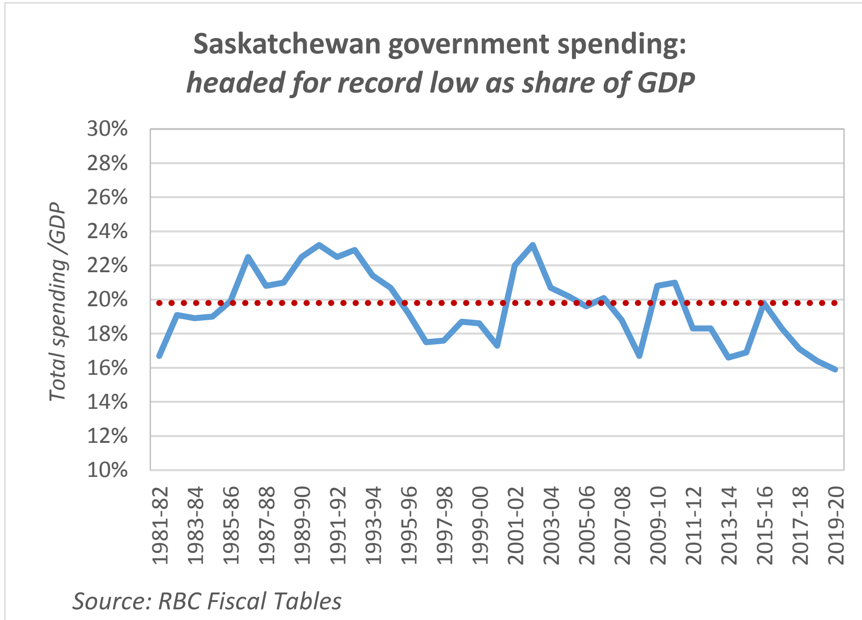
Spending more wisely

Saskatchewan's 2016/17 budget proposed to freeze overall spending in 2017/18 and then increase it by only 1.5% and 2% in 2018/19 and 2019/20 respectively. This would lower the provinces spending to just a 15.9% share of the economy.

[8] Calculated using Canada Revenue Agency Income Tax Statistics.

[9] See Statistics Canada Cansim tables 478-0010 and 478-0011, school board revenues and school board expenditures; and Saskatchewan Budget 2016/17, p. 10.

This would be by far the lowest rate of provincial spending for Saskatchewan on record and would be the lowest or second lowest of all provinces. Saskatchewan's current rate of public spending at 18.3% in 2016/17 of the economy is the 8th lowest in the 36 years since 1981/82 and well-below its 36-year average of 19.8%. Total provincial government spending has increased by an average of just 3% annually over the past five years, almost identical to the province's rate of economic growth.



Clearly Saskatchewan's deficit hasn't been caused by excessive overall spending, but by a shortfall of revenues.

Despite this Premier Wall has so far exclusively targeted spending cuts—and particularly public sector workers—to eliminate the deficit caused by his government's tax cuts and failure to do prudent long-term planning.

Premier Wall and his ministers have told public sector employers to cap employee compensation in the 2017/18 year at the same level as 2016/17 and also threatened wage rollbacks and layoffs. He claimed employee compensation must be contained because wages make up 60% of all government spending. His claims, however, are far off on what the real numbers are. Comprehensive figures from Statistics Canada show that total public sector employee compensation for the broader provincial public sector (e.g., including provincial administration, health care, education and municipalities but excluding the federal government) in Saskatchewan amounted to $7.46 billion in 2014, which was just 41.6% of the $18 billion in all broader provincial public sector spending in the province that year. For the provincial government alone, employee compensation amounted to $1.2 billion, less than 20% of its total spending (less transfer to other levels of government).[10]

Public sector employment hasn't increased rapidly in Saskatchewan. On the contrary, it has increased at or slower than the rate of overall employment growth over the past ten and five years. In 2010, the Wall government set out to reduce the provincial public service by 15%, which resulted in the loss of over 1,700 civil service jobs (mostly through attrition). The government has also privatized hospital laundries, prison food services, public liquor stores, replacing public sector jobs with fewer lower-paid private sector jobs.

Over the past five years, wages of public sector workers have not kept up with inflation. Base wage increases for public sector collective agreements have increased by an average of just 7.3 per cent over the past five years, while Saskatchewan's consumer price inflation has increased by 8.2 per cent during

[10] These data are from Canadian Government Finance Statistics, Statistics Canada Cansim tables 385-0042 and 385-0034. (Most recent data for 2014.)

those five years[11]. Average hourly wages for public sector workers in most sectors in Saskatchewan have barely kept up with inflation since 2008, and increased at only about half the rate of wages for private sector workers in the province. Clearly public sector wage increases are not responsible for the province's fiscal situation.

While Saskatchewan's overall rates of public spending aren't responsible for causing the deficit, that doesn't mean there aren't areas where savings could be achieved and public funds spent more wisely.

Public-private partnerships (P3s) are like buying infrastructure on a credit card: you don't have to pay the full cost up front and it doesn't appear on the short-term budget statements, but the overall costs are much higher than if they were bought outright with lower cost financing.

P3s cost much more than if these projects had been publicly financed, with much of that additional money flowing out of the province. For the private sector and especially private finance, P3s are a lucrative source of profit. For politicians, they are a way of hiding the infrastructure costs from the public today, and leaving high long term costs for future governments and taxpayers. Public Accounts show that this government has committed to pay $4.5 billion over the next 30 years for the four P3s that are under construction or operational—and they'll cost $647 million in 2019/20 alone.[12] The increasing number of P3s in Saskatchewan are creating a growing debt bomb for future taxpayers. P3 debts coming due in the next few years will make it that much more difficult to balance the budget[13].

The government's **increased use of expensive consultants** has increased costs and in many cases, appears to have been a waste of money. For example:

- The Provincial Auditor questioned the government's excessive use of consultants. In 2014 she reported that total spending on consultants for all ministries shot up from $36.7 million to $120.3 million, or by 228%.[14] Even worse, the auditor found that in 70% of cases the Ministry could not document why the consultants were needed.
- The government's implementation of the LEAN program in health care was supposed to provide cost savings, but instead a study published in the *International Journal for Quality Health Care* reported this program cost the government $1,511 for each dollar it's saved in efficiencies[15]. The program has cost over $35 million in consultant fees plus many millions more in departmental costs. The Provincial Auditor reported in 2015 that the government can't show whether Lean is leading to better service, improving things, or is good value for the money spent.[16]

Selling off public assets and public utilities, such as public liquor stores and SaskTel, for a short-term injection of funds would be a terrible mistake. The 40 liquor stores owned by the Saskatchewan Liquor and Gaming Authority (SLGA) that the government privatized brought in $150 million in profits in the last five years, revenues that will be lost after privatization.[17] SaskTel not only provides Saskatchewan

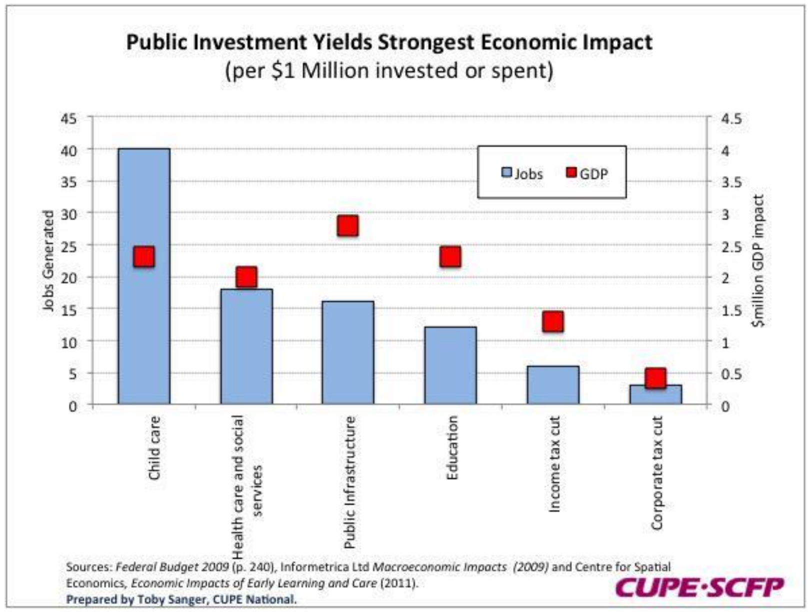
[11] Wage settlements from Employment and Social Development Canada, Major Wage Settlements.
[12] See Schedule 9, p. 74 in Saskatchewan Public Accounts Volume 1.
[13] See Murray Mandryk, "P3 spending shows why Saskatchewan needed a pre-election budget", Saskatoon Star Phoenix, March 31, 2016.
[14] Saskatchewan Provincial Auditor, 2014 Report, Volume 2, pp 163-171.
[15] "New report final straw for Lean, Sask NDP says," CBC News Saskatchewan, Feb.1, 2016.
[16] "Impossible to say whether Lean program working: Provincial auditor," CBC News Saskatchewan, Dec 8, 2015.
[17] David Campanella, "Down the Drain: The Saskatchewan Government's Costly Proposal for Liquor Retailing," CCPA Saskatchewan, February 2016.

residents with what is rated as the lowest cost and best phone and telecom service in Canada, it also provides the Saskatchewan government—and the people of Saskatchewan—with substantial annual revenues and many good jobs[18].

Growing the economy

Balancing the budget through cuts to public services and on the backs of public sector workers isn't just unfair, it would also be bad for the economy. Economic multipliers show that cuts to public spending are much worse for the economy than tax increases would be.

The following chart, using multipliers published by Finance Canada and independent economic analysis firms, illustrates the impact on jobs and economic growth of a $1 million increase (or cut) to public spending in different areas compared with a $1 million cut (or increase) to income and corporate taxes. This shows that public spending cuts would clearly have a much stronger negative impact than increasing taxes by an equivalent amount. These spending cuts would then result in slower economic growth and lower revenues.



In a significant *mea culpa*, the International Monetary Fund recently acknowledged it had underestimated the repercussions of spending cuts and austerity on nations around the world—and that these negative multipliers were even worse than they had initially thought they would be.

Even more recent analysis has determined that "Austerity was a bigger disaster than we thought" in European countries and that in addition to the human and social devastation, it also made their fiscal situation worse, with higher debt/GDP burdens.

One of the best ways to improve a jurisdiction's finances is by growing the economy, which results in higher incomes, more jobs, higher revenues and relatively lower spending on social welfare and associated costs for the health care and justice systems. This is the gist of what Keynes discovered during the Great Depression: when an economy goes into decline, a government shouldn't cut spending to balance its budget, which will make the economic and fiscal situation worse, but instead should invest in and stimulate the economy, especially in ways that improve equality and maintain the spending power of its people.

It's highly disturbing that eighty-one years after the most important economics book of the 20th century was published—Keynes "The General Theory of Employment, Interest and Money"—and after all the

[18] See Toby Sanger, "Parables of privatization: A cautionary tale of two telcos", Rabble June 10, 2015, and Simon Enoch, "Brad Wall, SaskTel and the terrible, horrible, no good, very bad idea", Behind the numbers, CCPA February 9, 2017.

world has been through in the past decade, that the Saskatchewan government is clinging to discredited economic practices focused on cutting spending to balance its budget instead of stimulating the economy when times are bad.

Saskatchewan's economy contracted in 2015 and may have in 2016 as well. Unemployment has doubled in a little over two years. Cutting spending will make the situation even worse. Instead of cutting spending to balance its budget, the Saskatchewan government should take positive steps to improve public services, create and maintain jobs, and strengthen the province's economy, which in turn will improve its fiscal situation.

How to get back on track without drastic cuts

As the Saskatchewan Party's first Finance Minister, Rod Gantefoer, recently argued, it would be a mistake for the government to try and balance the budget in one year. "I worry about the medicine killing the patient and it's going to be too hard for the people to bear, and that is not necessary if you take a long vision for the province," he told the Regina-Leader Post.

Instead, the provincial government should prioritize preserving and creating jobs, maintaining workers' spending power and growing the economy to put the province's finances on a solid foundation over the long-term. If the government enacts drastic cuts, it could mean a third year of economic decline and increasing joblessness for the province.

In any case, the plans the government had for revenue and spending growth, as set out in the medium-term financial outlook in the 2016/17 budget (with a spending freeze in 2017/18 following by 1.5% and 2% growth) wouldn't result in a balanced budget in the coming year or within its term in office if applied to the updated fiscal figures for 2016/17 in the mid-year report.

This is in part because the government has assumed very low revenue growth and a sharp decline in revenues as a share of the province's GDP. This may be because they are assuming slow revenue growth or because they are planning further tax cuts. We don't know because the provincial government hasn't updated its medium-term fiscal projections[19]. Instead of providing this type of basic information, it appears the government has deliberately withheld this information from the public so it can create alarmism about the deficit and then feed rumours and speculation to influence public opinion.

In fact, a reasonable medium term fiscal forecast shows Saskatchewan could balance its budget within a few years by 2020 without any drastic spending cuts, by relying on natural revenue growth as the economy grows.

Over the longer term, overall government tax revenues tend to grow at roughly the same rate as nominal GDP without further changes to the tax and revenue system[20]. This is because nominal GDP is the broadest based measure of economic activity in a particular jurisdiction. Of course, this can vary,

[19] Recently the Finance Minister said that the third-quarter financial update will not be provided before the budget because the numbers "are not ready": http://www.cbc.ca/news/canada/saskatchewan/sask-finances-third-quarter-update-1.4001254

[20] Over the past 25 years, Saskatchewan's nominal GDP has increased by an annual average of 5% annually while the province's revenues have grown by about 4.6% annually during that period despite significant tax cuts.

depending on the tax and revenue mix, how dependent it is on growth-based income and sales taxes, and how dependent it is on other somewhat volatile sources such as resource revenues, transfers, property taxes and other revenues.

The table below shows revenue growth for Saskatchewan using the Conference Board of Canada's forecast of nominal GDP (calculated by fiscal year) for Saskatchewan, but cautiously assuming Saskatchewan's revenues will grow half a percent slower per year. This yields average annual revenue growth of 3.8% per year over the next five years. This rate of revenue growth is lower than the Conference Board's forecast for average (nominal GDP) economic growth of 4.3% over this period. It's also slower than the average rate of revenue growth Saskatchewan experienced over the last 25 years of 4.6%.

Saskatchewan Medium Term Fiscal Outlook
Assuming status quo revenue growth and 2% spending growth

($ Millions)	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
Saskatchewan Nominal GDP (forecast from Conference Board of Canada, by fiscal year)	$74,227	$77,297	$79,976	$83,433	$87,787	$91,044
(growth)	*-2.2%*	*4.1%*	*3.5%*	*4.3%*	*5.2%*	*3.7%*
Saskatchewan total revenues – projection	$13,938*	$14,444	$14,873	$15,441	$16,170	$16,689
(growth)		*3.6%*	*3.0%*	*3.8%*	*4.7%*	*3.2%*
as % of GDP	18.8%	18.7%	18.6%	18.5%	18.4%	18.3%
Saskatchewan total expense – projection	$14,743	$15,038	$15,339	$15,645	$15,958	$16,277
(growth)		*2.0%*	*2.0%*	*2.0%*	*2.0%*	*2.0%*
as % of GDP	19.9%	19.5%	19.2%	18.8%	18.2%	17.9%
Deficit/surplus (revenues less expense)	$(805.6)	$(593.8)	$(466.0)	$(203.8)	$211.8	$411.9

** The figures for 2016/17 are similar to those presented in the 2016/17 mid-year financial update, except revenues have been adjusted upwards by $235.5 million to exclude the one-time Workers Compensation Board earnings distribution adjustment.*

It should also be noted that the Conference Board's forecast of economic growth for Saskatchewan in the next two years is considerably lower than that of the Saskatchewan government's latest published forecast, in the 2016-17 mid-year financial update. The mid-year financial update provides a forecast for nominal GDP growth for 2017 (calendar year) of 5.6% and for 2018 or 5.3%. Meanwhile the Conference Board's forecast for 2017 and 2018 are almost two percentage points lower, at 3.7% and 3.4% respectively. This means the revenue growth forecasts presented below are very cautious and that actual revenue growth is likely to be considerably higher.

This demonstrates Saskatchewan could balance its budget in a few years largely by growing the economy: maintaining spending growth at 2% per year—or about the same rate as inflation—and without increasing tax rates. In fact, the provincial government's revenues (and spending) would decline as a share of GDP.

This table shows that Saskatchewan can balance its budget in a few years without cuts or imposing damaging austerity measures -- medicine that could kill the patient, as former finance Minister Gantefoer suggested. Instead of balancing the budget immediately the government should focus on creating and maintaining jobs, public services, and the standard of living for Saskatchewan households.

But the government should also take steps to put the province's finances on a firmer, stable and more sustainable foundation for the long-term.   This means not relying on volatile non-renewable resource revenues to balance its budget and devoting those revenues to a renewed Heritage-type fund.   This also means the government should take steps to diversify its revenues and broaden its tax bases while making the tax system fairer and more efficient.

Some of the priorities (as outlined above) should include:

- Closing tax loopholes, such as for stock options and capital gains ($85 million+)
- Cracking down on tax evasion and use of tax havens: about $100+ annually
- Hiking the top income tax rate to 17.5%: $60 million+ annually
- Restoring education property taxes so they provide at least 40% of school board operating revenues: $80 million+ annually

These measures would generate an additional $325 million or more annually and enable the government to balance its budget within four years while maintaining spending growth at 2.5% per year. Other revenue measures such as increasing fuel or sales taxes, or the revenues from carbon pricing could provide the government with hundreds of millions more in annual revenues.

This analysis has shown that Saskatchewan is in no way facing a fiscal crisis and could in fact balance its budget within a few years largely from economic and revenue growth. The substantial current deficits were caused by a steep drop in non-renewable resource revenues and have occurred because the government cut other taxes and failed to plan for the future by diversifying revenues to less volatile sources. Instead of further cuts to spending and revenues that would reduce them to historical lows, the provincial government now has an opportunity to put its fiscal future back onto a sustainable track without cuts to public services or undermining the living standards of Saskatchewan households.

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