

Chamber plan a stroke of genius

By Bruce Johnstone, The Leader-Post January 23, 2010

In the lead-up to the release of the provincial budget in March, Finance Minister Rod Gantefoer will be inundated with "pre-budget submissions" from business and other interest groups.

Most of them will be asking for 1) more spending, or 2) lower taxes, or c) some combination of the two.

And most of them will be dismissed out of hand by the minister, who will rightly say: "Sure, everyone wants more spending and lower taxes, but nobody wants to tell me where I'm supposed to get the money to pay for it."

The Regina & District Chamber of Commerce has just such a pre-budget submission and an ambitious one at that -- eliminate both the government debt and the education portion of property tax over the next decade.

But, unlike many such requests from interest groups, the chamber's submission would essentially pay for itself.

The chamber's plan is simplicity itself: Use the interest savings from paying down the \$4-billion government debt to fund the reduction in property taxes for business and residential property owners.

Of course, we're talking serious money here.

The interest payments on the debt amount to about \$488 million per year, while the education portion of property taxes is in the vicinity of \$580 million a year.

In last year's budget, the Saskatchewan Party government boosted its contribution to K-12 education operating costs by \$241 million to \$990 million for fiscal 2009-10.

As a result, the province's share of education operating costs increased to 63 per cent in fiscal 2009 from 51 per cent in fiscal 2008.

At the same time, the province reduced the education portion of property taxes by \$103 million or 14 per cent in the 2009-10 budget.

The budget also promised to reduce education property taxes by another \$53 million in 2010-11, reducing the property taxpayers' portion of education funding to 34 per cent and increasing the province's share to 66 per cent.

But Gantfoer has indicated that the \$1.8-billion shortfall in potash revenues in fiscal 2009 could put further tax reductions on hold.

This makes the chamber's request for several hundreds of million of dollars of tax relief problematic for the Sask. Party government, which is searching high and low for ways of reducing the deficit, not increasing it.

Still, any plan to reduce and eventually eliminate the education portion of property taxes cannot be dismissed lightly either.

After all, the Sask. Party did promise to reduce, and eventually eliminate, the education portion of property taxes in the 2007 election campaign.

The chamber's plan, if implemented, would get the provincial government within \$100 million a year or "striking distance" of eliminating the education portion of property taxes.

Naturally, some will object to the chamber's plan as too expensive at a time of \$1-billion budget deficits. Clearly, the province cannot be expected to pay down debt as long as it is running a significant annual deficit.

But that's the beauty of the chamber's plan. It assumes that budgetary surpluses will continue to be used to pay down the provincial debt. That means that funding to reduce the education portion of property taxes would be guaranteed, but only when the province could afford to do so.

This removes the stumbling block of affordability. It also has another benefit: Providing a purpose and a payoff for debt reduction.

Debt reduction is often dismissed as a fiscally responsible, but largely theoretical, exercise, with very few tangible benefits for ordinary taxpayers.

Policy wonks, credit rating agencies and economists favoured debt reduction, but few others could get excited about improving our debt-to-GDP ratio.

Tying debt reduction to education property tax elimination is a stroke of genius because it provides a large constituency of potential supporters, beyond the usual business-types.

Of course, promoting practical public policy change is no guarantee of success. If that were true, we would have a harmonized sales tax today.

But that's another column for another day.

- Bruce Johnstone is the Leader-Post's financial editor.

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