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# **SUSTAINING PROSPERITY FOR FUTURE GENERATIONS**

## **SUSTAINING OUR PROSPERITY FOR FUTURE GENERATIONS** *NLEC POSITION ON 2013 PROVINCIAL BUDGET PRIORITIES*

### **INTRODUCTION**

The Newfoundland and Labrador Employers' Council (NLEC) is the lead business advocacy association in the province on matters that impact the employment relationship. Our membership employs greater than 50% of all non-government employees in the province. We represent businesses in all sectors of our economy and regions of the province. The state of our province's finances is of great concern to our members.

With the decreased price of oil, balancing this year's budget will be a challenge. Now, more than ever, this province must focus on long term planning to ensure our current prosperity continues for future generations. NLEC members feel this government has demonstrated leadership in managing our province's finances at times in the past, but needs to do more to demonstrate strong fiscal leadership particularly in 2013.

NLEC members support responsible long-term fiscal policy focused on eliminating deficit, increasing efficiency and productivity in the public service, reducing pension and post retirement unfunded liabilities, creating a competitive tax regime, and encouraging business attraction and investment. Such policies create wealth, improve our standard of living and maximize the benefits of our non-renewable resource revenue.

The following are specific areas of concern for the NLEC:

#### **Government spending**

Sustainable spending now is extremely important to the future economic success of our province. The NLEC is concerned that last year's projected deficit ballooned to nearly \$500 million above the target set last April. A more conservative approach to public spending is needed to ensure the deficit does not continue to grow. We are supportive of efforts this government has made, and should continue to make, to reduce spending and increase efficiency -- but feel the province can do more to ensure that our spending is sustainable.

In recent years, Newfoundland & Labrador has been the beneficiary of resource revenues that are the envy of nearly every province in Canada. While these revenues have helped us weather the global recession, the NLEC believes that government has overspent during our most prosperous years and that we are now living beyond our means. In times of prosperity, government receives pressure to spend. It is in these times, however, that government must take a conservative and sustainable approach to public spending to ensure long-term economic success.

One third of Newfoundland & Labrador's revenue is completely dependent on commodities, the prices of which are volatile. Budgeting provincial spending on the high end of these volatile prices is certainly not conservative, nor is it sustainable. "Spending up" when times are good has created an inflated civil service with salaries and benefits that are not financially viable for the province when commodity prices decrease. The current year-to-year approach to budgeting is political and short

term and not necessarily in the best interest of the province long term. A better strategy is to think long term about these commodity revenues and instead of “spending up” when they increase, “save them for a rainy day” by investing in the future of our province. This government has employed such strategies in the past, such as using surpluses to pay down our net debt. The NLEC applauds government for this move, as well as for their Core Mandate Analysis and 10-year plan to restrain growth in program spending to the rate of inflation, and reduce Newfoundland and Labrador’s debt level to the all-province average. However, decreasing commodity prices make it clear that a more aggressive approach to reining in government spending is necessary in the coming year.

The NLEC recommends longer term fiscal planning, a much more responsible approach to ensuring our provinces prosperity is sustained for future generations.

### **Efficiency in the public service**

In developing a more conservative and sustainable approach to public spending, government must ensure that every tax dollar is spent in the most efficient and prudent manner possible. The NLEC agrees with the 2012 Drummond report which commented that Government ministries and agencies should ALWAYS drive for efficiency gains. By allowing our public sector to grow to the largest per capita public sector in Canada, this government has clearly NOT had a goal of efficiency within the public service. A 2009 study by the Frontier Centre for Public Policy found that Newfoundland & Labrador spent \$125 million each year more than would be paid if the size of the province’s public service were reduced to match the national average. Since that time, the public service in this province has continued to grow and as of 2011 accounts for 26% of total employment – the highest of any North American jurisdiction. This large public service is not benefiting our province. Research shows that that a large public sector leads to poor labour market outcomes and economic performance – increasing unemployment and decreasing productivity (Fraser Institute “Measuring Labour Markets in Canada and the United States”). The time has come to right size, as Premier Dunderdale puts it, our “heavily populated” civil service.

Government must take a hard look at programs and services to determine if they are necessary and sustainable. Government cuts should be well thought out and focused on long-term goals of reforming programs and service delivery to increase efficiency and productivity. They should also be broad based, considering all programs and departments, including those that make up the largest portion of our provincial budget – health & education. The NLEC is extremely supportive of the focus this government has put on increasing efficiency in the health care system, as health care spending accounted for more than 40% of last year’s provincial budget. Yet even with these initiatives, a recent Fraser Institute study ranked our health care system the worst value for money spent in Canada. This effort must continue and increase, and the same focus on efficiency should be expanded to all government departments.

In a year in which government will be negotiating with its largest public sector unions a strong focus on not just fiscal prudence, but also on increasing efficiency and productivity, must be prevalent in collective bargaining. Productivity focused goal setting with the public sector, increased outsourcing to the private sector, and performance based incentives for government employees should all be considered.

## Debt Reduction

The NLEC membership continues to be concerned about our province's net debt. Net debt is now expected to hit \$8.9 billion, up from \$8.5 billion as predicted last spring. While this government has shown a focus on debt reduction, bringing provincial debt down from a high of almost \$12 billion in 2004, we still have the third highest net debt per capita debt of any province in the country (as of January 2013). Government currently pays approximately \$800 million per year to service the debt, money that could be used for government programs or services, such as health care or education. The NLEC finds it disconcerting that an investment of \$7 billion in the Muskrat Falls project would receive such extensive public scrutiny, yet there seems to be little to no concern over the massive liability represented by our province's net debt – which continues to climb.

Government's promise to put future surpluses toward debt reduction is positive, but eliminating the billions in debt will require a more aggressive and strategic approach to debt reduction. Our province needs a long-term plan to bring debt down to manageable levels. This plan must include evaluation and reform of current public sector pension and post retirement benefits. As of the 2012 provincial budget, the unfunded pension and post retirement liabilities in this province account for 5.6 billion, or 66%, of the provinces net debt. The NLEC is in agreement with comments made by Minister Tom Marshall that the pension plans of those in the civil service as they are presently structured are not sustainable.

Increasing demographic and economic changes have led to unsustainable pension systems worldwide. The challenges faced by our government with regards to unfunded pension liability have been faced by many private sector firms and other municipal, provincial and federal governments. The changes being made to pension plans today are not being made because governments and business want to, but because they have to. Pension plans that were promised to workers in the 50s, 60s, and 70s are not economically viable in 2012. Such plans in many cases have threatened the long-term survival of companies, the jobs of workers, and the pension plans themselves. Changes to our public sector pension regime are not a consideration, but a necessity.

Going forward, our province needs pension plans that reflect the demographic and economic realities of 2013. Government's attempts to provide retirement benefits to its civil servants must be balanced against the ability of private citizens to pay for those benefits. Private sector workers are well aware that retirement benefits offered to the public sector are well beyond what they could ever hope to achieve in the private sector. This is an issue of fairness for the people of the province. Such expensive benefit programs also impact our province's social programs that are meant to benefit everyone. A failure to act on this issue now will place this financial burden on our children's generation.

The NLEC requests that government initiate a review of the public sector pension plan, and take action within the coming year. Such a review should not self sensor, but be tasked with exploring all options for ensuring our publicly funded pension plans are sustainable, fair, and do not negatively impact the province's ability to provide programs and services that benefit all people of the province, such as health care and education.

This would include options that have been implemented in the private sector and other governments, including:

1. Increasing the age required to access pension benefits;
2. Change the method of calculating pension benefits from final salary to career average, and;
3. Switching from defined benefit to defined contribution.

## **Competitive Tax Regime**

A competitive tax regime is important for economic growth, job creation, and population growth. This government has done a good job in some areas of competitive tax policy. The outliers inhibiting our province from being truly competitive are the provincial elements of the tax on labour, specifically Worker's Compensation Employer Insurance Premiums and the Health and Post Secondary Education Tax (HAPSET or payroll tax).

Currently, Newfoundland & Labrador has the highest tax on labour of any province in Canada, attributed primarily to our excessive Worker's Compensation Employer Insurance Premiums, which are 42% higher than the Canadian average. While Worker's Compensation rate setting is not a responsibility of the provincial government, the fact that employers in this province pay such an excessive tax on labour for this program must be considered when addressing the elimination of the HAPSET.

Growing employment in the province means being competitive on the taxes applied to wages. The HAPSET exists nowhere else in Atlantic Canada. It is well documented in research that payroll taxes such as the HAPSET decrease both employment and wages. Toronto economist Dr. Morley Gunderson called payroll taxes "killers of jobs or killers of wages – pick your poison." It is also well documented that the negative perception of payroll taxes by business inhibit investment and job creation in regions where they exist, as businesses relocate to jurisdictions without such regulatory costs.

During the 2011 election campaign, the Progressive Conservative party promised to begin phasing out the HAPSET by \$10 million per year. This promise was well received by employers in the province. The recognition that this tax is counterproductive signaled that this government understands that creating a taxation environment that is competitive and encourages business and employment growth is essential to growing our economy.

Government has yet to honour this campaign promise as no increase in the HAPSET threshold was announced in last year's budget. The NLEC requests that the provincial government honour their promise to phase out the Health and Post Secondary Education Tax in this coming budget.

Due to the declining oil price and current fiscal situation of the province government may feel pressure to increase tax rates or hold on phasing out the HAPSET. The NLEC believes strongly that by increasing taxes, or continuing to hold on the elimination of HAPSET, government will be doing more harm than good to our economy. Before government considers any increases in tax rates, they must ensure that current tax dollars are being spent in the most efficient and prudent manner possible by focusing on core programs and services, increasing efficiencies within the public sector,

and reducing the net debt. Reducing expenditures, not increasing taxes, will be the key to ensuring a balanced budget and continued economic success.

**Conclusion:**

The role of government is to make educated and informed decisions that are in the best long term interest of our province, its economy and its people. Sustainability of government programs and services, productivity and efficiency within the public service, debt reduction, and a competitive tax regime are all a part of a long-term vision for the future of our province. The NLEC hopes that this government will use this budget as an opportunity develop strong fiscal policy that sustains this province's current prosperity for generations to come.