NEWFOUNDLAND & LABRADOR
employers'
COUNCIL

A Continued Focus on Sustainability and Fiscal Prudence

NLEC position on the Federal Government 2014 Budget Priorities

Approved by NLEC Board of Directors – January 14th, 2014

A CONTINUED FOCUS ON SUSTAINABILITY AND FISCAL PRUDENCE

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INTRODUCTION

The Newfoundland and Labrador Employers' Council (NLEC) advocates on behalf of employers on matters that impact their ability to contribute to the economic growth and prosperity of Newfoundland and Labrador. Our membership employs more than 50% of all non-government employees in all sectors of our economy and regions of the province. The state of our country's finances is of great concern to our members.

Today, more than ever, our federal government must focus on long-term planning to ensure our current prosperity continues for future generations. NLEC members feel this government has, in the past, demonstrated leadership in managing our country's finances, but that there is more to do.

NLEC members support responsible long-term fiscal policy focused on creating a competitive tax regime, further restructuring public sector pensions, reducing federal government spending through increasing efficiencies, and eliminating the federal government deficit. Such policies create wealth, improve our standard of living and maximize the benefits of our economy for all Canadians.

The following are specific areas of concern for the NLEC:

CREATING A COMPETITIVE TAX REGIME

Corporate Tax

A competitive tax regime is important for investment, economic growth and job creation. This government has done a good job in some areas of competitive tax policy particular on past and future proposed corporate tax reductions and on freezes to Employment Insurance premium increases. Government's plan to implement further federal corporate tax reductions is supported by the NLEC. The federal government should work to encourage the provinces to follow the federal government's lead and implement their own competitive taxation policies.

Employment Insurance Payroll Tax

Of particular concern to the NLEC is the federal portion of payroll taxes, specifically Employment Insurance (EI) and Canadian Pension Plan (CPP) premiums.

It is well documented that payroll taxes decrease both employment and wages. Toronto economist Dr. Morley Gunderson, in a study commission by the NLEC released in August of 2012, called payroll taxes "killers of jobs or killers of wages – pick your poison." It is also accepted that the negative perception of payroll taxes by business inhibits investment and job creation in regions where they exist, as businesses relocate to jurisdictions without such regulatory costs.

EI premium freezes in 2009 and 2010 were welcomed by the business community and these freezes did much to assist businesses deal with the economic challenges during those years. Unfortunately, EI premiums have been increasing since 2011 thereby putting negative pressure on job creation and wage increases in Newfoundland and Labrador and across the country.

While the NLEC understands the need to return the EI fund to a fully funded position, there is significant room to achieve cost reductions in the EI system before resorting to increases in premiums. The NLEC has lobbied for increased due diligence and control within the EI system and was supportive of the federal government's EI reforms. This effort began in 2009 when the NLEC commissioned Corporate Research Associates to conduct a study into the employer experience with EI in this province. 60% of employers reported having had an employee request a layoff to go on EI and 41% reported having had a person turn down an offer of employment to remain on EI.

The recent changes to the EI system that took effect in January of 2013, although welcomed by the NLEC, have not had a lasting impact on connecting EI recipients with available jobs in the local economy. We were pleased when NLEC members initially began reporting a significant increase in the number of job applications following the EI reforms. Unfortunately, the number of applications being received by employers eventually returned to pre-reform levels. More needs to be done.

Our position is that current EI legislation is sufficient to bring about cost reductions and facilitate movement of recipients off EI and into available jobs, but to achieve this will require a significantly enhanced enforcement effort.

Heavy EI usage in Newfoundland and Labrador is impacting the ability to employers to grow the economy of Newfoundland and Labrador. Enforcement of existing rules and regulations must be the first priority before increases in premiums. We encourage the federal government to devote greater resources to EI enforcement in the 2014 budget.

Canadian Pension Plan Payroll Tax

The Federal government must continue to resist the calls from some of the provinces and organized labour for an increase in CPP taxes in our country. While increasing CPP contributions may seem like easy way to help Canadians save for retirement, it is overly simplistic.

First, like other payroll taxes, CPP increases will put significant downward pressure on wages and employment in our country. The negative impacts of payroll tax increases are well documented, especially at a time when the strength of our economic growth remains a concern.

Second, CPP treats everyone the same regardless of their individual retirement needs. Those with low incomes are supported in retirement though the Guaranteed Income Supplement and Old Age Security payments at levels consistent with their pre-retirement income. Many individuals in the higher end of incomes have sufficient assets and saving and are not in need of increased CPP. Individuals with pensions would have additional CPP benefits clawed back from their pension and will not see any financial benefit for the additional CPP taxes that would be taken from their paychecks.

Any initiatives implemented to improve retirement income must be targeted at middle income earners. CPP increases cannot effectively accomplish this. Programs such at the Pooled Registered Pension Plan (PRPPs) are much more targeted and a much safer way for government to help individuals save for retirement. Such programs need to be adequately promoted and given time to work before government considers the shotgun approach of increasing payroll taxes for all income earners regardless of need.

Reform of Public Sector Pension Plans

Increasing demographic and economic challenges have led to unsustainable pension systems worldwide. The challenges faced by our federal government with regard to unfunded pension liabilities have been faced by private sector firms and other municipal and provincial governments for many years.

The changes being made to pension plans today are not being made because employers (including governments) 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 2014. Such plans in many cases threaten 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.

The federal government's attempts to provide retirement benefits to its civil servants must also 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 country. Such expensive benefit programs also impact our country'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 applauds the leadership show by the federal government in the previous budgets that began to reform the public sector and MP pension plans. Reforms such as 50:50 equal contributions by employer and employee were well received by the business community. The NLEC requests that the federal government continue implementing changes to public sector pension plans, including options such as:

1. Increasing the age required to access pension benefits (consistent with OAS);
2. Reduce the post-employment benefits such as indexation and consider modified indexing and/or a cap;
3. Eliminate early retirement for all current government employees (not just new employees); and;
4. Switching from defined benefit to defined contribution for all new hires.

REDUCE SPENDING TO ELIMINATE THE DEFICIT BY 2015

At a recent CEO roundtable organized by the NLEC for some of the province's largest and most successful employers, attendees cited the elimination of government deficits as one of the top two issues facing employers. The act of governments exercising the same fiscal restraint applied by private sector employers is seen as a key condition of future economic success for our country and our province.

The NLEC is supportive of efforts the federal government has made to reduce spending and increase efficiency. However, we do feel more can be done to ensure that our federal government spending is both responsible and sustainable. Government must continue to look at programs and services it provides 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, consider all programs and departments, including those that that make up the largest portion of our federal budget.

CONCLUSION

The role of government is to make educated and informed decisions that are in the best long term interest of our country, its economy and its people. Initiatives around the creation of a more competitive tax regime, further reforms to the public sector pension plan together with further reductions in spending through efficiencies in government can make the 2015 goal of a balanced budget achievable.

The NLEC strongly encourages the federal government to continue its work in all these areas.