

2014

# SHAPING OUR FUTURE THROUGH COMPETITIVE POLICY

NLEC POSITION ON 2014 PROVINCIAL  
BUDGET PRIORITIES



# *Shaping our future through competitive policy*

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NLEC Position on 2014 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. 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 in 2014. The NLEC recommends that the 2014 provincial budget focus on returning the province to a stronger financial position and work toward the creation a more competitive business environment to help sustain the current prosperity for current and future generations in our province.

## **The need to be competitive**

Private enterprise is responsible for the current prosperity and economic well being experienced by all Newfoundlanders & Labradorians. A vibrant and profitable business sector benefits the entire community, both directly and indirectly, through the provision of jobs, wages, taxes, and availability of goods and services. The role of government is to create competitive conditions so that entrepreneurship, innovation and investment will continue to flourish and generate benefits for our province.

While the current government has implemented some pro-growth policies, such as tax reductions and running surpluses, this government has also engaged in multiple policies seen to stifle growth and business investment – including the implementation of card based union certification, unprecedented and unsustainable government spending, and the creation of a public service that is the largest percentage of any workforce in North America. An election promise to eliminate the Health & Post Secondary Education Tax (HAPSET) has gone unfulfilled. Also, Premier Dunderdale publicly opposed EI reforms designed to connect unemployed Canadians to jobs and address labour market challenges.

Natural resources alone are not enough to sustain a prosperous future for our children's generation. Policy matters. This government is currently faced with an opportunity to shape our future by creating a competitive environment that allows local business to grow and expand, to compete on a global stage and to attract diverse investment in our province that will be sustained beyond the resource boom. Being globally competitive is the key to continued economic growth and prosperity for all Newfoundlanders & Labradorians, now, and for future generations.

In the 2010 Canadian Provincial Investment Climate Index, the Fraser Institute quantitatively evaluated public policies that create and sustain positive investment climates. Newfoundland & Labrador ranked 8th out of the 10 provincial jurisdictions when ranked on six components known to influence the creation and maintenance of a positive investment climate, including fiscal prudence, taxation, transportation infrastructure, labour market regulation and burden of regulation.

On Thursday, May 30th the NLEC held the CEO Roundtable on Business Priorities, an event for the province's business leaders to discuss public policies. Based on feedback from this roundtable, in 2014, the NLEC will begin advocating for public policies that make the business environment in this province

among the most competitive in the country. The NLEC, in conjunction with the Conference Board of Canada, is currently in the process of developing a Competitiveness Scorecard to benchmark Newfoundland & Labrador against peer jurisdictions on pro-growth public policies known to contribute to productive economic activities and a competitive business environment.

We feel that budget 2014 is a prime opportunity to showcase a commitment to being competitive to the people of our province through a continued focus on returning government spending to sustainable levels, stronger action on debt reduction, honouring your commitment to create competitive tax rates and a focus on increasing the availability of a skilled and talented workforce in our province.

## Government spending

The NLEC is supportive of recent efforts this government has made to reduce spending and increase efficiency. Government's reductions in expenditures announced in the last budget together with the ongoing review of public sector pension and post retirement programs will have lasting positive implications for taxpayers, employers, our provincial competitiveness, and, most importantly, the next generation of Newfoundlanders and Labradorians.

At the NLEC's CEO Roundtable, when asked to prioritize public policies that could best position Newfoundland and Labrador (NL) as the place to do business, the number one issue for business leaders was reducing government spending through reduction in the size of the public service, streamlining of government programs and privatization of government services, and reducing public sector pension debt. Responsible and sustainable government spending impacts everything from our taxation levels, to the provision of services, and outside investment in our province.

Provincial expenses have grown from \$5.1-billion (2001) to \$7.7-billion (2013) which represents an increase of 51 per cent. This increase has been attributed to "catch-up" that was needed in spending on programs and infrastructure, due to long standing economic challenges. While some catch-up was indeed necessary, at some point the province has to return spending to previous and more sustainable levels. As highlighted in the recent auditor general's report, our government spends about 40 per cent more per person than any other province in Canada and the province would have to cut \$2.3 billion from its budget to reach the national average of spending per person.

While public pressure may be to continue with high levels of government spending, 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. 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 not sustainable. "Spending up" when times are good has created an expectation of program and service delivery and an inflated civil service with salaries and benefits that are not sustainable when commodity prices decrease.

**In Budget 2014 the provincial government must show strong leadership in finding efficiencies and cost savings in program spending.**

### *Efficiency in the public service*

Government must ensure that every tax dollar is spent in the most efficient and prudent manner possible. Between 2007- 2011 NL had the highest average provincial and local government employment as a percentage of total employment of any jurisdiction in North America, at 26% (Fraser Institute). 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 was reduced to match the national average.

Public reaction to the provincial government's 2013 budget indicated a lack of understanding amongst the general population of the connection between the size of the public sector and the province's economic performance. Research shows that a larger public sector leads to poorer outcomes in the labour market and, more broadly, to poorer economic performance. Government should not let this public reaction sway your commitment to reducing levels of spending, creating efficiencies in the public service, or in reducing net debt per capita to the all-province average. The NLEC will continue to support all such initiatives.

In Budget 2014, government has committed to review Memorial University, College of the North Atlantic, Regional Health Authorities and Unfunded Pension Liabilities. If these reviews are to be effective, government must not only take a hard look at programs and services to determine if they are necessary but must also encourage innovative ways to deliver the same level of service through more cost effective methods. Focusing on innovation will not only help reduce costs today, it will help ensure our government can deliver those services for the long-term. Short-term cuts without a view to how those cuts can be sustained will only lead to long-term failure. Other strategies such as productivity focused goal setting with the public sector, increased outsourcing to the private sector, and performance based incentives for employees should also be considered.

#### *Unfunded pension and post retirement liabilities*

The NLEC membership continues to be concerned about our province's net debt. 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 of any province in the country. Provincial net debt increased by \$511 million to \$8.3 billion last year and is projected to increase further with this year's deficit. Unfunded pension liabilities represent 67 per cent of the province's net debt. As of March 31 they accounted for \$5.6-billion, a \$400-million increase from the previous year. Despite nearly \$4-billion in special payments since 2007, the unfunded liability is higher now than it was in 2005. The Auditor General's report pointed out that this represents the inherent volatility related to the unfunded liability and the risks borne by the taxpayers of the province. It would be reprehensible to ask taxpayers of the province to contribute billions more of their tax dollars towards an unreformed public sector pension program when most taxpayers have no pension of their own.

Our province needs pension plans that reflect the demographic and economic realities of 2014. At the same time the unfunded pension liability is increasing dramatically, the number of beneficiaries has increased from approximately 51,000 in 2003 to about 70,000 in 2012 - an increase of 19,000 or 37 per cent. Since 2004-05, the group health and life insurance obligation has increased from \$1.2 billion to \$2.3 billion - an increase of approximately 92%. The increase results from the increased cost of these plans and the increased number of provincial employees earning benefits. This trend is set to continue. By 2026 forecast prediction put 33 per cent of the population over the age of 60, and 15 per cent under the age of 15. Changes to our public sector pension regime are not a consideration, they are a necessity.

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. This is an issue of fairness for the people of the province. Government pays more than \$800 million per year to service the debt, money that could be used for government programs or services, such as health care and education.

Again, while the NLEC is supportive of government's goal to reducing net debt per capital to the all-province average, we believe 10 years is too long of a timeframe. Actions such as switching from defined benefit to defined contribution cannot be removed from the discussion. Eliminating the billions in debt will require a more aggressive approach and strong action is needed in 2014. Public sector pension and post retirement liabilities represent a \$6 billion problem. A \$6 billion program requires a \$6 billion solution.

**The provincial government must take aggressive action on the unfunded pension and post-retirement liabilities in this year's budget.**

## Competitive Tax Regime

A competitive tax regime is important for economic growth, business investment, job creation, and population growth. Globalization, especially the increased mobility of capital and highly skilled labour, necessitates greater tax competitiveness. While the rest of the world is working to become more competitive, we are stagnant. Newfoundland and Labrador is currently in the *bottom half* of tax competitiveness in the country.

Despite this high level of taxation, there have been several recent public lobbies to increase corporate taxation in Newfoundland & Labrador. High levels of taxation raise little revenue since businesses react by shifting profits to low-taxed jurisdictions. By decreasing investment, imposing high taxes on large businesses generally falls most heavily on workers who face lower wages, decreased employment, and ultimately, living standards. The effects of an uncompetitive tax regime are real, and can be demonstrated by the British Columbia experience. Increased taxation in BC since the 90's has caused a noticeable decline in investment, with many employers crossing the border to Alberta where the tax regime is much more competitive.

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.

The NLEC would like to see a strategy developed to create a more competitive tax regime in Newfoundland & Labrador, starting with the elimination of the Health & Post Secondary Education Tax (HAPSET). It is well documented 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 the last two provincial budgets.

**The NLEC requests that the provincial government show its commitment to creating a competitive business environment in this province by honouring their promise to phase out the HAPSET in the 2014 budget.**

### **Reallocate resources towards increasing immigration**

Growing our population through increased immigration targets was the second most important issue for NLEC member CEOs (behind reducing government spending) at the CEO Roundtable on Business Priorities this spring. Mitigating the economic and labour force impacts of population decline and population aging is a key priority for the business sector. While provincial strategies to reduce unemployment, increase participation, increase productivity and increase net interprovincial migration will be critical, they will not be sufficient to address the severity of the labour market and economic challenges caused by our declining population. Immigration will be essential to support continued economic development and to help sustain the population, or at least slow the rate of decline. Given their age and their educational and occupational profiles, new immigrants are more likely to possess the right skills mix to meet emerging requirements, especially in high demand occupations.

The province's Population Growth Strategy must have increasing immigration levels as its primary objective, with an increased immigration target of a minimum of 1500 immigrants annually. A recent study commissioned by the Business Coalition illustrated that a doubling of the immigrant levels would increase the working-age population by 7% over the next 10 years. Increasing the number of immigrants from current levels of 740 in 2012 to about 1500 annually would help meet employment gaps.

The attraction and retention of immigrants has traditionally been a challenge for our province. Implementing solutions to successfully increase immigration in Newfoundland and Labrador will require resources within the Department of Advanced Education and Skills (AES) to be re-allocated towards its immigration responsibilities.

There is a strong need to narrow the scope of the labour market initiatives of the Department of AES and provide fewer, more focused programs that meet the needs of employers. In a recent study commissioned by the NL Business Coalition, the majority of surveyed industry respondents were not very familiar with most of the current initiatives. Employers also feel the majority of programs had a great deal of red tape in terms of applications, a lengthy waiting period, and elaborate reporting requirements. Priorities for employers included immigration followed by a youth strategy and apprenticeship programs for those relevant industries, up-skilling workers, and providing greater education-employment alignment. Online resources and wage subsidies have potential but need improvements, and supply-side initiatives such as the Career Work Centres and other stop-gap measures that result in people taking jobs that don't suit their aptitudes or skill sets were viewed as low priorities. There is low uptake from employers for many of the current program offerings. Efforts to deal with supply of labour will only work if driven directly by employers.

**The NLEC believes resources within the Department of AES must be redirected away from low priority initiatives and toward the highest priority population growth objective of immigration.**

### **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. Resources alone are not enough to sustain a prosperous future for our children's generation. The only know way to ensure continued economic

growth and prosperity for all Newfoundlanders & Labradorians, now, and for future generations it by creating competitive public policy.

Policy matters. This government is currently faced with an opportunity to shape our future by creating pro-growth public policies that position Newfoundland and Labrador as a competitive environment that allows local business to expand and compete on a global stage, and to attract diverse investment in our province that will be sustained beyond the resource boom. Budget 2014 is a prime opportunity to showcase a commitment to the people of our province through an enhanced focus on returning government spending to sustainable levels, stronger action on debt reduction, honouring your commitment on competitive tax rates and a focus on increasing the availability of a skilled and talented workforce in our province.