

# A Roadmap for growth in New Brunswick

Prebudget Submission  
to the Government of  
New Brunswick

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# About the Canadian Taxpayers Federation

The Canadian Taxpayers Federation is a federally incorporated, not-for-profit citizen's group dedicated to lower taxes, less waste and accountable government. The CTF was founded in Saskatchewan in 1990 when the Association of Saskatchewan Taxpayers and the Resolution One Association of Alberta joined forces to create a national organization. Today, the CTF has 235,000 supporters nation-wide.

The CTF maintains a federal office in Ottawa and regional offices in British Columbia, Alberta, Prairie (SK and MB), Ontario, Quebec and Atlantic. Regional offices conduct research and advocacy activities specific to their provinces in addition to acting as regional organizers of Canada-wide initiatives.

CTF offices field hundreds of media interviews each month, hold press conferences and issue regular news releases, commentaries, online postings and publications to advocate on behalf of CTF supporters. CTF representatives speak at functions, make presentations to government, meet with politicians, and organize petition drives, events and campaigns to mobilize citizens to affect public policy change.

Any Canadian taxpayer committed to the CTF's mission is welcome to [join at no cost and receive issue and Action Updates](#). Financial supporters can additionally receive the CTF's flagship publication *The Taxpayer* magazine published three times a year.

The CTF is independent of any institutional or partisan affiliations. All CTF staff, board and representatives are prohibited from holding a membership in any political party. In 2019-20, the CTF raised [\\$4.8 million](#) on the strength of 31,655 donations. Donations to the CTF are not deductible as a charitable contribution.



## Executive Summary

New Brunswick's finances fared better than most during the pandemic. The province managed to keep its streak of balanced budgets going. This was largely thanks to one-time federal support payments propping up its finances.

This good performance relative to its provincial peers doesn't mean New Brunswick has money to spare. Estimates from the independent Parliamentary Budget Officer show New Brunswick's level of government spending is unsustainable.

Despite the fact the province's debt has been going down, with estimates putting it below \$13.4 billion by March 31, 2022, its high cost remains a cause for concern. This year alone, New Brunswick taxpayers will waste \$642 million in interest payments.

For this budget year, the government's challenge will be to find enough efficiency savings to bring it back to sustainability, while doing enough to help the local economy grow.

The measures outlined in this report aim to do just that. They are providing tax cuts to individuals and businesses to grow the economy. They are also highlighting specific areas of government where efficiencies can be found, as well as tools to identify further savings. They are:

- Cutting income tax bills by 10 per cent to help families face cost-of-living increases.
- Replacing business subsidies with business tax relief to stimulate growth.
- Bringing government employee compensation in line with the New Brunswick labour market.

- Extending ability-to-pay legislation to the provincial government.
- Conducting a thorough program review to reduce spending.
- Consolidating health networks to focus on more efficient service.
- Put forward a debt repayment plan and use surpluses to reduce debt.

With these proposed measures, we are confident that New Brunswick will emerge from crisis in a strong financial position and with a stronger and more resilient economy.

TABLE 1

Costed Measures	Fiscal Stimulus	Budgetary Savings
Cutting all income tax bills by 10 per cent	\$192.6	
Replacing business subsidies with business tax cuts	\$121.0	\$121.0
Bringing employee compensation to market levels		\$451.7
Using surpluses to repay government debt		\$9.1
<b>Total per category</b>	<b>\$313.6</b>	<b>\$581.8</b>
<b>Net budget impact:</b>		<b>\$268.2</b>

All numbers are in millions.

<sup>1</sup> [https://www2.gnb.ca/content/dam/gnb/Departments/fin/pdf/Publications/2021-2022\\_second\\_quarter\\_report.pdf](https://www2.gnb.ca/content/dam/gnb/Departments/fin/pdf/Publications/2021-2022_second_quarter_report.pdf)

<sup>2</sup> <https://distribution-a617274656661637473.pbo-dpb.ca/93a1e3bc1b4432c0b2eac192241b866d36c048b5efc1aa8224e15364551f0c8e>

<sup>3</sup> [https://www2.gnb.ca/content/dam/gnb/Departments/fin/pdf/Publications/2021-2022\\_second\\_quarter\\_report.pdf](https://www2.gnb.ca/content/dam/gnb/Departments/fin/pdf/Publications/2021-2022_second_quarter_report.pdf)

## Fiscal stimulus

Even before the pandemic, the government of New Brunswick realized the need to close the economic prosperity gap<sup>4</sup> that exists between it and other Canadian jurisdictions.

To do so, the government identified five strategic objectives<sup>5</sup> that would lead the province to prosperity. They are:

1. Increasing private sector investment.
2. Increasing productivity.
3. Diversifying and growing exports.
4. Increasing immigration and repatriation.
5. Growing Gross Domestic Product.

Those objectives are intrinsically linked. Growing private sector investment creates new jobs, which in turn increase GDP and make the region more attractive for workers to move to.

Growing private sector investment involves making sure individuals and businesses have the funds available to make said investments or grow the local market via their consumption.

A very effective way for the government to do this is to take less cash out of citizens and local businesses' pockets by reducing their taxes.

Peer-reviewed studies<sup>6,7,8,9,10</sup> have found a clear link between tax cuts and economic growth. Given the heavy tax burden that New Brunswickers shoulder, at nearly 34 per cent of GDP,<sup>11</sup> there is room to reduce it to stimulate the province's economy.

As such, the suggestions from this section will focus on reducing New Brunswickers' tax burden for the province to grow its way to prosperity.

<sup>4</sup> <https://onbcanada.ca/wp-content/uploads/2020/10/ERGAP-final-ENG.pdf>

<sup>5</sup> <https://onbcanada.ca/wp-content/uploads/2020/10/ERGAP-final-ENG.pdf>

<sup>6</sup> <https://academic.oup.com/qje/article-abstract/133/4/1803/4880451?redirectedFrom=fulltext>

<sup>7</sup> <https://www.aeaweb.org/articles?id=10.1257/pol.20170241&&from=f>

<sup>8</sup> [https://www.nber.org/system/files/working\\_papers/w20753/w20753.pdf](https://www.nber.org/system/files/working_papers/w20753/w20753.pdf)

<sup>9</sup> <https://www.journals.uchicago.edu/doi/abs/10.1086/701424>

<sup>10</sup> <https://www.jstor.org/stable/41789231>

<sup>11</sup> <https://cffp.recherche.usherbrooke.ca/wp-content/uploads/2021/01/Bilan-de-la-fiscalite-Edition-2021.pdf>

## Cut income tax bills by 10 per cent to help families face cost of living increases

### Estimated fiscal stimulus: \$192.6 million

New Brunswick families have been hit hard by inflation in the last year. Canadians had to deal with an average 4.7 per cent<sup>12</sup> increase in the cost-of-living last year. New Brunswickers were the second hardest hit in the country, with prices increasing by 5.5 per cent year-over-year.<sup>13</sup>

This contrasts with the average 1.7 per cent<sup>14</sup> annual increase in the province’s cost of living for the previous five years.

The government can help families afford their new bills by taking less cash out of their pockets.

In 2019, income taxes represented an expense equivalent to 15 per cent<sup>15</sup> of New Brunswickers’ total income. This is a significant amount of money and is only one of the many types of taxes levied on New Brunswick families.

It’s also important to note that economic research is very clear about the link between tax relief measures and economic growth.<sup>16 17 18</sup>

As the government recognized in its *Economic Recovery and Growth Action Plan*,<sup>20</sup> New Brunswick has been lagging in private sector investment over the last decade, relying mostly on public sector investment to drive meager growth.

One of the reasons is that New Brunswick households have a disposable income level that’s 10 per cent below the national average. After New Brunswickers have paid their taxes, they have less cash available to spend in local businesses or to invest in the local economy.

There is a clear relationship between household disposable income and household consumption,<sup>21 22</sup> and between consumer spending and GDP growth. There is also a clear relationship between household savings and private investment.<sup>23</sup>

By lowering the province’s income tax takings by 10 per cent, the government would directly reinject \$193 million dollars into the local economy.<sup>24</sup>

The following chart shows the impact such reductions in income tax bills would have for New Brunswickers.

TABLE 2

Taxable income	Current tax bill	Tax bill with proposed tax cut	Savings under proposed plan
\$50,000	\$4,041	\$3,637	\$404
\$70,000	\$7,005	\$6,305	\$700
\$90,000	\$10,009	\$9,008	\$1,001

Source: UFile

<sup>12</sup> <https://www150.statcan.gc.ca/n1/daily-quotidien/211117/cg-a006-eng.htm>

<sup>13</sup> <https://www150.statcan.gc.ca/n1/daily-quotidien/211117/cg-a006-eng.htm>

<sup>14</sup> <https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=1810000501&pickMembers%5B0%5D=1.9&cubeTimeFrame.startYear=2015&cubeTimeFrame.endYear=2020&referencePeriods=20150101%2C20200101>

<sup>15</sup> <https://www150.statcan.gc.ca/t1/tbl1/en/cv.action?pid=1110005501>

<sup>16</sup> [https://www.brookings.edu/wp-content/uploads/2016/06/09\\_effects\\_income\\_tax\\_changes\\_economic\\_growth\\_gale\\_samwick.pdf](https://www.brookings.edu/wp-content/uploads/2016/06/09_effects_income_tax_changes_economic_growth_gale_samwick.pdf)

<sup>17</sup> <https://www.taxpolicycenter.org/briefing-book/how-do-taxes-affect-economy-long-run>

<sup>18</sup> <https://taxfoundation.org/what-evidence-taxes-and-growth/#~:text=in%20sum%2C%20the%20U.S.%20tax,a%20higher%20standard%20of%20living>

<sup>19</sup> <https://onbcanada.ca/wp-content/uploads/2020/10/ERGAP-final-ENG.pdf>

<sup>20</sup> <https://royal-bank-of-canada-2124.docs.contently.com/v/recovery-bumpy-but-still-advancing-in-all-provinces.pdf>

<sup>21</sup> <http://www.econ2.jhu.edu/people/ccarroll/papers/cos-wealth-effects-literature/papers/macklem.pdf>

<sup>22</sup> <https://www.atlantis-press.com/proceedings/emehss-17/25874812>

<sup>23</sup> <https://www.jstor.org/stable/2117526?seq=1>

<sup>24</sup> <https://www2.gnb.ca/content/dam/gnb/Departments/fin/pdf/Publications/2020-2021SecondQuarterReport.pdf>

## Replacing business subsidies with business tax relief to stimulate growth

### Estimated savings: \$121.0 million in budget savings and \$121.0 million in tax relief

The pandemic's effects on the labour market can still be felt in New Brunswick. The province's unemployment rate currently sits at 9.1 per cent,<sup>25</sup> up 2.8 points from pre-pandemic levels.

Finding employment for out-of-work New Brunswickers and making sure existing jobs don't disappear is not a matter of helping a handful of sectors of the economy. It depends on creating a good business environment for all sectors to thrive in. When job creators decide where to relocate or expand, their primary focus is on long-term profitability rather than one-off subsidy packages.<sup>26</sup>

Other factors, such as regulatory burdens, tax regime, workforce education, and availability of transportation infrastructure, have a much bigger impact on decisions to locate in one jurisdiction than one-off financial aid packages at taxpayers' expense.<sup>27</sup> Subsidies merely act as icing on the cake for companies who have already analyzed the risks and potential returns for their investment project.

Economic research found no statistically significant relationship between business subsidies and economic growth or per capita GDP levels.<sup>28</sup> What is clear, is that the level of corporate taxation, compared to competing jurisdictions, affects a company's profitability, and ultimately its bottom-line and growth.<sup>29</sup>

In other words, competitive tax rates attract job creators and direct investment.<sup>30</sup> Lower tax rates also contribute to lowering the cost of capital<sup>31</sup> for job creators, thus increasing their ability to re-invest in their company.

TABLE 3  
Provincial general corporate tax rates

Canadian Jurisdiction	General corporate tax rate
Prince Edward Island	16%
Newfoundland and Labrador	15%
Nova Scotia	14%
New Brunswick	14%
Canadian provincial average	12.6%
Manitoba	12%
Saskatchewan	12%
British Columbia	12%
Quebec	11.6%
Ontario	11.5%
Alberta	8%

Sources: Provincial government websites

Compared with other provinces, New Brunswick's corporate tax rate puts the province at a disadvantage, with a higher rate of 14 per cent versus the 12.6 per cent national average.<sup>32</sup>

Last year, the government of New Brunswick spent \$121 million sending direct and indirect subsidies for specific economic sectors through a variety of government funds and programs. This is equivalent to 34 per cent of what the province collected through corporate income taxes over the same period.<sup>33</sup>

<sup>25</sup> <https://www150.statcan.gc.ca/t1/tbl1/en/cv.action?pid=1410028703>

<sup>26</sup> [https://www.mercatus.org/system/files/farren\\_and\\_philpot\\_-\\_policy\\_brief\\_-\\_amazon\\_hq2\\_the\\_story\\_so\\_far\\_-\\_v1.pdf](https://www.mercatus.org/system/files/farren_and_philpot_-_policy_brief_-_amazon_hq2_the_story_so_far_-_v1.pdf)

<sup>27</sup> <https://www.brookings.edu/wp-content/uploads/2016/06/cohen-1.pdf>

<sup>28</sup> <https://medium.com/concentrated-benefits/florida-man-seeks-a-quarter-of-a-billion-dollars-6bb6fe36a96e>

<sup>29</sup> <https://www.oecd.org/mena/competitiveness/41997578.pdf>

<sup>30</sup> <https://www.oecd.org/mena/competitiveness/41997578.pdf>

<sup>31</sup> [https://files.taxfoundation.org/legacy/docs/TaxFoundation\\_FF477.pdf](https://files.taxfoundation.org/legacy/docs/TaxFoundation_FF477.pdf)

<sup>32</sup> <https://www.canada.ca/en/revenue-agency/services/tax/businesses/topics/corporations/corporation-tax-rates.html>

<sup>33</sup> <https://www2.gnb.ca/content/dam/gnb/Departments/tb-ct/pdf/OC/pa-2021-v1-e.pdf>

TABLE 4

Subsidy	Amount
Tourism, Heritage and Culture	\$68.4
Opportunities NB	\$27.4
Research and Productivity Council	\$17.2
Economic Development	\$8.0
<b>TOTAL</b>	<b>\$121.0</b>

Source: Public accounts 2020-21. All numbers in millions.

Replacing business subsidies with corporate tax cuts would have also eliminate the economic distortion associated with targeted financial measures.<sup>34</sup> New Brunswick's economic strength should not rely on growth expectations in a few targeted sectors, but rather on a broad-based growth of its economic pie.

The province should replace these subsidies with an equivalent tax cut in the general and small business tax rates. Lowering the small business tax rate from its current three percentage points to 2.16 percentage points, and the general corporate tax rate from its current 14 percentage points to 10.92 percentage points would represent \$121 million in savings for New Brunswick businesses of all sizes.<sup>35</sup>

<sup>34</sup> [https://www.jec.senate.gov/public/\\_cache/files/fe2eafaa-f355-462f-b515-15ad4a8f5e74/the-inefficiency-of-targeted-tax-policies-april-1997.pdf](https://www.jec.senate.gov/public/_cache/files/fe2eafaa-f355-462f-b515-15ad4a8f5e74/the-inefficiency-of-targeted-tax-policies-april-1997.pdf)

<sup>35</sup> [https://www2.gnb.ca/content/dam/gnb/Departments/fin/pdf/Publications/2021-2022\\_second\\_quarter\\_report.pdf](https://www2.gnb.ca/content/dam/gnb/Departments/fin/pdf/Publications/2021-2022_second_quarter_report.pdf)



## Finding savings in government operations

High levels of government debt and long-term deficit projections have an adverse effect on an economy. Economic research finds that, the higher the level of government debt – especially when gross debt runs past the 75 to 100 per cent of GDP threshold – the lesser the growth.<sup>36 37 38</sup>

This is worrying in the Canadian context as gross debt for all levels of government represented 133 per cent of GDP in the second quarter of 2021.<sup>39</sup> At such levels, high public debt represents a drag on our economy, meaning less jobs, slower wage growth and a local market not able to reach its full potential.

New Brunswick is not exempt from this problem, carrying gross debt equivalent to \$23 billion.<sup>40</sup> Given the province's GDP of \$37.5 billion last year, provincial government debt is equivalent to 61 per cent of the province's economy.<sup>41</sup> Add to that local and federal debt and you quickly reach a level of debt detrimental to growth.

Notwithstanding its negative economic impact, New Brunswick's government debt represents a significant burden for taxpayers. Government projections put debt interest payments at \$642 million this year.<sup>42</sup>

With inflation at record-highs,<sup>43</sup> the Bank of Canada signaled<sup>44</sup> it would increase its overnight rate as early as 2022. When the Bank of Canada increases its rates, the rest of the market tends to follow.

Given the province's \$23 billion gross debt,<sup>45</sup> an increase of one percentage point in interest rates would lead its debt service tab to increase by \$230 million. This is money the province doesn't have and is unlikely to have in the future.

According to the Parliamentary Budget Officer's Fiscal Sustainability analysis,<sup>46</sup> New Brunswick is faced with a long-term deficit<sup>47</sup> equivalent to 2.4 per cent of its economy. This represents a \$900 million<sup>48</sup> hole based on finalized 2020 figures.

This means that, despite recent budget surpluses, government spending in New Brunswick is projected to grow faster than revenues, leading to large deficits and a rapid increase in government debt. The earlier this is addressed, the lesser the economic pain as it lowers the interest tab in future years.

It is clear New Brunswick needs to get its debt under control. The best way is to reduce spending.

<sup>36</sup> [https://www.mercatus.org/system/files/de\\_rugy\\_and\\_salmon\\_-\\_policy\\_brief\\_-\\_debt\\_and\\_growth\\_a\\_decade\\_of\\_studies\\_-\\_v1.pdf](https://www.mercatus.org/system/files/de_rugy_and_salmon_-_policy_brief_-_debt_and_growth_a_decade_of_studies_-_v1.pdf)

<sup>37</sup> <https://publications.iadb.org/publications/english/document/Government-Debt-and-Economic-Growth.pdf>

<sup>38</sup> <https://www.cairn.info/revue-economique-2011-6-page-1015.htm>

<sup>39</sup> <https://www150.statcan.gc.ca/t1/tb1/en/cv/action?pid=3810023701>

<sup>40</sup> <https://www2.gnb.ca/content/dam/gnb/Departments/tb-ct/pdf/OC/pa-2021-v1-e.pdf>

<sup>41</sup> <https://www2.gnb.ca/content/dam/gnb/Departments/fin/pdf/esi/gdp-pib/GDPIncomeBased-PIBTermsDeRevenus.pdf>

<sup>42</sup> [https://www2.gnb.ca/content/dam/gnb/Departments/fin/pdf/Publications/2021-2022\\_second\\_quarter\\_report.pdf](https://www2.gnb.ca/content/dam/gnb/Departments/fin/pdf/Publications/2021-2022_second_quarter_report.pdf)

<sup>43</sup> <https://www150.statcan.gc.ca/n1/daily-quotidien/211117/cq-a006-eng.htm>

<sup>44</sup> <https://www.bloomberg.com/news/articles/2021-10-27/bank-of-canada-accelerates-potential-timing-of-rate-hikes>

<sup>45</sup> <https://www2.gnb.ca/content/dam/gnb/Departments/tb-ct/pdf/OC/pa-2021-v1-e.pdf>

<sup>46</sup> <https://www.pbo-dpb.gc.ca/en/blog/news/RP-2122-010-S-fiscal-sustainability-report-2021--rapport-viabilite-financiere-2021>

<sup>47</sup> A province's long-term deficit represents its fiscal gap

<sup>48</sup> <https://www2.gnb.ca/content/dam/gnb/Departments/fin/pdf/esi/gdp-pib/GDPIncomeBased-PIBTermsDeRevenus.pdf>

Economists have looked into the types of balanced budget strategies governments can take and their effects on the local economy. Their research has shown that plans based around spending reductions have a more positive economic impact than plans based around tax hikes.<sup>49 50 51</sup>

In some cases, such as Canada and Spain in the 1990s, efforts to balance the budget relying mostly on spending reductions were found to have led to higher economic growth.<sup>52</sup> These plans provide investors with reassurance that their tax bills wouldn't suddenly increase massively to cover government overspending.

As such, the following series of recommendations to the government of New Brunswick suggest various areas and strategies to help the government find savings that can be used to keep the budget balanced, reduce its debt load and finance tax relief efforts to stimulate the province's economy.

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<sup>49</sup> <https://www.nber.org/system/files/chapters/c10973/c10973.pdf>

<sup>50</sup> <https://www.econstor.eu/dspace/bitstream/10419/106147/1/815406657.pdf>

<sup>51</sup> [https://www.mercatus.org/system/files/deRugy\\_RelativeEffects\\_v1.pdf](https://www.mercatus.org/system/files/deRugy_RelativeEffects_v1.pdf)

<sup>52</sup> [https://www.researchgate.net/publication/338269692\\_Austerity\\_When\\_It\\_Works\\_and\\_When\\_It\\_Doesn't](https://www.researchgate.net/publication/338269692_Austerity_When_It_Works_and_When_It_Doesn't)

## Bringing government employee compensation in line with the New Brunswick labour market

### Estimated savings: \$451.7M

Salaries and wages have represented the largest line-item in the government of New Brunswick's budget over the past 5 years.<sup>53</sup>

TABLE 5

	2017	2018	2019	2020	2021
Employee compensation	\$3,894	\$4,034	\$4,149	\$4,240	\$4,261
Total Consolidated Expenditures	\$9,019	\$9,272	\$9,625	\$9,843	\$9,910
Share of Total Consolidated Expenditures	43.2%	43.5%	43.1%	43.1%	43.0%

Source: Government of New Brunswick, Department of Finance. All numbers in millions.

Last year, the province spent over \$4.2 billion on employee compensation, representing nearly 89 per cent of what it collected via taxes.<sup>54</sup> To stabilize the province's fiscal situation and free up resources to provide services to the population, tax relief or both, the government must make sure its compensation costs are in line with that of non-government workers in New Brunswick.

Prior to the pandemic, government employees enjoyed an 11.9 per cent wage premium over the rest of the labour market in New Brunswick, when adjusting for education.<sup>55</sup>

TABLE 6

	New Brunswick Labour Market	Composite Labour Market Adjusting for Education of Provincial Employees	Provincial Government Employees	Government Employee Premium
Average Employment Income	\$31,820	\$48,507	\$55,032	11.9%

Source: Statistics Canada and authors' calculations.

<sup>53</sup> [https://www2.gnb.ca/content/gnb/en/departments/finance/comptroller/content/public\\_accounts.html](https://www2.gnb.ca/content/gnb/en/departments/finance/comptroller/content/public_accounts.html)

<sup>54</sup> <https://www2.gnb.ca/content/dam/gnb/Departments/tb-ct/pdf/OC/pa-2021-v1-e.pdf>

<sup>55</sup> <https://www12.statcan.gc.ca/census-recensement/2016/dp-pd/dt-td/Rp-fra.cfm?LANG=F&APATH=3&DETAIL=0&DIM=0&FL=A&FREE=0&GC=0&GID=0&GK=0&GRP=1&PID=112127&PRID=10&PTYPE=109445&S=0&SHOWALL=0&SUB=0&Temporal=2017&THEME=124&V>

[ID=0&VNAMEF=&VNAMEF=](#)

This composite model excludes pension, as well as other non-wage benefits afforded to government employees which ultimately contribute to the province’s higher compensation expenditures.

For instance, government employees are more likely to be enrolled in a pension plan than private sector employees. Data from Statistics Canada show a 92 per cent pension enrollment rate for all government employees in New Brunswick, compared to only 25 per cent of private sector workers<sup>56 57</sup>.

Given the province’s long term financial unsustainability<sup>60</sup> and ever-increasing compensation costs, New Brunswick needs to look at its biggest line-item expense: employee compensation.

To bring government employee wages in line with private sector practices, the government of New Brunswick must implement a 10.6 per cent reduction in compensation costs.

TABLE 7

	Total Employment (2020)	Registered Pension Plan Enrollment	Percentage of employees with Registered Pension Plans
Government Employees	92,900	85,784	92.34%
Private Sector Employees	218,900	55,136	25.18%

Source: Statistics Canada

Government employees also tend to be covered by plans that shift some or all of the risk to taxpayers, as opposed to private sector workers. This results in taxpayer funded bailouts when pension funds do not perform well. Unfortunately, New Brunswick’s 13 pension funds have a combined actuarial pension liability of \$771 million<sup>58</sup> at the moment.

Government employees also enjoy other non-wage benefits such as earlier retirement, and better job security compared to the average private-sector employee<sup>59</sup>. While there is no direct compensation cost associated with them, they contribute to the discrepancy between government and private sector employees.

This will reduce the estimated cost for government salaries and benefits from \$4.3 billion to \$3.8 billion,<sup>61</sup> saving New Brunswick taxpayers an estimated \$451 million by the end of the fiscal year. These savings can be used to provide much needed tax-relief for taxpayers, while securing the fiscal sustainability of the government of New Brunswick.

TABLE 8

	Current Costs	Projected Costs with Proposed Reductions
Employee Benefits	\$4,261.4	\$3,809.7
Budgetary Savings:	\$451.7	

Source: Government of New Brunswick, Department of Finance. All numbers in millions.

<sup>56</sup> <https://www150.statcan.gc.ca/t1/tbl1/en/cv.action?pid=1110013301&fbclid=IwAR2pwhk1uSgWqQ2ufZRkqz6ZY53z8ZL1pEdaP0SOX6g-H9fOIGFYSPGT7o>

<sup>57</sup> <https://doi.org/10.25318/1410002701-eng>

<sup>58</sup> <https://www2.gnb.ca/content/dam/gnb/Departments/tb-ct/pdf/OC/pa-2021-v1-e.pdf>

<sup>59</sup> <https://www.fraserinstitute.org/sites/default/files/comparing-govt-and-private-sector-compensation-in-canada-2020.pdf>

<sup>60</sup> <https://distribution-a617274656661637473.pbo-dpb.ca/93a1e3bc1b4432c0b2eac192241b866d36c048b5efc1aa8224e15364551f0c8e>

<sup>61</sup> <https://www2.gnb.ca/content/dam/gnb/Departments/tb-ct/pdf/OC/pa-2021-v1-e.pdf>

## Extending ability to pay legislation to the provincial government

### Estimated savings: unknown

Like any other employer, the provincial government doesn't have unlimited funds. Government employee compensation must be kept at a reasonable level, reflecting the resources available to the government at the time of the negotiation.

The ability for New Brunswickers to pay government union contracts must be based on currently available resources and long-term projections and must not be dependent on future tax increases. This principle is particularly important if the government enters arbitration to determine union pay.

Last year, the government amended the *Industrial relations act* to include a test of taxpayers' ability to pay when arbitration is conducted regarding municipal union contracts in New Brunswick.<sup>62</sup>

In 2012, the government of Ontario considered such a bill,<sup>63</sup> adding ability to pay as a criteria in labour negotiations and ensuring that, amongst other things, the outcomes of labour arbitration processes do not hinge on the future ability to raise taxes on residents. Though the bill never received royal assent, it provides a good roadmap for New Brunswick to adopt this type of legislation province-wide.

New Brunswick should introduce Ability to Pay legislation at the provincial level in order to protect New Brunswick taxpayers.

## Consolidating health networks to focus on more efficient service delivery

### Estimated savings: unknown

New Brunswick's taxpayers continue to fund two separate health bureaucracies – the English Horizon Health Network, and the French Vitalité Health Network – which perform the same roles, but for different language groups at an expensive cost.

Former Vitalité Health Network's CEO Gilles Lanteigne, correctly diagnosed the province's health-care budget woes by recognizing that New Brunswick had "too many programs in the province for the population we have."<sup>64</sup> Eliminating the duplicative costs of having two provincial health authorities, and as Lanteigne suggested, "concentrating (resources) in one place"<sup>65</sup> is an obvious place for savings; especially when the health services cost taxpayers \$3.1 billion,<sup>66</sup> representing more than 60 per cent of all revenue from taxes projected for in 2021.

As the government rightly recognized via its proposed amalgamation of laboratory services,<sup>67</sup> there is efficiency to be found in reducing the number of structures in charge of the same task. Patient experience can be ameliorated thanks to faster service delivery, and savings can be realized on the administrative costs.

While efficiency savings could be found in all areas of operations by amalgamating the two health bureaucracies, one key element where taxpayers could get better value for money is in administrative costs. Last year, taxpayers spent \$54 million<sup>68 69</sup> paying administrative services in two separate health bureaucracies.

<sup>62</sup> <https://www.gnb.ca/legis/bill/pdf/60/1/Bill-21.pdf>

<sup>63</sup> <https://www.ola.org/en/legislative-business/bills/parliament-40/session-1/bill-121>

<sup>64</sup> <https://tj.news/story/101401508>

<sup>65</sup> <https://tj.news/story/101401508>

<sup>66</sup> [https://www2.gnb.ca/content/dam/gnb/Departments/fin/pdf/Publications/2021-2022\\_second\\_quarter\\_report.pdf](https://www2.gnb.ca/content/dam/gnb/Departments/fin/pdf/Publications/2021-2022_second_quarter_report.pdf)

<sup>67</sup> <https://www2.gnb.ca/content/dam/gnb/Departments/h-s/pdf/Stabilizing-health-care.pdf>

<sup>68</sup> [https://en.horizonnb.ca/media/1254087/annualreport2020-21\\_web.pdf](https://en.horizonnb.ca/media/1254087/annualreport2020-21_web.pdf)

<sup>69</sup> <https://www.vitalitenb.ca/sites/default/files/documents/rapportannuel20202021annualreport.pdf>

By concentrating resources in one place and consolidating the two health authorities, New Brunswick would do away with the need to pay two executive suites, two purchasing departments, two finance department, etc.

Consolidating the two regional health authorities would result in significant savings in administration costs and would help better utilize the various resources health authorities have at their disposal. Reducing the cost of redundant healthcare bureaucracy must be a top priority for New Brunswick to control its ever-increasing healthcare expenditures.

## Conducting a thorough program review with the aim of reducing spending

### Estimated savings: unknown

Bureaucracy grows to meet the needs of the expanding bureaucracy, as the saying goes. Since the government of New Brunswick finished its last program review, in January 2016,<sup>70</sup> spending has gone back up by \$1.8 billion, or about 20 per cent.<sup>71 72</sup>

In its efforts to balance the budget in the nineties, Prime Minister Jean Chrétien’s government set forth the best practices for program reviews. The review was comprehensive and applied six tests<sup>73</sup> to every expense:

1. Does it serve the public interest?
2. Is government involvement necessary?
3. Is this an appropriate role for this level of government?
4. Are public-private partnerships possible / desirable?
5. Are there ways to make it more efficient?
6. Can taxpayers afford this expense?

The savings identified thanks to this process led to \$9.8 billion in spending reductions, equivalent to 18.9 per cent<sup>74</sup> of federal program spending at the time.

This program review allowed the federal government to balance the budget in 1997-98 and pay down more than \$100 billion<sup>75</sup> in federal debt before the financial crisis hit in 2008. This reduced the proportion of tax dollars going towards debt interest payments from 30 per cent in 1996-97 down to 13 per cent in 2008-09.<sup>76</sup>

TABLE 9

	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22 *Forecast
Expenses	\$9,019.2	9,272.0	9,624.5	9,843.2	9,909.7	10,778.7

Source: Government of New Brunswick, Department of Finance. All numbers in millions.

<sup>70</sup> <https://www2.gnb.ca/content/dam/gnb/Departments/eco-bce/Consultations/PDF/ChoicesToMoveNewBrunswickForward.pdf>

<sup>71</sup> <https://www2.gnb.ca/content/dam/gnb/Departments/tb-ct/pdf/OC/PA18v1e.pdf>

<sup>72</sup> [https://www2.gnb.ca/content/dam/gnb/Departments/fin/pdf/Publications/2021-2022\\_second\\_quarter\\_report.pdf](https://www2.gnb.ca/content/dam/gnb/Departments/fin/pdf/Publications/2021-2022_second_quarter_report.pdf)

<sup>73</sup> [https://macdonaldlaurier.ca/files/pdf/MLI-Anglosphere-CanadaPaper\\_Web\\_F.pdf](https://macdonaldlaurier.ca/files/pdf/MLI-Anglosphere-CanadaPaper_Web_F.pdf)

<sup>74</sup> [https://macdonaldlaurier.ca/files/pdf/MLI-Anglosphere-CanadaPaper\\_Web\\_F.pdf](https://macdonaldlaurier.ca/files/pdf/MLI-Anglosphere-CanadaPaper_Web_F.pdf)

<sup>75</sup> [http://www.rbc.com/economics/economic-reports/pdf/canadian-fiscal/prov\\_fiscal.pdf](http://www.rbc.com/economics/economic-reports/pdf/canadian-fiscal/prov_fiscal.pdf)

<sup>76</sup> [https://macdonaldlaurier.ca/files/pdf/MLI-Anglosphere-CanadaPaper\\_Web\\_F.pdf](https://macdonaldlaurier.ca/files/pdf/MLI-Anglosphere-CanadaPaper_Web_F.pdf)

The savings also allowed for significant tax relief, such as GST reduction, business and personal income tax relief, and the establishment of TFSA's as a vehicle to boost household savings.<sup>77</sup>

While New Brunswick's budget situation is not as dire as other provinces faced with significant deficits, its overall fiscal situation, including its significant debt level and high tax rates and long-term deficit projections are worrisome.

As it stands, the province projects its debt to reach \$13.4 billion by the end of the year.<sup>78</sup> Interest payments on this debt will cost New Brunswickers \$642 million this year,<sup>79</sup> despite record-low interest rates.

With an overheated housing market<sup>80</sup> and inflation at decades-high,<sup>81</sup> one can expect interest rates to rise in the coming months and years. Such an increase would be reflected in the province's interest payments. Given the province's \$23 billion gross debt,<sup>82</sup> an increase of one percentage point in interest rates would lead its debt service tab to increase by \$230 million.

The Parliamentary Budget Officer's projections are far bleaker, expecting the province's annual interest payments to double by 2033<sup>83</sup> unless the province takes action and makes its finances sustainable in the long run.

The government of New Brunswick should conduct a thorough program review, with the aim of reducing spending to make its finances sustainable in the long run, using the six tests the federal government developed in the nineties. Doing so will help the province close its \$900 million<sup>84</sup> long term deficit.

## Using surpluses to repay government debt and put forward a debt repayment plan

### Estimated savings: 9.1 million dollars

New Brunswick's government debt represents a significant burden on the province's taxpayers. This year, the government expects to spend \$642 million<sup>85</sup> on interest payments alone. This is money that could have been used to provide tax relief or pay for services for citizens, but instead went straight into the pockets of financiers who invested in New Brunswick government debt.

These interest payments represent a recurring expense, that is not going away unless the province finds a way to dig itself out of debt. Given the province's significant long-term deficit,<sup>86</sup> doing away with such a large recurring expense would go a long way towards restoring financial sustainability.

<sup>77</sup> [https://macdonaldlaurier.ca/files/pdf/MLL-Anglosphere-CanadaPaper\\_Web\\_E.pdf](https://macdonaldlaurier.ca/files/pdf/MLL-Anglosphere-CanadaPaper_Web_E.pdf)

<sup>78</sup> [https://www2.gnb.ca/content/dam/gnb/Departments/fin/pdf/Publications/2021-2022\\_second\\_quarter\\_report.pdf](https://www2.gnb.ca/content/dam/gnb/Departments/fin/pdf/Publications/2021-2022_second_quarter_report.pdf)

<sup>79</sup> [https://www2.gnb.ca/content/dam/gnb/Departments/fin/pdf/Publications/2021-2022\\_second\\_quarter\\_report.pdf](https://www2.gnb.ca/content/dam/gnb/Departments/fin/pdf/Publications/2021-2022_second_quarter_report.pdf)

<sup>80</sup> <https://nationalpost.com/news/canada/canadas-unhinged-housing-market-captured-in-one-chart>

<sup>81</sup> <https://www.cp24.com/news/annual-inflation-rate-rises-to-4-7-per-cent-in-october-statistics-canada-says-1.5669615>

<sup>82</sup> <https://www2.gnb.ca/content/dam/gnb/Departments/tb-ct/pdf/OC/pa-2021-v1-e.pdf>

<sup>83</sup> <https://www.pbo-dpb.gc.ca/en/blog/news/RP-2122-010-S-fiscal-sustainability-report-2021-rapport-viabilite-financiere-2021>

<sup>84</sup> <https://www.pbo-dpb.gc.ca/en/blog/news/RP-2122-010-S-fiscal-sustainability-report-2021-rapport-viabilite-financiere-2021>

<sup>85</sup> <https://www2.gnb.ca/content/dam/gnb/Departments/tb-ct/pdf/OC/pa-2021-v1-e.pdf>

<sup>86</sup> <https://distribution-a617274656661637473.pbo-dpb.ca/93a1e3bc1b4432c0b2eac192241b866d36c048b5efc1aa8224e15364551f0c8e>

The province has made significant strides already thanks to a series of balanced budgets. As a result, the New Brunswick's debt has already gone down from its all-time high of \$14.0 billion<sup>87</sup> in March 2019, to a projected \$13.4 billion<sup>88</sup> by March 2022. This is noteworthy as the province managed to keep its spending under control and its debt load going down while every other province<sup>89</sup> was racking up debt at record pace during the pandemic.

This debt reduction came both from the allocation of operating surpluses to debt reduction, as well as tight control on capital spending.<sup>90</sup> This is a good strategy, and we recommend the government keep using it to reduce its debt.

The government should also formalize debt reduction into an objective by setting a clear repayment timeline with the aim of reaching net zero, in order to eliminate this \$642 million<sup>91</sup> debt interest expense from its books.

Using the \$268.2 million in savings identified in this document to repay the province's debt would lower the province's annual interest bill by \$9.1 million. This amount could be further decreased by allocating savings identified through other means, including a program review, to debt reduction.

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<sup>87</sup> <https://www2.gnb.ca/content/dam/gnb/Departments/tb-ct/pdf/OC/PA19v1e.pdf>

<sup>88</sup> [https://www2.gnb.ca/content/dam/gnb/Departments/fin/pdf/Publications/2021-2022\\_second\\_quarter\\_report.pdf](https://www2.gnb.ca/content/dam/gnb/Departments/fin/pdf/Publications/2021-2022_second_quarter_report.pdf)

<sup>89</sup> [http://www.rbc.com/economics/economic-reports/pdf/canadian-fiscal/prov\\_fiscal.pdf](http://www.rbc.com/economics/economic-reports/pdf/canadian-fiscal/prov_fiscal.pdf)

<sup>90</sup> <https://www2.gnb.ca/content/dam/gnb/Departments/tb-ct/pdf/OC/pa-2021-v1-e.pdf>

<sup>91</sup> [https://www2.gnb.ca/content/dam/gnb/Departments/fin/pdf/Publications/2021-2022\\_second\\_quarter\\_report.pdf](https://www2.gnb.ca/content/dam/gnb/Departments/fin/pdf/Publications/2021-2022_second_quarter_report.pdf)



## Conclusion

New Brunswick's fiscal situation remains a cause for concern. Despite years of surpluses, the government's long term financial position remains unsustainable, with a \$900 million<sup>92</sup> gap between current spending levels and sustainable spending levels based on finalized 2020 numbers.<sup>93</sup>

Given the fact employee compensation accounts for nearly 45 cents<sup>94</sup> out of every dollar the government of New Brunswick spends, reductions in employee compensation will be necessary to address this gap. To avoid future situations where government employee compensation grows faster than New Brunswickers' ability to pay for it, legislators need to extend ability to pay legislation to cover provincial union agreements.

To reduce inefficiencies in health-care, the government of New Brunswick's needs to consolidate health networks. This would realize savings both by cutting in upper management costs and by combining its limited resources under one structure.

To address its long-term deficit, New Brunswick will need to identify efficiency savings to reduce the cost of government operations. We recommend that the province conducts a thorough program review with the aim of reducing spending.

We also recommend that the government keep using its surpluses to pay down the debt and put forward a debt repayment plan to save \$642 million<sup>95</sup> per year in interest payments.

To help the province's economy recover and grow, the province must take steps to make the province more attractive to investment in all industries by replacing its subsidies with corporate tax cuts.

Economic research is clear about the positive relationship between disposable incomes and economic growth.

Given this, the government should also use part of the savings outlined to bring tax relief to all New Brunswickers as a way to boost household incomes and increase New Brunswickers ability to spend and invest in local businesses.

All in all, the proposed measures will put \$313.6 million back in New Brunswickers pockets and help save \$581.8 million in government operations. This would ameliorate the province's fiscal situation by \$268.2 million.

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<sup>92</sup> <https://www.pbo-dpb.gc.ca/en/blog/news/RP-2122-010-S-fiscal-sustainability-report-2021-rapport-viabilite-financiere-2021>

<sup>93</sup> <https://www2.gnb.ca/content/dam/gnb/Departments/fin/pdf/esi/gdp-pib/GDPIncomeBased-PIBTermsDeRevenus.pdf>

<sup>94</sup> [https://www2.gnb.ca/content/gnb/en/departments/finance/comptroller/content/public\\_accounts.html](https://www2.gnb.ca/content/gnb/en/departments/finance/comptroller/content/public_accounts.html)

<sup>95</sup> [https://www2.gnb.ca/content/dam/gnb/Departments/fin/pdf/Publications/2021-2022\\_second\\_quarter\\_report.pdf](https://www2.gnb.ca/content/dam/gnb/Departments/fin/pdf/Publications/2021-2022_second_quarter_report.pdf)