



Getting the Rock out of a hard place

Prebudget submission to the Government
of Newfoundland and Labrador

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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. Each week CTF offices send out Let's Talk Taxes commentaries to more than 800 media outlets and personalities across Canada.

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

The pandemic has affected government finances across Canada and Newfoundland and Labrador is no exception. What makes this government’s situation unique is the fact it was already facing an impending debt crisis.

Currently, all three credit ratings agencies assessing the province’s credit worthiness have issued negative rating outlooks for the province’s debt.¹ As Moody’s senior credit officer put it: “There’s greater uncertainty in how much fiscal flexibility and shock absorption Newfoundland and Labrador has to combat this new pressure.”²

Interest payments on the province’s debt are more than \$1.5 billion, making it the second largest expense in the province. That is \$100 million more than what the province was able to bring in through personal income taxes.³

For this budget year, the government’s challenge is to find the right level of efficiency savings to ensure long-term financial sustainability, while implementing the right combination of policy actions to help the local economy recover.

This will take a mix of efficiency measures within government, to bring the budget closer to balance, and use tax cuts as fiscal stimulus to help the local economy recover. The measures outlined below seek to do that with a two-to-one ratio of efficiency savings to fiscal stimulus.

- Cutting income tax bills to boost household disposable incomes.
- Replacing business subsidies with business tax cuts for a broad-based economic stimulus.

- Reducing government employee compensation by 15 per cent.
- Cutting elected officials’ pay.
- Eliminating the Operating Grant Program to avoid ballooning costs.
- Implementing a gainsharing program to find savings.

With these proposed measures, we are confident that Newfoundland and Labrador will emerge from crisis in a strong financial position.

	Fiscal stimulus	Budgetary savings
Cutting all income tax bills to boost household disposable incomes.	\$317.3	
Replacing business subsidies with business tax cuts to stimulate the economy.	\$42.2	\$42.2
Reducing government employee compensation by 15 per cent.		\$615.3
Cutting elected officials pay to lead by example.		\$0.7
Eliminating the Operating Grant Program.		\$22.5
Implementing a gainsharing program.		N/A
Total per category:	\$359.5	\$680.7
Net budget impact:		\$321.2

All numbers are in millions.

¹ <https://investorrelations.gov.nl.ca/creditratings.aspx>

² <https://www.thetelegram.com/news/local/moodys-downgrades-newfoundland-and-labradors-credit-outlook-to-negative-433196/>

³ <https://www.gov.nl.ca/budget/2020/wp-content/uploads/sites/3/2020/09/Estimates-2020.pdf>

Using fiscal stimulus for a bottom-up recovery

Cutting all income tax bills by \$317.3 million to boost household disposable incomes

Estimated impact: \$317.3M in fiscal stimulus

The last budget talked extensively about increased spending to help boost consumer confidence. Investments have been made by subsidizing specific industries, as well as by implementing new programs. It is clear this government is following the same playbook lots of governments have followed: spending to restore consumer and investor confidence so investment and consumption can get rolling again.

In economic downturns, consumption drops because people expect their incomes to drop, thus encouraging them to save money pre-emptively.⁴ This precautionary savings phenomenon has been documented both in the 2008 recession and the COVID-19 recession.⁵

It's important to note that economic research is very clear about the link between tax relief measures and economic growth.^{6 7 8}

One of the many tools with which governments can bolster consumer confidence is by increasing household incomes through tax relief. By taking less cash out of taxpayers' pockets, governments can boost household incomes and grow the economy.

It's also important to note that, despite Newfoundland and Labrador's status as a "have" province, local household disposable income was already sitting five per cent below the Canadian average before the pandemic.⁹ There is a clear relationship between household disposable income and household consumption,^{10 11} and between consumer spending and GDP growth.

By using 50 per cent of the savings outlined in this document to provide a broad-based tax relief, the government would be in a position to lower all current income tax bills by 22.5 per cent, thus directly reinjecting \$317.3 million dollars into the local economy.¹²

Taxable income	Current tax bill	Tax bill with proposed tax cut	Saving under proposed plan
\$50,000	\$3,969	\$3,076	\$893
\$70,000	\$7,232	\$5,605	\$1,627
\$90,000	\$10,624	\$8,234	\$2,390

Source: Intuit TurboTax

⁴ <https://www.imf.org/en/Publications/WP/Issues/2016/12/31/Precautionary-Savings-in-the-Great-Recession-25708>

⁵ <https://www150.statcan.gc.ca/n1/daily-quotidien/200911/cq-a002-eng.htm>

⁶ https://www.brookings.edu/wp-content/uploads/2016/06/09_effects_income_tax_changes_economic_growth_gale_samwick.pdf

⁷ <https://www.taxpolicycenter.org/briefing-book/how-do-taxes-affect-economy-long-run>

⁸ <https://taxfoundation.org/what-evidence-taxes-and-growth/#:~:text=In%20sum%2C%20the%20U.S.%20tax,a%20higher%20standard%20of%20living>

⁹ <http://www.rbc.com/economics/economic-reports/pdf/provincial-forecasts/provtbl.pdf>

¹⁰ <http://www.econ2.jhu.edu/people/ccarroll/papers/cos-wealththeffects-literature/papers/macklem.pdf>

¹¹ <https://www.atlantis-press.com/proceedings/emehss-17/25874812>

¹² <https://www.gov.nl.ca/budget/2020/wp-content/uploads/sites/3/2020/09/Estimates-2020.pdf>

Replacing business subsidies with business tax cuts to stimulate all industries

Estimated impact: \$42M in budget savings and \$42M in fiscal stimulus for local businesses.

The current recession is affecting the entire province’s economy. Given this reality, a targeted governmental approach favouring specific sectors or specific companies does not reflect the needs of Newfoundland and Labrador’s economy.

It is also important to note that subsidies are not the most effective tool for governments to attract business investment. Instead, governments should focus on creating the right business environment to attract job creators. When job creators decide where to relocate or expand, their primary focus is usually on long-term profitability rather than one-off subsidy packages.¹³

Other factors, such as regulatory burdens, workforce education, and availability of transportation infrastructure, lead to market access having a much bigger impact on decisions to locate in one jurisdiction rather than a one-off financial aid packages at taxpayers’ expense.¹⁴ Subsidies merely act as icing on the cake for job creators who have already analyzed the risks and potential returns in establishing a viable location for their investment project.

Economic research found no statistically significant relationship between business subsidies and economic growth or per capita GDP levels.¹⁵ What is clear, is that the level of corporate taxation, compared to competing jurisdictions, affects a company’s productivity, and ultimately its bottom-line and pace of growth.¹⁶

Competitive tax rates attract job creators and the direct investment.¹⁷ Lower tax rates also contribute to lowering the cost of capital¹⁸ for job creators, thus increasing their ability to re-invest in their company.

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

¹³ https://www.mercatus.org/system/files/farren_and_philpot_-_policy_brief_-_amazon_hq2_the_story_so_far_-_v1.pdf

¹⁴ <https://www.brookings.edu/wp-content/uploads/2016/06/cohen-1.pdf>

¹⁵ <https://medium.com/concentrated-benefits/florida-man-seeks-a-quarter-of-a-billion-dollars-6bb5fe36a96e>

¹⁶ <https://www.oecd.org/mena/competitiveness/41997578.pdf>

¹⁷ <https://www.oecd.org/mena/competitiveness/41997578.pdf>

¹⁸ https://files.taxfoundation.org/legacy/docs/TaxFoundation_FF477.pdf

Compared with other provinces, Newfoundland and Labrador's corporate tax rate puts the province at an investment disadvantage, with a significantly higher rate at 15 per cent versus the 12.6 per cent average rate in other provinces.¹⁹

Replacing business subsidies with corporate tax cuts would have an added advantage: reducing the economic distortion associated with targeted financial measures.²⁰ Newfoundland and Labrador's economic recovery should not be based on growth expectations in a few targeted sectors, but rather by a broad-based growth of its economy and the associated employment and incomes that come with it.

Based on our calculations, eliminating business subsidies would allow the province's taxpayers to save over \$42 million based on the 2020-21 budgetary estimates.²¹ It's important to note that the following list of subsidies is not exhaustive, leaving out government organizations such as the Oil and Gas Corporation of Newfoundland and Labrador which would require more extensive study.

The province should replace these subsidies with an equivalent tax cut in the general and small business corporate income tax rates. Lowering the small business tax rate from its current three percentage points to two percentage points will provide an estimated \$6.2 million in economic stimulus for local businesses. Lowering the general corporate tax rate from 15 per cent down to 13.25 per cent will provide an additional \$35.6 million in economic stimulus.

Subsidy	Amount
Low Carbon Economy Leadership Program	\$4,655,000
Fisheries marketing and development	\$200,000
Mineral development	\$1,700,000
Innovation and Business Development Fund	\$6,000,000
Innovation and Business Investment Corporation	\$16,836,000
Sector Diversification	\$567,800
Comprehensive Economic Development	\$9,960,600
Low Carbon Economy Fund	\$13,984,100
Investment Attraction Fund	\$8,000,000
Aquaculture Capital Equity Investment	\$5,000,000
TOTAL	\$42,264,400

¹⁹ <https://www.canada.ca/en/revenue-agency/services/tax/businesses/topics/corporations/corporation-tax-rates.html>

²⁰ https://www.jec.senate.gov/public/_cache/files/fe2eafaa-f355-462f-b515-15ad4a8f5e74/the-inefficiency-of-targeted-tax-policies-april-1997.pdf

²¹ <https://www.gov.nl.ca/budget/2020/wp-content/uploads/sites/3/2020/09/Estimates-2020.pdf>

Controlling government spending to ensure financial sustainability

Reducing government employee compensation by 15 per cent

Estimated impact: \$615 million in budgetary savings.

Expenditures related to government employee compensation continue to present a significant cost for Newfoundland and Labrador taxpayers, with the salaries and wages making up the largest expense item for the province every year since 2014²². With the proposed two per cent wage increase, the province is expected to spend an estimated \$3.63 billion on all consolidated government salaries and benefits (including agencies, boards and commissions) by the end of the fiscal year²³. This expenditure represents over 66 per cent of the province’s total revenue of \$5.43 billion.

This calculation does not include pension, and other non-wage benefits afforded to government employees which ultimately contribute to the province’s higher compensation expenditures. For example, government employees are more likely to be covered by a pension plan than their private sector counterparts. Data from Statistics Canada^{26 27} show a nearly 90 per cent pension enrollment rate for all government employees in Newfoundland and Labrador, compared to only 26 per cent of private sector workers.

Prior to the pandemic, provincial government employee wages were on average 4.6 per cent higher than the average wage offered by other employers, when adjusting for education²⁴.

	Newfoundland and Labrador labour market	Composite labour market adjusting for education of provincial employees	Provincial government employees	Government employee premium
Average Employment income²⁵	\$49,686	\$61,246	\$64,045	4.57%

Source: Statistics Canada and authors’ calculations.

²² <https://www.gov.nl.ca/fin/files/publications-2018-19-public-accounts-final.pdf#page=34>

²³ <https://atipp-search.gov.nl.ca/public/atipp/requestdownload?id=13587&fbclid=IwAR0Zghb83pTAdXqQozXNKXhrWcc0-IxCcQL3jDfAdmTOLmNwpAZox0JJZME>

²⁴ https://www12.statcan.gc.ca/census-recensement/2016/dp-pd/dt-td/Rp-eng.cfm?LANG=E&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=

²⁵ <https://www150.statcan.gc.ca/n1/en/catalogue/98-400-X2016358>

²⁶ <https://www150.statcan.gc.ca/t1/tbl1/en/cv.action?pid=1110013301&fbclid=IwAR2pwhhk1uSgWqQ2ufZRkqz6ZY53z8ZL1pEddaP0SOX6g-H9f0IGFYSPGT7o>

²⁷ <https://www150.statcan.gc.ca/t1/tbl1/en/cv.action?pid=1410002701>

	Total employment (2019)	Employees with Registered Pension Plans	Percentage of Employees covered by RPPs
Government sector	68,100	61,050	89.65%
Private sector	158,000	41,191	26.07%

Source: Statistics Canada

Government employees also tend to be covered under a defined benefits pension plan²⁸ unlike their private sector counterparts which tend to be covered by defined contribution plans. Government defined benefit pension plans generally shift the investment risk to the taxpayer, resulting in taxpayer funded bailouts when pension funds do not perform well. Unfortunately, Newfoundland and Labrador's five pension funds have had a history of poor performance and taxpayer bailouts in excess of \$4.7 billion since 1997²⁹.

Government employees also enjoy other non-wage benefits such as earlier retirement, and better job security compared to the average private-sector employee³⁰. These non-wage employee benefits overwhelmingly favour government employees over their private sector counterparts and, while there is no direct compensation cost associated with them, they are still part of the economic calculations that individuals make and should be considered when looking into compensation data.

Given the province's deficit, Newfoundland and Labrador must make significant changes to its biggest line-item expense: government employee compensation. With government employees already benefiting from a 4.6 per cent wage premium before the current crisis, it would be quite unfair to ask already struggling taxpayers to shoulder an overly bloated government sector, and the additional 2 per cent yearly wage increase until 2022.

The government should cancel the proposed two per cent wage increase for government employees and implement a 15 per cent reduction in government salaries and benefits. These proposed cost-cutting measures will reduce the estimated costs for government salaries and benefits from \$3.63 billion³¹ to \$3.01 billion, saving Newfoundland and Labrador taxpayers an estimated \$615 million by the end of the fiscal year.

\$ in millions	Total Salaries and Benefits with the proposed 2% yearly wage increase	Percentage of Employees covered by RPPs
2021-2022	\$3,628.10	\$3,012.79
Total Savings:		\$615.32

Source: Government of Newfoundland and Labrador, Department of Finance and authors' calculations.

²⁸ <https://www150.statcan.gc.ca/n1/daily-quotidien/200813/1001b-eng.htm>

²⁹ <https://www.assembly.nl.ca/HouseBusiness/Hansard/ga47session3/14-12-11.htm>

³⁰ <https://www.fraserinstitute.org/sites/default/files/comparing-government-and-private-sector-compensation-in-canada.pdf>

³¹ <https://atipp-search.gov.nl.ca/public/atipp/requestdownload?id=13587&fbclid=IwAR0Zghb83pTAdXqQozXNKXhRWcc0-lxCcQL3jDfADmTOLmNwpAZox0JJZME>

Cutting elected officials' pay to lead by example

Estimated impact: \$745,000 in budget savings.

Political leaders worldwide recognized that governments had to show leadership and solidarity with their constituents in the face of the pandemic. Many political leaders voluntarily cut their pay to show that they were not exempt from the sacrifices they were asking of their constituents. New Zealand Prime Minister Jacinda Ardern sparked a global trend when she announced a voluntary 20 per cent pandemic pay-cut for her and her cabinet ministers³².

In Canada, Manitoba Premier Brian Pallister reduced his base salary by 25 per cent³³ while he negotiated for reduced hours and temporary layoffs for government employees to redirect funds towards essential services such as healthcare. Halifax Mayor Mike Savage voluntarily cut his salary by 20 per cent³⁴ as his municipal government moved to cut 1,480 positions to deal with budgetary shortfalls from the pandemic.

Solving the Newfoundland and Labrador's budgetary issues require spending cuts for government compensation costs, especially when it represents the biggest expense for the province's taxpayers. Similarly, the province's political leadership should not be immune to wage reductions in times of economic hardship.

	Compensation Costs
All Members of the House of Assembly (base salary)	\$3,810,413
Office Holder Premium	\$163,866
Executive Branch Premium	\$697,800
Total:	\$4,672,079

Source: Government of Newfoundland and Labrador and authors' calculations.

Total compensation costs for the members of the House Assembly, including salaries paid to officeholder positions³⁶, costs taxpayers \$3.97 million³⁷. Additionally, those in ministerial, parliamentary secretary and parliamentary assistant level positions³⁸ get an extra \$697,800 in additional compensation.

Members of the House Assembly should lead by example and take a 15 per cent reduction on base salaries and a 20 per cent reduction for leadership position premiums, including the premier, members of the cabinet, the leader of the opposition, and the house leadership.

	Member of the House of Assembly	Premier	Minister	Leader of the Opposition
Base Pay	\$95,357	\$95,357	\$95,357	\$95,357
Executive Branch Premium		\$65,168	\$48,664	
Office Holder Premium				\$48,665
Total:	\$95,357	\$160,525	\$144,021	\$144,022
Salary With a 15% pay cut:	\$81,053			
Salary with a 20% pay cut:		\$133,187	\$119,984	\$119,985

Source: Government of Newfoundland and Labrador and authors' calculations.

³² <https://www.nzherald.co.nz/nz/covid-19-coronavirus-politicians-pass-temporary-law-for-own-pay-cuts/EEPZBFROPNIZE7SZCWIZVE4FXE/>

³³ <https://winnipeg.ctvnews.ca/manitoba-premier-takes-pay-cut-as-he-seeks-public-sector-cuts-during-pandemic-1.4905764>

³⁴ <https://www.cbc.ca/news/canada/nova-scotia/halifax-mayor-taking-cut-to-190k-salary-during-pandemic-1.5534267>

³⁵ <https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=1410022301&pickMembers%5B0%5D=2.1&pickMembers%5B1%5D=3.1&cubeTimeFrame.startMonth=09&cubeTimeFrame.startYear=2019&cubeTimeFrame.endMonth=09&cubeTimeFrame.endYear=2020&referencePeriods=20190901%2C20200901>

³⁶ <https://www.assembly.nl.ca/Members/Compensation/reports/AuthorizedMHASalariesAndCommitteeAllowances-April2017.pdf>

³⁷ <https://www.assembly.nl.ca/Members/Compensation/reports/CompensationPaidToMembersFY19-20.pdf>

³⁸ https://www.exec.gov.nl.ca/exec/CABINET/expenseclaims/pdf/annual_salary_details.pdf

	Total Compensation Costs	Total Compensation Costs with Proposed Reductions
All Members of the House of Assembly (base salary)	\$3,810,413	\$3,238,851
Office Holder Premium	\$163,866	\$131,093
Executive Branch Premium	\$697,800	\$558,240
Total:	\$4,672,079	\$3,928,184
Difference:		\$743,895

Source: Government of Newfoundland and Labrador and authors' calculations.

We estimate that voluntary changes in compensation for the political leadership in the province will save Newfoundland and Labrador taxpayers about \$744,000. This will signal to taxpayers and government workers that government leadership is not exempt from the pandemic's economic burden.

Eliminating the Operating Grant Program to avoid ballooning costs

Estimated impact: \$22.8 million in budgetary savings.

The Canadian experience with subsidized child care has proven to be a huge driver of runaway spending increases. Since Quebec started subsidizing child-care spaces in 1997-98, the cost of the program has ballooned from \$300 million³⁹ per year to over \$2.7 billion per year.⁴⁰ Even adjusting for inflation,⁴¹ this is a more than six-fold increase.

In Newfoundland and Labrador, the Operating Grant Program's costs have skyrocketed from roughly \$3.0 million annually in 2015-16 to \$10.8 million annually in 2019-20.⁴² Expanding the program to subsidize child care costs down to \$25 per day, as the government has committed to starting in January 2021, will only exacerbate the program's rapid costs increases.

Newfoundland and Labrador can't afford to introduce new programs with rapidly ballooning costs. All three credit ratings agencies have posted negative outlooks for the province's credit worthiness⁴³. Furthermore, Newfoundland and Labrador taxpayers already spend more on interest payments on the provincial debt than any other sector apart from health care.⁴⁴

The government should eliminate the Operating Grant Program to reduce its strain on the province's budget and avoid the expected ballooning costs. The province should refocus its strategies on improving disposable incomes through broad-based tax cuts rather than targeted subsidies. Given the \$12 million in new funding associated with the program's planned expansion, as well as the program's last reported \$10.8-million cost, this cost-saving measure would save Newfoundland and Labrador taxpayers about \$22.8 million annually.

Implementing a gainsharing program to incentivize government employees to propose cost-saving measures

Estimated impact: unknown

Cost-saving measures within government can come from major restructuring initiatives as well as simple logistical changes on day-to-day operations. Whether these measures improve government structures on a division or a departmental level, any cost-saving measures that can save taxpayer dollars should be explored.

Gainsharing programs have worked in the private sector and can be adopted to suit government organizational structures. Gainsharing is a pay-for-performance program that awards employees with pay incentives if they help the organization generate cost savings.⁴⁵

Jurisdictions in regional and local governments also adopted similar programs and benefited from savings eventually shared between the local government, government employees, and taxpayers⁴⁶. Within one year of launching its pilot gainsharing program, the municipal government of Baltimore saved more than \$950,000⁴⁷.

Newfoundland and Labrador Treasury Board Secretariat should implement a directive to incentivize government employees to share any cost-saving ideas, and reward cost-cutting measures through a gainsharing program. Such incremental savings should not be disregarded as they help make service delivery more efficient, and marginally lower its cost.

³⁹ <https://www.journaldemontreal.com/2014/11/21/combien-coutent-les-cpe>

⁴⁰ https://www.tresor.gouv.qc.ca/fileadmin/PDF/budget_depenses/20-21/3-Credits_des_ministeres_et_organismes.pdf

⁴¹ <https://statistique.quebec.ca/fr/document/indice-prix-consommation-ipc/tableau/indice-des-prix-a-la-consommation-ipc-indice-ensemble-canada-quebec-rmr-montreal-quebec-moyennes-annuelles>

⁴² <https://atipp-search.gov.nl.ca/public/atipp/requestdownload?id=13551>

⁴³ <https://investorrelations.gov.nl.ca/creditratings.aspx>

⁴⁴ <https://www.gov.nl.ca/budget/2020/wp-content/uploads/sites/3/2020/09/Estimates-2020.pdf>

⁴⁵ <https://www.innovations.harvard.edu/gainsharing-program>

⁴⁶ <https://www.washingtonpost.com/archive/local/1998/03/26/md-counties-try-productivity-bonuses/2ed5418c-50db-431c-837c-97c47c776799/>

⁴⁷ <https://mayor.baltimorecity.gov/news/press-releases/2019-02-15-mayor-pugh-announces-savings-over-950000-city-gain-sharing-plan>

Conclusion

Newfoundland and Labrador's fiscal situation is serious. With all three bond ratings agencies having negative outlooks on the province's debt⁴⁸ and Moody's openly expressing its fears that the province might not have the fiscal capacity to face the current fall in oil prices and the COVID-19 pandemic.⁴⁹

The province's \$16.4-billion debt⁵⁰ and its \$1.5-billion annual interest payments⁵¹ need to be addressed with a strong plan to bring the budget back to balance and start paying down the debt, and we are confident the recommendations outlined in this submission would go a long way towards addressing this.

Employee compensation has to be addressed to bring the budget back to balance, as it is the single largest source of expenditures in government at a projected \$3.6 billion for 2021-22.⁵² In order to make the reduction in government employee compensation palatable, it's important for legislators lead the way. The reductions outlined in this submission with regards to employee and legislators' compensation represent a significant \$616 million in potential budgetary savings.

It is also clear the government is not in a position to bring in new programs. Child care subsidies have shown to be a major source of cost-increases in on other provinces and Newfoundland and Labrador. While we estimate the direct budgetary savings to be \$22.8 million for the 2021-22 financial year, it's important to note that, as these programs costs have a tendency to balloon, the long-term savings are much more significant.

Given COVID-19's impacts on all sectors of Newfoundland and Labrador, as well as the relative ineffectiveness of business subsidies, replacing the province's business subsidies with business tax cuts would drive economic recovery.

And given the government should prioritize tax relief as opposed to targeted spending measures as a way to boost disposable incomes.

All in all, the proposed measures will put \$359.5 million back in Newfoundlanders and Labradorians pockets and help save \$680.7 million in government operations. This would bring the province's budget \$321.2 million closer to balance.

⁴⁸ <https://investorrelations.gov.nl.ca/creditratings.aspx>

⁴⁹ <https://www.thetelegram.com/news/local/moodys-downgrades-newfoundland-and-labradors-credit-outlook-to-negative-433196/>

⁵⁰ <https://www.gov.nl.ca/budget/2020/wp-content/uploads/sites/3/2020/09/Statements-and-Schedules-2020.pdf#page=4>

⁵¹ <https://www.gov.nl.ca/budget/2020/wp-content/uploads/sites/3/2020/09/Estimates-2020.pdf#page=16>

⁵² <https://atipp-search.gov.nl.ca/public/atipp/requestdownload?id=13587&fbclid=IwAR0Zghb83pTAdXqQozXNKXhRWcc0-IxCcQL3jDfADmTOLmNwpAZox0JJZME>