Righting the fiscal ship

Prebudget Submission to the Government of Newfoundland and Labrador

Renaud Brossard | **CANADIAN TAXPAYERS FEDERATION**

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Canadian Taxpayers Federation

Contents

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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

Even before the pandemic, Newfoundland and Labrador's fiscal situation was troubling. Years of deficit led the province's debt to increase to a point where, when it first hit, then Premier Dwight Ball had to request federal support as he couldn't find the necessary funds to cover government operations in the bond market.[1]

The pandemic hasn't helped. The provincial government's net debt now expected to reach $16.7 billion by the end of the financial year.[2] This year alone, interest payments will cost Newfoundland and Labrador taxpayers $638.2 million.[3]

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.
- Scrapping the pop tax.
- Replacing business subsidies with business tax relief to stimulate growth.
- Bringing government employee compensation in line with the Newfoundland and Labrador labour market.
- Implementing spending reduction measures outlined in the Premier's Economic Recovery Team's report.

With these proposed measures, we are confident that Newfoundland and Labrador will emerge from crisis with a stronger and more resilient economy.

TABLE 1

Costed Measures	Fiscal Stimulus	Budgetary Savings
Cutting all income tax bills by 10 per cent	$148.1	
Scrapping the pop tax	$8.7	
Replacing business subsidies with business tax cuts	$101.6	$101.6
Bringing employee compensation to market levels		$157.0
Implementing spending reductions from PERT report		$424.5
Total per category	**$258.4**	**$683.1**
Net budget impact:		**$424.7**

All numbers are in millions

[1] https://media.socastsrm.com/wordpress/wp-content/blogs.dir/900/files/2020/04/Letter-to-Prime-Minister.pdf

[2] https://www.gov.nl.ca/fin/files/Fall-Update-21-22-Presentation-Tech-Briefing-FINAL.pdf

[3] https://www.gov.nl.ca/budget/2021/wp-content/uploads/sites/5/Estimates.pdf

Fiscal stimulus

Despite its status as a "have" province, Newfoundland and Labrador's economic situation is worrisome. Even before the pandemic hit, unemployment was in the double digits[4] and it has since remained at such levels.

To help the economy rebound, creating new, good paying jobs throughout the province should be at the top of the government's economic priorities.

Amongst Atlantic provinces, New Brunswick has identified five strategic objectives[5] to help address the province's prosperity gap with the rest of the country. Those same objectives would help Newfoundland and Labrador become the economic powerhouse it can and should be. 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[6] [7] [8] [9] [10] have found a clear link between tax cuts and economic growth. Given the heavy tax burden that Newfoundlanders and Labradorians shoulder, there is room to reduce it to stimulate the province's economy.

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

4. https://www.stats.gov.nl.ca/Statistics/Topics/labour/PDF/UnempRate_Monthly.pdf
5. https://onbcanada.ca/wp-content/uploads/2020/10/ERGAP-final-ENG.pdf
6. https://academic.oup.com/qje/article-abstract/133/4/1803/4880451?redirectedFrom=fulltext
7. https://www.aeaweb.org/articles?id=10.1257/pol.20170241&&from=f
8. https://www.nber.org/system/files/working_papers/w20753/w20753.pdf
9. https://www.journals.uchicago.edu/doi/abs/10.1086/701424
10. https://www.jstor.org/stable/41789231

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

Estimated fiscal stimulus: $148.1 million

Newfoundland and Labrador families have been hit hard by inflation in the last year. Newfoundlanders and Labradorians had to compose with prices increasing by 4.5 per cent year-over-year.[11]

This contrasts with the average 1.6 per cent[12] 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 18 per cent[13] of Newfoundlanders and Labradorians' total income. This is a significant amount of money and is only one of the many types of taxes levied on Newfoundland and Labrador families.

It's also important to note that economic research is very clear about the link between tax relief measures and economic growth.[14 15 16]

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.

Despite Newfoundland and Labrador's status as a "have" province, local household disposable income remains below the national average, at $33,035 per year compared to the average Canadian's $33,858.[17] After Newfoundlanders and Labradorians 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,[18 19] and between consumer spending and GDP growth. There is also a clear relationship between household savings and private investment.[20]

By lowering the province's income tax takings by 10 per cent, the government would directly inject $148.1 million dollars into the local economy.[21]

The following chart shows the impact such reductions in income tax bills would have for Newfoundlanders and Labradorians.

TABLE 1

Taxable income	Current tax bill	Tax bill with proposed tax cut	Saving under proposed plan
$50,000	$4,212	$3,791	**$451**
$70,000	$7,112	$6,401	**$711**
$90,000	$10,192	$9,173	**$1,019**

Source: UFile

11. https://www150.statcan.gc.ca/n1/daily-quotidien/211117/cg-a006-eng.htm
12. 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
13. https://www150.statcan.gc.ca/t1/tbl1/en/cv.action?pid=1110005501
14. https://www.brookings.edu/wp-content/uploads/2016/06/09_effects_income_tax_changes_economic_growth_gale_samwick.pdf
15. https://www.taxpolicycenter.org/briefing-book/how-do-taxes-affect-economy-long-run
16. https://taxfoundation.org/what-evidence-taxes-and-growth/#:~:text=In%20sum%2C%20the%20U.S.%20tax,a%20higher%20standard%20of%20living
17. https://royal-bank-of-canada-2124.docs.contently.com/v/recovery-bumpy-but-still-advancing-in-all-provinces-pdf
18. http://www.econ2.jhu.edu/people/ccarroll/papers/cos-wealtheffects-literature/papers/macklem.pdf
19. https://www.atlantis-press.com/proceedings/emehss-17/25874812
20. https://www.jstor.org/stable/2117526?seq=1
21. https://www.gov.nl.ca/budget/2021/wp-content/uploads/sites/5/Estimates.pdf

Scrapping the pop tax

Estimated fiscal stimulus: $8.7 million

As part of Budget 2021-22, the government of Newfoundland and Labrador announced its plans to implement a 20 cents per litre pop tax across the province.[22] The implementation date for this tax has been set to September 2022 in the subsequent enabling legislation.[23]

Contrary to the tax's objective, international experience shows taxes on food with behavioural change as an objective have little to no effect on a jurisdiction's body mass index.

One of the most heavily studied examples of such taxes is Mexico's one-peso per litre pop tax.[24] When the tax was first enacted in 2014, proponents predicted it would lead to a two to four pound drop in mean population weight, equivalent to 2.7 per cent of total body mass.

When the tax was introduced, the country's mean body mass index was 27.4 for men and 28.4 for women.[25] This is within the range of what is considered as "overweight."[26]

Two years into the experiment, the mean body mass index had risen to 27.6 for men and 28.6 for women,[27] amounting to a 0.7 per cent increase, a far cry from the 2.7 per cent decrease that was predicted.

Similar observations were made in Denmark, France and Hungary following their implementation of food taxes with behavioural change as an objective.[28]

These taxes fail as they don't account for consumer responses to their implementation, which occur in three ways.

Some choose to absorb the tax, preferring purchasing their preferred brand of sugary drink over the savings associated with not paying said tax.

Others respond by substituting for cheaper alternatives in the same category. In the case of sugar-sweetened beverages, this can mean switching from name-brand to store-brand products.

Yet others respond by substituting taxed products with untaxed products. This can take the form of replacing a bottle of pop with a sweetened latte drink from a nearby coffee shop or a chocolate bar from the corner shop.

Ultimately, all these responses reduce the tax's hoped effects on a population's health.

There is also ample evidence to show this type of tax disproportionately affects the less well off in a society by charging a fixed dollar amount, which represents a larger share of an average person's budget than a wealthy person's budget.

An analysis of ethical issues surrounding pop taxes commissioned by the *Institut national de la santé publique du Québec*, a Quebec government body dedicated to public health, concluded that: "A tax on sugary drinks is, by design, a regressive tax."[29]

In a context where prices have increased by 3.9 per cent[30] on average across the province in the last year, further increasing taxes on some categories of food products will do little to help low- and middle-income families in Newfoundland and Labrador.

As such, we call on the government of Newfoundland and Labrador to scrap its plans to implement a pop tax in its next budget.

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22. https://www.gov.nl.ca/budget/2021/
23. https://www.gov.nl.ca/releases/2021/fin/1019n06/
24. https://www.taxpayer.com/media/PeterShawnTaylor-FoodTaxes.pdf
25. https://ncdrisc.org/data-downloads-adiposity.html
26. https://www.diabetes.ca/managing-my-diabetes/tools---resources/body-mass-index-(bmi)-calculator
27. https://ncdrisc.org/data-downloads-adiposity.html
28. https://www.taxpayer.com/media/PeterShawnTaylor-FoodTaxes.pdf
29. https://www.inspq.qc.ca/sites/default/files/publications/2320_analyse_enjeux_ethiques_taxation_boissons_sucrees.pdf
30. https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=1810000401&pickMembers%5B0%5D=1.3&cubeTimeFrame.startMonth=10&cubeTimeFrame.startYear=2020&cubeTimeFrame.endMonth=12&cubeTimeFrame.endYear=2021&referencePeriods=20201001%2C20211201

Replacing business subsidies with business tax relief to stimulate growth

Estimated savings: $101.6 million in budget savings and $101.6 million in tax relief

While the pandemic's effects on the labour market seem to have waned, Newfoundland and Labrador's unemployment rate, sitting at 11.6 per cent,[31] remains a cause for concern.

Finding employment for out-of-work Newfoundlanders and Labradorians 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.[32]

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.[33] 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.[34] 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.[35]

In other words, competitive tax rates attract job creators and direct investment.[36] Lower tax rates also contribute to lowering the cost of capital[37] for job creators, thus increasing their ability to re-invest in their company.

TABLE 2

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

31. https://www150.statcan.gc.ca/t1/tbl1/en/cv.action?pid=1410028703

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

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

34. https://medium.com/concentrated-benefits/florida-man-seeks-a-quarter-of-a-billion-dollars-6bb6fe36a96e

35. https://www.oecd.org/mena/competitiveness/41997578.pdf

36. https://www.oecd.org/mena/competitiveness/41997578.pdf

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

Compared with other provinces, Newfoundland and Labrador's corporate tax rate puts the province at a disadvantage, with a higher rate of 15 per cent versus the 12.6 per cent national average.

This year, the government of Newfoundland and Labrador projected it would spend $101.6 million sending direct and indirect subsidies for specific economic sectors through a variety of government funds and programs. This is equivalent to 27 per cent of what the province expects to collect through corporate income taxes over the same period.

Replacing business subsidies with corporate tax cuts would have also eliminate the economic distortion associated with targeted financial measures.[40] Newfoundland and Labrador'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 2.19 percentage points, and the general corporate tax rate from its current 15 percentage points to 10.95 percentage points would represent $101.6 million in savings for Newfoundland and Labrador businesses of all sizes.[41]

TABLE 2

Subsidy	Amount
Low Carbon Economy Leadership Program	$20,168,400
Fisheries marketing and development	$200,000
Mineral development	$1,700,000
Oil and gas industry support	$6,000,000
Oil and gas corporation of Newfoundland and Labrador	$33,274,800
Business and Innovation – Accelerated growth	$279,000
Innovation and Business Investment Corporation	$16,836,000
Investment Attraction Fund	$8,000,000
Sector Diversification	$115,000
Comprehensive Economic Development	$14,960,600
Tourism – Strategic Product Development	$115,000
TOTAL	**$101,648,800**

Source: Government of Newfoundland and Labrador, Department of Finance.

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

39. https://www.gov.nl.ca/budget/2021/wp-content/uploads/sites/5/Estimates.pdf

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

41. https://www.gov.nl.ca/budget/2021/wp-content/uploads/sites/5/Estimates.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.[42 43 44]

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.[45] 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.

Newfoundland and Labrador is not exempt from this problem, carrying gross debt equivalent to $25.6 billion.[46] Given the province's estimated GDP of $38.4 billion this year, provincial government debt is equivalent to 67 per cent of the province's economy.[47] Add to that local and federal debt and you quickly reach a level of debt detrimental to growth.

Notwithstanding its negative economic impact, Newfoundland and Labrador's government debt represents a significant burden for taxpayers. Government projections put debt interest payments at $638.2 million[48] this year.

With inflation at record-highs,[49] the Bank of Canada signaled[50] 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 $25.5 billion gross debt,[51] an increase of one percentage point in interest rates would lead its debt service tab to increase by $255 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,[52] Newfoundland and Labrador is faced with a long-term deficit[53] equivalent to 4.5 per cent of its economy. This represents a $1.7 billion[54] hole based on 2021 GDP estimates.

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42. https://www.mercatus.org/system/files/de_rugy_and_salmon_-_policy_brief_-_debt_and_growth_a_decade_of_studies_-_v1.pdf
43. https://publications.iadb.org/publications/english/document/Government-Debt-and-Economic-Growth.pdf
44. https://www.cairn.info/revue-economique-2011-6-page-1015.htm
45. https://www150.statcan.gc.ca/t1/tbl1/en/cv.action?pid=3810023701
46. https://investorrelations.gov.nl.ca/debtportfolio.aspx
47. https://www.gov.nl.ca/fin/files/The-Economic-Review-2021-FINAL-1.pdf
48. https://www.gov.nl.ca/budget/2021/wp-content/uploads/sites/5/Estimates.pdf
49. https://www150.statcan.gc.ca/n1/daily-quotidien/211117/cg-a006-eng.htm
50. https://www.bloomberg.com/news/articles/2021-10-27/bank-of-canada-accelerates-potential-timing-of-rate-hikes
51. https://investorrelations.gov.nl.ca/debtportfolio.aspx
52. https://www.pbo-dpb.gc.ca/en/blog/news/RP-2122-010-S--fiscal-sustainability-report-2021--rapport-viabilite-financiere-2021
53. A province's long-term deficit represents its fiscal gap and real gdp growth projections
54. https://www.gov.nl.ca/fin/files/The-Economic-Review-2021-FINAL-1.pdf

This means that government spending in Newfoundland and Labrador 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 Newfoundland and Labrador needs to get its debt under control. The best way is to reduce spending.

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.[55 56 57]

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.[58] 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 Newfoundland and Labrador 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.

Bringing government employee compensation in line with the Newfoundland and Labrador labour market

Estimated savings: $157.0 million

Salaries and wages have represented the largest line-item in the government of Newfoundland and Labrador's budget over the past 5 years.[59]

TABLE 3

	2017	2018	2019	2020	2021
Employee compensation	$3,773.8	$3,513.4	$3,487.2	$3,493.7	$3,568.7
Total Consolidated Expenditures	$8,304.9	$8,190.9	$8,379.0	$8,466.4	$8,819.9
Share of Total Consolidated Expenditures	**45.4%**	**42.9%**	**41.6%**	**41.3%**	**40.5%**

Source: Government of Newfoundland and Labrador, Department of Finance. All numbers in millions.

Last year, the province spent over $3.6 billion on employee compensation, representing nearly 94 per cent of what it collected via taxes.[60] To stabilize the province's fiscal situation and free up resources the 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 Newfoundland and Labrador.

Prior to the pandemic, government employees enjoyed an 4.6 per cent wage premium over the rest of the labour market in Newfoundland and Labrador, when adjusting for education.[61]

55. https://www.nber.org/system/files/chapters/c10973/c10973.pdf
56. https://www.econstor.eu/dspace/bitstream/10419/106147/1/815406657.pdf
57. https://www.mercatus.org/system/files/deRugy_RelativeEffects_v1.pdf
58. https://www.researchgate.net/publication/338269692_Austerity_When_It_Works_and_When_It_Doesn't
59. https://www.gov.nl.ca/exec/tbs/publications/public-accounts/
60. https://www.gov.nl.ca/exec/tbs/files/Public-Accounts-March-31-2021.pdf
61. 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&VID=0&VNAMEE=&VNAMEF=

TABLE 4

	Newfoundland and Labrador labour market	Composite Labour Market Adjusting for Education of Provincial Employees	Provincial Government Employees	Government Employee Premium
Average Employment Income[62]	**$49,686**	**$61,246**	**$64,045**	**4.57%**

Source: Statistics Canada and authors' calculations.

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 97 per cent pension enrollment rate for all government employees in Newfoundland and Labrador, compared to only 31 per cent of private sector workers[63 64].

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, Newfoundland and Labrador's pension funds have a combined actuarial pension liability of $4.9 billion[65] 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[66]. While there is no direct compensation cost associated with them, they contribute to the discrepancy between government and private sector employees.

TABLE 5

	Total Employment (2020)	Registered Pension Plan Enrollment	Percentage of employees with Registered Pension Plans
Government Employees	65,300	63,091	**96.61%**
Private Sector Employees	130,100	40,617	**31.22%**

Source: Statistics Canada

Given the province's long term financial unsustainability[67] and ever-increasing compensation costs, Newfoundland and Labrador 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 Newfoundland and Labrador must implement a 4.4 per cent reduction in compensation costs.

62. https://www150.statcan.gc.ca/n1/en/catalogue/98-400-X2016358
63. https://www150.statcan.gc.ca/t1/tbl1/en/cv.action?pid=1110013301&fbclid=IwAR2pwhhk1uSgWqQ2ufZRkqz6ZY53z8ZL1pEdaP0SOX6g-H9fOlGFYSPGT7o
64. https://doi.org/10.25318/1410002701-eng
65. https://www.gov.nl.ca/exec/tbs/files/Public-Accounts-March-31-2021.pdf
66. https://www.fraserinstitute.org/sites/default/files/comparing-govt-and-private-sector-compensation-in-canada-2020.pdf
67. https://distribution-a617274656661637473.pbo-dpb.ca/93a1e3bc1b4432c0b2eac192241b866d36c048b5efc1aa8224e15364551f0c8e

This will reduce the estimated cost for government salaries and benefits from $3.6 billion to $3.4 billion,[68] saving Newfoundland and Labrador taxpayers an estimated $157 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 Newfoundland and Labrador.

TABLE 6

	Current Costs	Projected Costs with Proposed Reductions
Employee Benefits	$3,568.7	**$3,411.7**
	Budgetary Savings:	**$157.0**

Source: Government of Newfoundland and Labrador, Department of Finance.
All numbers in millions.

Implementing spending reduction measures outlined in the Premier's Economic Recovery Team's Report

Estimated savings: $424.5 million in 2022-23

The government took the right first step to solving its fiscal problems by tasking independent experts, lead by Moya Greene, to work on an economic and fiscal recovery plan for the province. The first thing the Premier's Economic Recovery Team did was identify the extent of the problem.

As they put it: "Newfoundland and Labrador's annual cash shortfall represents approximately 25 per cent of its revenue."[69]

> **"Newfoundland and Labrador's annual cash shortfall represents approximately 25 per cent of its revenue."**
>
> *– Premier's Economic Recovery Team report*

PERT's report is not alone in pointing out the provincial government's unsustainable spending habits. Estimates from the independent Parliamentary Budget Officer peg the province's long term deficit figures at roughly $1.7 billion using 2021 GDP figures.[70]

This is despite the province having the highest level of government revenue per capita in the country for most of the last decade.[71] It is clear that Newfoundland and Labrador is faced with a spending problem, not a revenue problem. As the PERT report notes "Expenditure reduction is the major component of reducing the fiscal gap."[72]

This is consistent with what economists have observed with regards to the most successful plans to tackle unsustainable finances. There is substantial economic literature that has pointed out that plans relying on spending cuts in advanced economies have had a lesser negative impact – sometimes even having a positive impact – on economic growth than plans relying on tax hikes.[73 74 75]

In its report, the PERT identified areas where spending reductions can be realized for an estimated $424.5 million in savings in 2022-23.[76] These savings are estimated to reach $894.5 million by the 2026-27 budget year.

The government should implement the spending reduction measures outlined by the independent experts from the PERT.

68. https://www.gov.nl.ca/exec/tbs/files/Public-Accounts-March-31-2021.pdf
69. https://thebigresetnl.ca/wp-content/uploads/2021/05/PERT-FullReport.pdf
70. https://www.pbo-dpb.gc.ca/en/blog/news/RP-2122-010-S--fiscal-sustainability-report-2021--rapport-viabilite-financiere-2021
71. https://thebigresetnl.ca/wp-content/uploads/2021/05/PERT-FullReport.pdf
72. https://thebigresetnl.ca/wp-content/uploads/2021/05/PERT-ExecutiveSummary.pdf
73. https://www.nber.org/system/files/chapters/c10973/c10973.pdf
74. https://www.econstor.eu/dspace/bitstream/10419/106147/1/815406657.pdf
75. https://www.mercatus.org/system/files/deRugy_RelativeEffects_v1.pdf
76. https://thebigresetnl.ca/wp-content/uploads/2021/05/PERT-ExecutiveSummary.pdf

Conclusion

Newfoundland and Labrador is in an unenviable fiscal situation. Despite having had the highest level of government revenue per capita for most of the last decade, the province's finances have deteriorated to the point where it had trouble finding financing at the onset of the pandemic.

Over the long term, Newfoundland and Labrador will need to close a $1.7 billion gap to get back to sustainability based on 2021 GDP figures.

Given the fact employee compensation accounts for over 40 cents out of every dollar the government of Newfoundland and Labrador spends, reductions in employee compensation will be necessary to address this gap.

The government took the right first step by tasking independent experts, the Premier's Economic Recovery Team, to do a full review of government operations. Said experts identified key areas of government activity where savings could and should be found. The government should listen to its own panel of independent experts and implement the spending reductions it outlined.

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 Newfoundlanders and Labradorians as a way to boost household incomes and increase Newfoundlanders and Labradorians' ability to spend and invest in local businesses.

As international experience has shown its ineffectiveness, and it is a form of tax that disproportionately affect middle- and low-income families, the government of Newfoundland and Labrador must reverse its plan to implement a pop tax in September 2022.

All in all, the proposed measures will put $258.4 million back in Newfoundlanders and Labradorians' pockets and help save $683.1 million in government operations. This would ameliorate the province's fiscal situation by $424.7 million.

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[77] https://thebigresetnl.ca/wp-content/uploads/2021/05/PERT-FullReport.pdf

[78] https://www.pbo-dpb.gc.ca/en/blog/news/RP-2122-010-S--fiscal-sustainability-report-2021--rapport-viabilite-financiere-2021

[79] https://www.gov.nl.ca/exec/tbs/publications/public-accounts/