

# Recovery and growth for Prince Edward Island

Prebudget Submission to the Government of Prince Edward Island

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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

Prince Edward Island's budgetary situation remains a cause for concern. Despite this year's deficit coming in at slightly over half<sup>1</sup> of what was expected back in March 2021, long term projections from the independent Parliamentary Budget Officer<sup>2</sup> show Prince Edward Island's level of government spending is unsustainable.

With the province's debt forecasted to reach \$2.5 billion<sup>3</sup> by the end of the fiscal year, its high cost remains a drain on the province's taxpayers. This year alone, Prince Edward Island taxpayers will waste \$123 million in interest payments, equivalent to 56,600 median Islanders' provincial income tax bills.<sup>4 5</sup>

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.
- Indexing personal income tax brackets to end inflation-based tax hikes.
- Bringing government employee compensation in line with Prince Edward Island's labour market.
- Divesting provincial golf courses to avoid further losses.
- Implementing a sunshine list.
- Conducting a thorough program review to reduce spending.

With these proposed measures, we are confident that Prince Edward Island 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	\$42.2	
Replacing business subsidies with business tax cuts	\$49.4	\$49.4
Bringing employee compensation to market levels		\$129.0
Divesting provincial golf courses		\$0.3
<b>Total per category</b>	<b>\$91.6</b>	<b>\$178.7</b>
<b>Net budget impact:</b>		<b>\$87.1</b>

All numbers are in millions

<sup>1</sup> [https://www.princeedwardisland.ca/sites/default/files/publications/2021\\_fall\\_fiscal\\_and\\_economic\\_update.pdf](https://www.princeedwardisland.ca/sites/default/files/publications/2021_fall_fiscal_and_economic_update.pdf)

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

<sup>3</sup> [https://www.princeedwardisland.ca/sites/default/files/publications/2021\\_fall\\_fiscal\\_and\\_economic\\_update.pdf](https://www.princeedwardisland.ca/sites/default/files/publications/2021_fall_fiscal_and_economic_update.pdf)

<sup>4</sup> [https://www.princeedwardisland.ca/sites/default/files/publications/web\\_asr.pdf](https://www.princeedwardisland.ca/sites/default/files/publications/web_asr.pdf)

<sup>5</sup> <https://turbotax.intuit.ca/tax-resources/prince-edward-island-income-tax-calculator.jsp#>

## Fiscal stimulus

There exists a prosperity gap between Prince Edward Island and other Canadian jurisdictions. Prince Edward Island's GDP per capita came last amongst the provinces in 2020, coming in at \$40,024 compared to the national average of \$53,174.<sup>6</sup>

This translates to lower salaries for workers, lower profits for local businesses and lower tax revenues for the government. As the government aims for the economy to rebound, addressing this gap should be at the top of its economic priorities.

Neighbouring New Brunswick came to the same realization and identified five strategic objectives<sup>7</sup> that would help the province close this gap. 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.

An 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>8 9 10 11 12</sup> have found a clear link between tax cuts and economic growth. Given the heavy tax burden that Islanders shoulder, at nearly 34 per cent of GDP,<sup>13</sup> there is room to reduce it to stimulate the province's economy.

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

<sup>6</sup> <https://royal-bank-of-canada-2124.docs.contently.com/v/provinces-enter-advanced-stages-of-recovery-in-2022-pdf>

<sup>7</sup> <https://onbcanada.ca/wp-content/uploads/2020/10/ERGAP-final-ENG.pdf>

<sup>8</sup> <https://academic.oup.com/qje/article-abstract/133/4/1803/4880451?redirectedFrom=fulltext>

<sup>9</sup> <https://www.aeaweb.org/articles?id=10.1257/pol.20170241&&from=f>

<sup>10</sup> [https://www.nber.org/system/files/working\\_papers/w20753/w20753.pdf](https://www.nber.org/system/files/working_papers/w20753/w20753.pdf)

<sup>11</sup> <https://www.journals.uchicago.edu/doi/abs/10.1086/701424>

<sup>12</sup> <https://www.jstor.org/stable/41789231>

<sup>13</sup> <https://cftp.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: \$42.2 million

Prince Edward Island's families have been hit hard by inflation in the last year. Canadians had to deal with an average 4.7 per cent<sup>14</sup> increase in the cost-of-living last year. Islanders were the hardest hit in the country, with prices increasing by 6.6 per cent year-over-year.<sup>15</sup>

This contrasts with the average 1.3 per cent<sup>16</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 16 per cent<sup>17</sup> of Islanders' total income. This is a significant amount of money and is only one of the many types of taxes levied on Prince Edward Island families.

It's also important to note that economic research is very clear about the link between tax relief measures and economic growth.<sup>18 19 20</sup>

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.

Prince Edward Island has the lowest level of GDP per capita in the country. At \$40,024 per person,<sup>21</sup> in 2012 adjusted dollars.

One of the factors explaining this poor economic performance is that fact Prince Edward Island's households have an after-tax disposable income level that's 12 per cent below the national average.<sup>22</sup> After Islanders have paid all of 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, and between consumer spending and GDP growth. There is also a clear relationship between household savings and private investment.

By lowering the province's income tax takings by 10 per cent, the government would directly reinject \$42.2 million dollars into the local economy.

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

<sup>14</sup> <https://www150.statcan.gc.ca/n1/daily-quotidien/211117/cg-a006-eng.htm>

<sup>15</sup> <https://www150.statcan.gc.ca/n1/daily-quotidien/211117/cg-a006-eng.htm>

<sup>16</sup> <https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=1810000501&pickMembers%5B0%5D=1.5&cubeTimeFrame.startYear=2015&cubeTimeFrame.endYear=2020&referencePeriods=20150101%2C20200101>

<sup>17</sup> <https://www150.statcan.gc.ca/t1/tbl1/en/cv.action?pid=1110005501>

<sup>18</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>19</sup> <https://www.taxpolicycenter.org/briefing-book/how-do-taxes-affect-economy-long-run>

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

<sup>21</sup> <https://royal-bank-of-canada-2124.docs.contently.com/v/provinces-enter-advanced-stages-of-recovery-in-2022-pdf>

<sup>22</sup> <https://royal-bank-of-canada-2124.docs.contently.com/v/provinces-enter-advanced-stages-of-recovery-in-2022-pdf>

There is a clear relationship between household disposable income and household consumption,<sup>23 24</sup> and between consumer spending and GDP growth. There is also a clear relationship between household savings and private investment.<sup>25</sup>

By lowering the province's income tax takings by 10 per cent, the government would directly reinject \$42.2 million dollars into the local economy.<sup>26</sup>

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

**TABLE 2**

Taxable income	Current tax bill	Tax bill with proposed tax cut	Savings under proposed plan
\$50,000	\$4,592	\$4,133	<b>\$459</b>
\$70,000	\$7,527	\$6,774	<b>\$753</b>
\$90,000	\$10,867	\$9,780	<b>\$1,087</b>

Source: UFile

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

**Estimated savings: \$49.4 million in budget savings and \$49.4 million in tax relief**

The pandemic's effects on the labour market can still be felt in Prince Edward Island. The province's unemployment rate currently sits at 8.0 per cent,<sup>27</sup> up 0.9 points from pre-pandemic levels.

Finding employment for out-of-work Islanders 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>28</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>29</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>30</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>31</sup>

<sup>23</sup> <http://www.econ2.jhu.edu/people/ccarroll/papers/cos-wealtheffects-literature/papers/macklem.pdf>

<sup>24</sup> <https://www.atlantispress.com/proceedings/emehss-17/25874812>

<sup>25</sup> <https://www.jstor.org/stable/2117526?seq=1>

<sup>26</sup> [https://www.princeedwardisland.ca/sites/default/files/publications/2021\\_fall\\_fiscal\\_and\\_economic\\_update.pdf](https://www.princeedwardisland.ca/sites/default/files/publications/2021_fall_fiscal_and_economic_update.pdf)

<sup>27</sup> <https://www150.statcan.gc.ca/t1/tb1/en/cv/action?pid=1410028703>

<sup>28</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>29</sup> <https://www.brookings.edu/wp-content/uploads/2016/06/cohen-1.pdf>

<sup>30</sup> <https://medium.com/concentrated-benefits/florida-man-seeks-a-quarter-of-a-billion-dollars-6bb6fe36a96e>

<sup>31</sup> <https://www.oecd.org/mena/competitiveness/41997578.pdf>

In other words, competitive tax rates attract job creators and direct investment.<sup>32</sup> Lower tax rates also contribute to lowering the cost of capital<sup>33</sup> for job creators, thus increasing their ability to re-invest in their company.

Compared with other provinces, Prince Edward Island’s corporate tax rate puts the province at a disadvantage, with the highest rate in the country at 16 per cent versus the 12.6 per cent national average.<sup>34</sup>

TABLE 2

**Provincial general corporate tax rates**

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

Prince Edward Island’s main vehicle for doling out subsidies is Innovation PEI, gobbling a whopping \$50.9 million last year, with a meager \$1.5 million in associated revenue.<sup>35</sup> This represents a net cost to taxpayers of \$49.4 million annually. This is equivalent to 48 per cent of what the province collected 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.<sup>36</sup> Prince Edward Island’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 one percentage point to 0.52 percentage points, and the general corporate tax rate from its current 16 percentage points to 8.32 percentage points would represent \$49.4 million in savings for Prince Edward Island businesses of all sizes.<sup>37</sup>

Sources: Provincial government websites

<sup>32</sup> <https://www.oecd.org/mena/competitiveness/41997578.pdf>

<sup>33</sup> [https://files.taxfoundation.org/legacy/docs/TaxFoundation\\_FF477.pdf](https://files.taxfoundation.org/legacy/docs/TaxFoundation_FF477.pdf)

<sup>34</sup> <https://www.canada.ca/en/revenue-agency/services/tax/businesses/topics/corporations/corporation-tax-rates.html>

<sup>35</sup> [https://www.princeedwardisland.ca/sites/default/files/publications/volume\\_1\\_2020-2021\\_web.pdf](https://www.princeedwardisland.ca/sites/default/files/publications/volume_1_2020-2021_web.pdf)

<sup>36</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>37</sup> [https://www.princeedwardisland.ca/sites/default/files/publications/volume\\_1\\_2020-2021\\_web.pdf](https://www.princeedwardisland.ca/sites/default/files/publications/volume_1_2020-2021_web.pdf)



## Indexing personal income tax brackets to end inflation-based tax hikes

### Estimated fiscal stimulus: N/A

Prince Edward Island is one of the few provinces that fails to index its tax brackets. That means taxpayers are forced into higher tax brackets by inflation, even though their actual buying power hasn't gone up. The federal government and most provinces fix this problem by indexing tax brackets to inflation. Failing to index brackets is a form of covert tax hike known as bracket creep.

Apart from a few changes to the basic personal amount, tax brackets in Prince Edward Island have remained unchanged since 2008.<sup>38</sup> Meanwhile, the purchasing power of a dollar has gone down by 17 per cent in Prince Edward Island.<sup>39</sup>

Across the country, most governments have recognized the negative impacts of bracket creep and have elected to index their tax brackets to inflation. Only Prince Edward Island, Nova Scotia and Alberta fail to index their all their tax brackets.

This indexation would have a significant impact on Islanders in the long-run as the impact of bracket creep compounds year over year.

Prince Edward Island should change its Income Tax Act so the basic minimum amount and tax brackets are indexed to the consumer price index starting this fiscal year. The table below provides an overview of tax savings at different income levels that would result from indexing tax rates, based on September's CPI data, as numerous other provinces are using.<sup>40</sup>

TABLE 4

Tax rate	Current bracket minimum	Bracket minimum if it had followed inflation
9.8%	\$0	<b>\$0</b>
13.8%	\$31,984	<b>\$37,537</b>
16.7%	\$63,969	<b>\$75,075</b>

Source: Government of Prince Edward Island

TABLE 5

Income	Impact of bracket creep
\$50,000	<b>\$42</b>
\$70,000	<b>\$103</b>
\$90,000	<b>\$103</b>

Source: Canadian Taxpayers Federation

<sup>38</sup> [https://www.princeedwardisland.ca/sites/default/files/legislation/i-01-income\\_tax\\_act.pdf](https://www.princeedwardisland.ca/sites/default/files/legislation/i-01-income_tax_act.pdf)

<sup>39</sup> <https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=1810000501&pickMembers%5B0%5D=1.5&cubeTimeFrame.startYear=2000&cubeTimeFrame.endYear=2020&referencePeriods=20000101%2C20200101>

<sup>40</sup> <http://www.taxpayer.com/media/New-Years-Tax-Changes-2022.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>41 42 43</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>44</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.

Prince Edward Island is not exempt from this problem, carrying gross debt equivalent to \$3.5 billion.<sup>45</sup> Given the province's GDP of \$7.5 billion last year, provincial government debt is equivalent to 47 per cent of the province's economy.<sup>46</sup> Add to that local and federal debt and you quickly reach a level of debt detrimental to growth.

Notwithstanding its negative economic impact, Prince Edward Island's government debt represents a significant burden for taxpayers. Government projections put debt interest payments at \$132.2 million<sup>47</sup> this year.

With inflation at record-highs,<sup>48</sup> the Bank of Canada signaled<sup>49</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 \$3.5 billion gross debt,<sup>50</sup> an increase of one percentage point in interest rates would lead its debt service tab to increase by \$35.2 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>51</sup> Prince Edward Island is faced with a long-term deficit<sup>52</sup> equivalent to 4.8 per cent of its economy. This represents a \$360.3 million<sup>53</sup> hole based on finalized 2020 figures.

<sup>41</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>42</sup> <https://publications.iadb.org/publications/english/document/Government-Debt-and-Economic-Growth.pdf>

<sup>43</sup> <https://www.cairn.info/revue-economique-2011-6-page-1015.htm>

<sup>44</sup> <https://www150.statcan.gc.ca/t1/tbl1/en/cv.action?pid=3810023701>

<sup>45</sup> [https://www.princeedwardisland.ca/sites/default/files/publications/volume\\_1\\_2020-2021\\_web.pdf](https://www.princeedwardisland.ca/sites/default/files/publications/volume_1_2020-2021_web.pdf)

<sup>46</sup> <https://www.princeedwardisland.ca/fr/information/finances/gross-domestic-product-gdp-by-income-and-expenditure>

<sup>47</sup> [https://www.princeedwardisland.ca/sites/default/files/publications/2021\\_fall\\_fiscal\\_and\\_economic\\_update.pdf](https://www.princeedwardisland.ca/sites/default/files/publications/2021_fall_fiscal_and_economic_update.pdf)

<sup>48</sup> <https://www150.statcan.gc.ca/n1/daily-quotidien/211117/cq-a006-eng.htm>

<sup>49</sup> <https://www.bloomberg.com/news/articles/2021-10-27/bank-of-canada-accelerates-potential-timing-of-rate-hikes>

<sup>50</sup> [https://www.princeedwardisland.ca/sites/default/files/publications/volume\\_1\\_2020-2021\\_web.pdf](https://www.princeedwardisland.ca/sites/default/files/publications/volume_1_2020-2021_web.pdf)

<sup>51</sup> <https://www.pbo-dpb.gc.ca/en/blog/news/RP-2122-010-S-fiscal-sustainability-report-2021-rapport-viability-financiere-2021>

<sup>52</sup> A province's long-term deficit represents its fiscal gap and long-term real GDP growth projections

<sup>53</sup> <https://www.princeedwardisland.ca/fr/information/finances/gross-domestic-product-gdp-by-income-and-expenditure>

This means that government spending in Prince Edward Island 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 Prince Edward Island 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.<sup>54 55 56</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>57</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 Prince Edward Island 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 Prince Edward Island's labour market

**Estimated savings: \$129.0M**

Salaries and wages have represented the largest line-item in the government of Prince Edward Island's budget over the past 5 years.<sup>58</sup>

**TABLE 6**

	2017	2018	2019	2020	2021
<b>Employee compensation</b>	\$788.1	\$810.3	\$839.0	\$886.6	\$941.4
<b>Total Consolidated Expenditures</b>	\$1,838.7	\$1,912.5	\$2,021.7	\$2,165.6	\$2,370.2
<b>Share of Total Consolidated Expenditures</b>	<b>42.9%</b>	<b>42.4%</b>	<b>41.5%</b>	<b>40.1%</b>	<b>39.7%</b>

Source: Government of Prince Edward Island, Department of Finance. All numbers in millions.

Last year, the province spent over \$941.4 million on employee compensation, representing nearly 83 per cent of what it collected via taxes.<sup>59</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 Prince Edward Island.

Prior to the pandemic, government employees enjoyed a 15.9 per cent wage premium over the rest of the labour market in Prince Edward Island, when adjusting for education.<sup>60</sup>

<sup>54</sup> <https://www.nber.org/system/files/chapters/c10973/c10973.pdf>

<sup>55</sup> <https://www.econstor.eu/dspace/bitstream/10419/106147/1/815406657.pdf>

<sup>56</sup> [https://www.mercatus.org/system/files/deRugy\\_RelativeEffects\\_v1.pdf](https://www.mercatus.org/system/files/deRugy_RelativeEffects_v1.pdf)

<sup>57</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)

<sup>58</sup> <https://www.princeedwardisland.ca/fr/sujet/previous-years-public-accounts>

<sup>59</sup> [https://www.princeedwardisland.ca/sites/default/files/publications/volume\\_1\\_2020-2021\\_web.pdf](https://www.princeedwardisland.ca/sites/default/files/publications/volume_1_2020-2021_web.pdf)

<sup>60</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&VID=0&VNAMEF=&VNAMEF=>

TABLE 7

	New Brunswick Labour Market	Composite Labour Market Adjusting for Education of Provincial Employees	Provincial Government Employees	Government Employee Premium
Average Employment Income	\$36,741	\$41,522	\$49,367	15.9%

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 72 per cent pension enrollment rate for all government employees in Prince Edward Island, compared to only 15 per cent of private sector workers<sup>61 62</sup>.

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, Prince Edward Island's pension funds have a combined actuarial pension liability of \$69.5 million<sup>63</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>64</sup>. While there is no direct compensation cost associated with them, they contribute to the discrepancy between government and private sector employees.

Given the province's long term financial unsustainability<sup>65</sup> and ever-increasing compensation costs, Prince Edward Island needs to look at its biggest line-item expense: employee compensation.

TABLE 8

	Total Employment (2020)	Registered Pension Plan Enrollment	Percentage of employees with Registered Pension Plans
Government Employees	21,900	15,838	72.32%
Private Sector Employees	43,700	6,561	15.01%

Source: Statistics Canada

<sup>61</sup> <https://www150.statcan.gc.ca/t1/tbl1/en/cv.action?pid=1110013301&fbclid=IwAR2pwHhk1uSgWqO2ufZRkqz6ZY53z8ZL1pEdaP0SOX6g-H9f0IGFYSPGT7o>

<sup>62</sup> <https://doi.org/10.25318/1410002701-eng>

<sup>63</sup> [https://www.princeedwardisland.ca/sites/default/files/publications/volume\\_1\\_2020-2021\\_web.pdf](https://www.princeedwardisland.ca/sites/default/files/publications/volume_1_2020-2021_web.pdf)

<sup>64</sup> <https://www.fraserinstitute.org/sites/default/files/comparing-govt-and-private-sector-compensation-in-canada-2020.pdf>

<sup>65</sup> <https://distribution-a617274656661637473.pbo-dpb.ca/93a1e3bc1b4432c0b2eac192241b866d36c048b5efc1aa8224e15364551f0c8e>

To bring government employee wages in line with private sector practices, the government of Prince Edward Island must implement a 13.7 per cent reduction in compensation costs.

This will reduce the estimated cost for government salaries and benefits from \$941.4 million to \$812.4 million,<sup>66</sup> saving Prince Edward Island taxpayers an estimated \$129.0 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 Prince Edward Island.

**TABLE 9**

	Current Costs	Projected Costs with Proposed Reductions
<b>Employee Benefits</b>	\$941.4	<b>\$812.4</b>
<b>Budgetary Savings:</b>		<b>\$129.0</b>

Source: Government of Prince Edward Island, Department of Finance. All numbers in millions.

## Divesting provincial golf courses to avoid further losses

### Estimated budgetary impact: At least \$250,000 in budgetary savings

The government of Prince Edward Island owns and operates three different golf courses, namely Brudenell, Dundarave and the Links at Crowbush Cove.<sup>67</sup>

For 2021-22, the province estimated it would spend nearly \$4.12 million on day-to-day operations of its golf course assets, while only recuperating \$2.65 million from green fees and other golf course revenues.<sup>68</sup> And while this year’s record losses are partially due to the pandemic, it has been a long time since the province’s golf courses were able to cover their operating costs, much less their capital costs.

Between 2015-16 and 2019-20<sup>69 70 71 72 73</sup> golf course operations have cost Island taxpayers over \$2.5 million more than they have brought in, losing hundreds of thousands of dollars systematically every single year.

While the golf industry in Canada has been struggling with low, sometimes negative profit margins in recent years, it’s important to note that Prince Edward Island’s golf courses have been faring noticeably better.<sup>74</sup> Despite the province’s golf industry’s healthy margins, provincial golf courses are a drag on taxpayers and lose money year after year. For comparative purposes, Prince Edward Island’s government operated golf course margins have also been added based on budget forecasts.

<sup>66</sup> [https://www.princeedwardisland.ca/sites/default/files/publications/volume\\_1\\_2020-2021\\_web.pdf](https://www.princeedwardisland.ca/sites/default/files/publications/volume_1_2020-2021_web.pdf)

<sup>67</sup> <https://www.princeedwardisland.ca/en/information/economic-development-and-tourism/provincial-golf-courses>

<sup>68</sup> [https://www.princeedwardisland.ca/sites/default/files/publications/2021\\_2022\\_estimates\\_of\\_revenue\\_and\\_expenditures.pdf#page=19](https://www.princeedwardisland.ca/sites/default/files/publications/2021_2022_estimates_of_revenue_and_expenditures.pdf#page=19)

<sup>69</sup> <https://www.princeedwardisland.ca/sites/default/files/publications/budget2016estimates.pdf>

<sup>70</sup> [https://www.princeedwardisland.ca/sites/default/files/publications/estimates2017\\_web.pdf](https://www.princeedwardisland.ca/sites/default/files/publications/estimates2017_web.pdf)

<sup>71</sup> [https://www.princeedwardisland.ca/sites/default/files/publications/2018\\_budget\\_estimates\\_consolidation.pdf](https://www.princeedwardisland.ca/sites/default/files/publications/2018_budget_estimates_consolidation.pdf)

<sup>72</sup> [https://www.princeedwardisland.ca/sites/default/files/publications/estimates\\_2019.pdf](https://www.princeedwardisland.ca/sites/default/files/publications/estimates_2019.pdf)

<sup>73</sup> [https://www.princeedwardisland.ca/sites/default/files/publications/budget\\_estimate\\_book\\_2020-2021\\_web.pdf](https://www.princeedwardisland.ca/sites/default/files/publications/budget_estimate_book_2020-2021_web.pdf)

<sup>74</sup> <https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=2110005701>

Given the recurring losses in golf course operations, especially compared to the industry's health in Prince Edward Island, the government should divest from its golf course assets and let local entrepreneurs operate golf businesses and contribute to the province's economy and the government's coffers.

Using conservative estimates, doing so would save Islanders over \$250,000 per year,<sup>75</sup> equivalent to the total provincial income taxes paid by 115 median Islanders.<sup>76</sup> It's important to note that this is a conservative estimate, using net expenditure figures from the 2019-20 budget year.

While only operational impacts have been considered as budgetary impacts in this prebudget submission, it's important to note that divesting provincial golf course assets would save Prince Edward Island a further \$2.5 million in capital expenditures<sup>77</sup> over the next five years. Proceeds from the sale of provincially owned golf course assets have also not been considered as part of this submission.

## Implementing a Sunshine List

### Estimated savings: unknown

Taxpayers have a right to know what their money pays for. It is with that in mind that a majority of Canadian provinces have implemented what is known as *sunshine lists*, cataloguing highly paid government employees in their jurisdiction.

In Ontario<sup>78</sup> for instance, the *sunshine list* publishes the names and salaries of every government employee paid \$100,000 or more. In New Brunswick,<sup>79</sup> the threshold is reached at \$60,000 per year, In Saskatchewan, it's \$50,000<sup>80</sup> and up. Only Quebec and Prince Edward Island don't publish such a list.<sup>81</sup>

To meet or surpass the standards of government transparency existing in the rest of the country, we ask the government of Prince Edward Island to implement a sunshine list and publicly divulge information on the province's highest-paid bureaucrats.

<sup>75</sup> [https://www.princeedwardisland.ca/sites/default/files/publications/budget\\_estimate\\_book\\_2020-2021\\_web.pdf](https://www.princeedwardisland.ca/sites/default/files/publications/budget_estimate_book_2020-2021_web.pdf)

<sup>76</sup> [https://www.princeedwardisland.ca/sites/default/files/publications/web\\_asr.pdf](https://www.princeedwardisland.ca/sites/default/files/publications/web_asr.pdf)

<sup>77</sup> [https://www.princeedwardisland.ca/sites/default/files/publications/2021\\_fall\\_capital\\_estimates.pdf](https://www.princeedwardisland.ca/sites/default/files/publications/2021_fall_capital_estimates.pdf)

<sup>78</sup> <https://www.ontario.ca/page/public-sector-salary-disclosure>

<sup>79</sup> <https://www2.gnb.ca/content/dam/gnb/Departments/tb-ct/pdf/OC/PA19Salaries.pdf>

<sup>80</sup> <https://www.saskatchewan.ca/government/news-and-media/2021/august/27/crown-sector-2020-21-payee-disclosure-report-submitted-today>

<sup>81</sup> <https://www.theglobeandmail.com/canada/article-sunshine-lists-have-helped-narrow-the-gender-pay-gap-but-ottawa-wont/>

## 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. Over the course of the last five years, spending in Prince Edward Island has gone up by \$626.8 million, or about 33 per cent.<sup>82 83 84</sup>

The savings identified thanks to this process led to \$9.8 billion in spending reductions, equivalent to 18.9 per cent<sup>86</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>87</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>88</sup>

**TABLE 10**

	2017-18	2018-19	2019-20	2020-21	2021-22 *Forecast
<b>Expenses</b>	<b>\$1,912.5</b>	<b>\$2,021.7</b>	<b>\$2,165.6</b>	<b>\$2,370.2</b>	<b>2,539.3</b>

Source: Government of Prince Edward Island, Department of Finance, all numbers in millions.

The savings also allowed for significant tax relief, such as GST reduction, business and personal income tax relief, and the establishment of TFSAs as a vehicle to boost household savings.<sup>89</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>85</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?

Prince Edward Island’s fiscal situation remains worrisome. The province carries a high debt load, has high tax rates and its current deficit shows no sign of going away in the long term.

As it stands, the province projects its debt to reach \$2.5 billion by the end of the year.<sup>90</sup> Interest payments on this debt will cost Islanders \$123.2 million this year,<sup>91</sup> despite record-low interest rates.

<sup>82</sup> <https://www.princeedwardisland.ca/fr/sujet/previous-years-public-accounts>

<sup>83</sup> [https://www.princeedwardisland.ca/sites/default/files/publications/volume\\_1\\_2020-2021\\_web.pdf](https://www.princeedwardisland.ca/sites/default/files/publications/volume_1_2020-2021_web.pdf)

<sup>84</sup> [https://www.princeedwardisland.ca/sites/default/files/publications/2021\\_fall\\_fiscal\\_and\\_economic\\_update.pdf](https://www.princeedwardisland.ca/sites/default/files/publications/2021_fall_fiscal_and_economic_update.pdf)

<sup>85</sup> [https://macdonaldlaurier.ca/files/pdf/MLI-Anglosphere-CanadaPaper\\_Web\\_F.pdf](https://macdonaldlaurier.ca/files/pdf/MLI-Anglosphere-CanadaPaper_Web_F.pdf)

<sup>86</sup> [https://macdonaldlaurier.ca/files/pdf/MLI-Anglosphere-CanadaPaper\\_Web\\_F.pdf](https://macdonaldlaurier.ca/files/pdf/MLI-Anglosphere-CanadaPaper_Web_F.pdf)

<sup>87</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>88</sup> [https://macdonaldlaurier.ca/files/pdf/MLI-Anglosphere-CanadaPaper\\_Web\\_F.pdf](https://macdonaldlaurier.ca/files/pdf/MLI-Anglosphere-CanadaPaper_Web_F.pdf)

<sup>89</sup> [https://macdonaldlaurier.ca/files/pdf/MLI-Anglosphere-CanadaPaper\\_Web\\_F.pdf](https://macdonaldlaurier.ca/files/pdf/MLI-Anglosphere-CanadaPaper_Web_F.pdf)

<sup>90</sup> [https://www.princeedwardisland.ca/sites/default/files/publications/2021\\_fall\\_fiscal\\_and\\_economic\\_update.pdf](https://www.princeedwardisland.ca/sites/default/files/publications/2021_fall_fiscal_and_economic_update.pdf)

<sup>91</sup> [https://www.princeedwardisland.ca/sites/default/files/publications/2021\\_fall\\_fiscal\\_and\\_economic\\_update.pdf](https://www.princeedwardisland.ca/sites/default/files/publications/2021_fall_fiscal_and_economic_update.pdf)

<sup>92</sup> <https://nationalpost.com/news/canada/canadas-unhinged-housing-market-captured-in-one-chart>

<sup>93</sup> <https://www.cp24.com/news/annual-inflation-rate-rises-to-4-7-per-cent-in-october-statistics-canada-says-1.5669615>

<sup>94</sup> [https://www.princeedwardisland.ca/sites/default/files/publications/volume\\_1\\_2020-2021\\_web.pdf](https://www.princeedwardisland.ca/sites/default/files/publications/volume_1_2020-2021_web.pdf)

With an overheated housing market<sup>92</sup> and inflation at decades-high,<sup>93</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 \$3.5 billion gross debt,<sup>94</sup> an increase of one percentage point in interest rates would lead its debt service tab to increase by \$35.2 million.

The Parliamentary Budget Officer's projections are far bleaker, expecting the province's annual interest payments to double by 2042<sup>95</sup> unless the province takes action and makes its finances sustainable in the long run.

The government of Prince Edward Island 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 \$360.3 million<sup>96</sup> long term deficit.

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<sup>92</sup> <https://nationalpost.com/news/canada/canadas-unhinged-housing-market-captured-in-one-chart>

<sup>93</sup> <https://www.cp24.com/news/annual-inflation-rate-rises-to-4-7-per-cent-in-october-statistics-canada-says-1.5669615>

<sup>94</sup> [https://www.princeedwardisland.ca/sites/default/files/publications/volume\\_1\\_2020-2021\\_web.pdf](https://www.princeedwardisland.ca/sites/default/files/publications/volume_1_2020-2021_web.pdf)

<sup>95</sup> <https://www.pbo-dpb.gc.ca/en/blog/news/RP-2122-010-S-fiscal-sustainability-report-2021--rapport-viabilite-financiere-2021>

<sup>96</sup> <https://www.pbo-dpb.gc.ca/en/blog/news/RP-2122-010-S-fiscal-sustainability-report-2021--rapport-viabilite-financiere-2021>



# Conclusion

Prince Edward Island's fiscal situation remains a cause for concern. Rising debt and a \$360 million gap<sup>97</sup> between current spending levels and sustainable spending levels means Islanders will have to make tough choices in the coming years. The earlier the government makes those decisions, the lesser the impact will be.

Given the fact employee compensation accounts for nearly 40 cents<sup>98</sup> out of every dollar the government of Prince Edward Island spends, reductions in employee compensation will be necessary to address this gap. Eliminating the compensation gap between private sector Islanders and those working for the provincial government would be a good place to start.

It is also clear the government is not in a position to continue to spend taxpayer dollars on money-losing programs. Provincially owned and operated golf will cost taxpayers an estimated \$1.5 million this year alone.<sup>99</sup> While a conservative estimate pegs direct budgetary savings to be \$250,000 for the 2022-23 financial year,<sup>100</sup> it's important to note that divesting from provincial golf course assets would save Prince Edward Island a further \$2.5 million<sup>101</sup> in capital expenditures over the next five years.

To address its long-term deficit, Prince Edward Island 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.

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

Prince Edward Island is one of only three provinces that fail to index all income tax rates to inflation. This leads to a situation where families are faced with a tax hike year after year, even if their incomes haven't actually grown. As the cost of living is increasing fast in the province and families have to make tough choices as a result, we recommend that the government index tax brackets to inflation starting in the coming fiscal year.

Overall, the proposed measures will put \$91.6 million back in Islanders pockets and help save \$178.7 million in government operations. This would ameliorate the province's fiscal situation by \$87.1 million.

<sup>97</sup> <https://www.pbo-dpb.gc.ca/en/blog/news/RP-2122-010-S-fiscal-sustainability-report-2021-rapport-viabilite-financiere-2021>

<sup>98</sup> [https://www.princeedwardisland.ca/sites/default/files/publications/volume\\_1\\_2020-2021\\_web.pdf](https://www.princeedwardisland.ca/sites/default/files/publications/volume_1_2020-2021_web.pdf)

<sup>99</sup> [https://www.princeedwardisland.ca/sites/default/files/publications/2021\\_2022\\_estimates\\_of\\_revenue\\_and\\_expenditures.pdf#page=19](https://www.princeedwardisland.ca/sites/default/files/publications/2021_2022_estimates_of_revenue_and_expenditures.pdf#page=19)

<sup>100</sup> [https://www.princeedwardisland.ca/sites/default/files/publications/budget\\_estimate\\_book\\_2020-2021\\_web.pdf](https://www.princeedwardisland.ca/sites/default/files/publications/budget_estimate_book_2020-2021_web.pdf)

<sup>101</sup> [https://www.princeedwardisland.ca/sites/default/files/publications/2021\\_fall\\_capital\\_estimates.pdf](https://www.princeedwardisland.ca/sites/default/files/publications/2021_fall_capital_estimates.pdf)