

Newfoundland and Labrador Federation of  
Labour



Submission to The Hon. Ross Wiseman,  
Minister of Finance

2015 Provincial Pre-Budget Consultations  
March 6<sup>th</sup> 2015

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## Introduction

The Newfoundland and Labrador Federation of Labour (NLFL) represents 25 affiliated unions, 500 union locals and 65,000 working women and men in every sector of our economy, in every community in our Province.

For 75 years, we have worked to advance the rights of working people. We advocate for them on issues such as occupational health and safety and workers compensation, retirement security, equality, pay equity, childcare, labour standards and worker rights.

The Federation also advocates for improved public services (such as healthcare and education), as well as public policy and laws that support our principles of social and economic justice – including the overall wellbeing and welfare of all citizens. We are pleased to make this submission to the Minister of Finance on some of key issues of importance to workers and their families.

Although our province is dealing with a downturn in natural resource based commodity prices, we can and should still focus on a strong public sector, public services, as well as sound economic policies the place our province at the forefront within Canada as the place to live, work and raise a family.

We would like to acknowledge this government for stating its intention to look at the revenue side of the equation in how we address our fiscal situation. We contend that it is not spending that caused this deficit situation, and as we have seen in past budgets here and elsewhere, slashing public spending in the face of an economic downturn does not achieve the desired results; in fact it has the effect of prolonging economic recovery.

Our hope for this budget is that government makes sound decisions based on a long term vision, looks past austerity based measures that have proven

damaging in the past and avoids courses of action that are reactionary, short-sighted and based on the short term volatility of commodity prices.

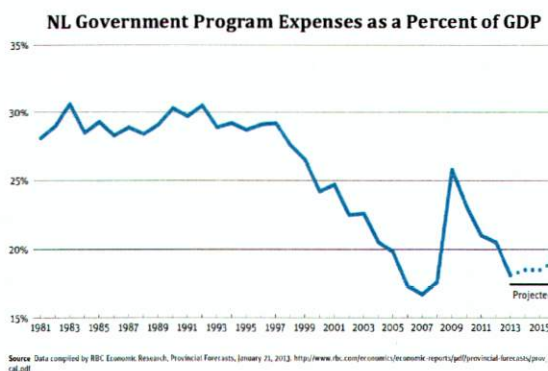
Most of all, we want to see a budget and vision that will help build a more inclusive NL – a place where no one gets left behind. There is an opportunity for this government to show true leadership in the face of adversity and put the people of this province first.

## Austerity Is Not the Answer

Based on past experience both here and internationally, it has been shown that in times of recession and economic slowdown, the strategy of government should be to avoid fiscal policy steeped in austerity that leads to a sharp decline in public sector spending and job cuts. It has been proven that cutting public spending and services only contributes to an already significant problem.

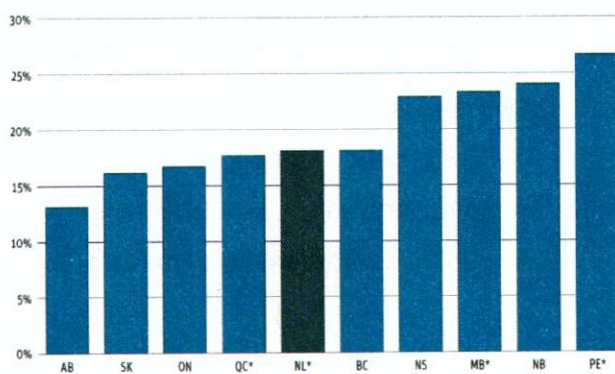
When the private sector cuts back on capital investment and hiring in an economic slowdown, and government follows a similar path – it creates an economy that produces greater debt, higher inequality, slow or negative GDP growth and declining demand. The Conference Board of Canada, International Monetary Fund, and TD Bank among others have recently stated this. In times of slowdown, it is the public sector that needs to carry the heavy load of helping to maintain economic stability. In times of prosperity, the private sector is usually the one that helps generate economic growth, through high capital investment, spending and job creation. If a government wishes to save money, it is best to adopt such a strategy in times of prosperity when the economy is healthier.

We cannot understate the role of the public sector in times like these, and when austerity measures are implemented – it is those less fortunate that bear the brunt of the impacts, not the wealthy and large corporations. The impact of austerity in a small open economy such as ours with a large rural population can be devastating. The public sector is the stability that the economy requires to ride out economic slowdowns such as these and help sustain a strong middle class.



Our research on the provincial economy and expenditure trends over the past decade relative to other provincial jurisdictions shows our province measures up quite well on a broad range of economic indicators such as GDP growth; the fall in the provincial debt —

Provincial Government Program Expenses as a Percent of GDP 2013/14



both absolute and as a percentage of GDP; the rise in employment; the increase in tangible capital infrastructure; and in the overall dramatic rise in residential construction. When you look at public sector expenditures relative to the size of our economy, we also fare well when compared to other provinces. In fact we are in the middle when it comes to public spending compared to other provinces when measured as a percentage of GDP. In Newfoundland and Labrador (NL), government expenditures have fallen from 30% of GDP in the 1990s to 18% in 2013. Also, compared to other provinces NL is square in the middle of the pack for spending relative to GDP.

It is crucial that we factor in that delivering services in NL costs more due to factors such as an older population, a large geography with more rural population, inflation and higher rates of unemployment and poverty. It is also important that we avoid measuring public spending on a per capita basis. Two key factors, declining population and higher rural populations as a percentage of total population render such comparisons ineffective. In fact it is the same argument that the provincial government has used with the federal government in disputing the new funding formula for the Canadian Health Transfer, which will be allocated on a per capita basis commencing in this fiscal year.

Research has shown that public sector cuts do not work and do not deliver the results that government expects. Spending is not the issue in our economy. The

issue is that we need more revenue, revenue that we have relinquished through tax cuts, our taxation structure and our failure to capture extraordinary profits from resource extraction when commodity prices peaked.

**Recommendation #1**

The NL Government should avoid any type of austerity program as a means to solve the current budget deficit and use continued investments in the public sector to sustain and stabilize the provincial economy until commodity prices rebound.

## The Conversation Needs To Include The Revenue Side Of The Equation

As this Government begins to put policies in place to mitigate the impacts that temporary market shifts in commodity prices bring, they must consider the revenue side of the equation and how to increase revenues that contribute to long-term stability and economic equality.

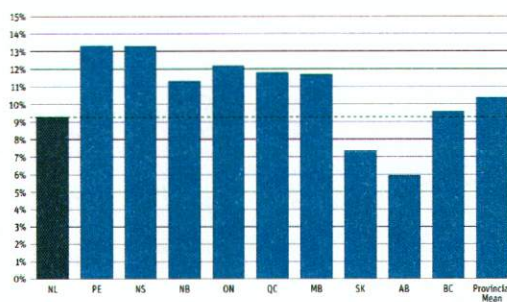
### Taxation

Progressive taxation is one that NL has avoided for too long. The fact that we exchanged our budget surpluses for tax cuts is now going to come home to roost. We need to restore the capacity of our tax system to contribute at a level that is at least, more in line with the Canadian average, with the intention of restoring our tax rates to be more in line with other provincial jurisdictions and based on the ability to pay.

Taxes help pay for and maintain a high level of public services for all Newfoundlanders and Labradorians. It also is the most efficient and equitable way to share prosperity. To use tax cuts disproportionately benefits the top of the wealth scale, increases income inequality and slows down the economy

In 2012, NL tax revenue as a percentage of GDP was lower than all provinces except Alberta and Saskatchewan. This points to the fact that there is considerable room to increase taxes. If the province collected the percentage of GDP at the level of the Canadian average, it would have brought in over \$3.5 billion in 2012. As it stands, NL collected \$3.1 billion. Just by moving to the average ratio of revenue to GDP of the other provinces, we could have realized

Total Tax Revenue as a percent of Provincial GDP (2012)



Source: Total Tax revenue, provincial budget documents; Gross Domestic Product, expenditure based Statistics Canada, Cansim Table 386-0098



\$400 million more in revenue. Our personal income tax rates have been declining since 2007. According to the government's 2012 Budget estimates, over a three-year period, the cumulative cost of combined personal and other tax cuts for Newfoundlanders and Labradorians exceeded three-quarters of a billion dollars.

We are also one of four provinces who only have three tax brackets – and of these provinces we have the lowest rate of tax at the top level. If you make \$70,000 per year in

#### NL income tax rates in 2011:

- 0% on the first \$7,989 of taxable income
- 7.7% on the next \$23,914, +
- 12.5% on the next \$31,903, +
- 13.3% on the amount over \$63,807

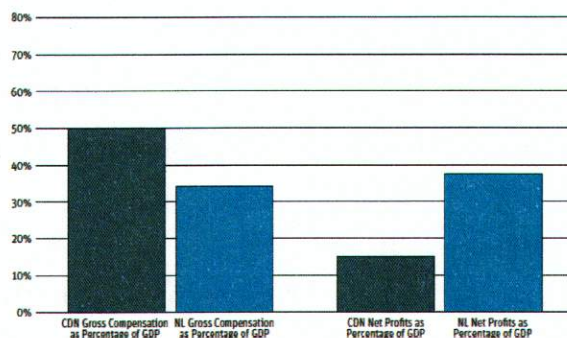
#### NL income tax rates in 2006 (in 2011 dollars)

- 0% on the first \$8,146 of taxable
- 10.57% on the next \$24,384, +
- 16.16% on the next \$32,530, +
- 18.02% on the amount over \$65,060
- Plus a 9% surtax on taxes over \$7,731

NL, you pay the same tax rate as someone who makes \$700,000 or more. If we implemented another tax bracket for higher income earners taxed at a higher rate, it would make our tax system more progressive and bring us into line with other jurisdictions.

### Resource Rents

As a Jurisdiction so dependent on resource rents and also subject to the volatility of natural resource demand, it is critical that we maximize the benefits that are derived from non-renewable resources and use them to help sustain our province and its communities in the long term.



Source: CANSIM Table 384-0037: Gross domestic product, income-based, provincial and territorial, annual (dollars=1,000,000)

When compared to GDP, allocation of profits and wages as a percentage of GDP make NL a very attractive jurisdiction to conduct business, especially for a multi-national corporation. Statistics Canada data shows that when the pie is shared corporations get to keep more and workers get less than the Canadian average. According to the Natural Resource Governance Institute, when it comes to fiscal

agreements pertaining to resource rents, the following core features should be present:

“While there can be no “one-size-fits-all” fiscal regime appropriate for every country, fiscal regimes should generally have certain core features.

- Gross income-based, royalty-type fiscal tools ensure that states directly share in the value of their resource endowments and assure governments a baseline level of revenues throughout production.
- Flexible fiscal tools that are robust to changing economic circumstances enable states to share in windfalls, and are more credible than overly rigid contractually stabilized fiscal regimes.”<sup>1</sup>

For those reasons alone we need to look at how we maximize the benefits from our resources and ensure that we are getting our fair share. Other jurisdictions have implemented mechanisms to capture windfall profits when commodity prices are high ensuring that the benefits from resource extraction are not only maximized, but remain here and are invested in the local economy. Government needs to look at how we capture resource rent and how we ensure that we are getting our fair share, especially when commodity prices experience extraordinary increases.

### **Recommendation #2**

Government should restore personal income tax rates back to 2008 levels and also add an additional income tax bracket for high-income earners.

### **Recommendation #3**

Government should consider measures that can capture a larger share of resource rents when commodity prices increase past a certain value.

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<sup>1</sup> Comments on IMF Taxation of Natural Resource Rents Paper Revenue Watch, April 2012, <https://www.imf.org/external/np/exr/consult/2012/NR/pdf/Comment16B.pdf>

## Cuts to Public Sector / Services are not the Answer

Strong public services help build and sustain an economy, especially in times of economic slowdown. During periods where the economy slows down and the private sector begins to cut spending, hold back capital investment and shed jobs, it is the role of the public sector to sustain and stabilize the economy, and not compound an already difficult situation. A knee jerk response to cut the public sector as a means to lowering the current deficit is both shortsighted and damaging.

The direct, indirect and induced impacts of of public sector investments cannot be understated, (research shows that public sector spending creates up to 20 times more jobs per dollar invested than oil and gas extraction and twice as many jobs as tax cuts), especially in times when the private sector is retreating. These investments sustain and create employment, support regional economies, allow businesses to operate and sustain communities.

The delivery of public services in NL is both challenging and important, moreso with an aging demographic and a small population spread out over a large geography. The delivery of these services comes with additional costs compared to densely populated urban areas.

We support government's opposition to public private partnerships (P3's). The recent experience in Ontario through Infrastructure Ontario as communicated by the Ontario Auditor General found that the province could have experienced savings of \$8 billion over 73 P3 projects constructed over the past decade.

“For 74 projects that were either completed or under way under Infrastructure Ontario, tangible costs, such as construction, finance and professional services, were estimated to be nearly \$8 billion higher under the Alternative Financing and Procurement (AFP) approach than they were estimated to have been if the projects had been delivered by the

public sector,” Lasik said following the release of the Report. “About \$6.5 billion of this is due to higher private-sector financing costs.”<sup>2</sup>

A major component of a robust sustainable economy is a strong vibrant public sector. Enhanced and adequate funding to areas such as the non-profit community sector, health care, (including home / elder care), improved low income drug plan all are part of creating a strong public sector that benefits everyone.

#### **Recommendation #4**

Government should not use cuts to public sector investment or employment as a means to offset the deficit. In fact we should maintain or even enhance public investment as a means of stabilizing and supporting the provincial economy.

#### **Recommendation #5**

Government should avoid outright, adopting public private partnerships as a means of financing public infrastructure, maintaining our long-standing record of retaining ownership of public assets while using private construction firms to build.

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<sup>2</sup> News Release – “Public-private Infrastructure Projects Can Be Expensive, Auditor General Says”. December 9, 2014. [http://www.auditor.on.ca/en/news\\_en/14\\_newsreleases/2014news\\_3.05.pdf](http://www.auditor.on.ca/en/news_en/14_newsreleases/2014news_3.05.pdf)

## Continued Investment in our Social Infrastructure

Although as a province we have seen a marked increase in social investments across a broad range of sectors, we also realize from experience that when government is looking to save money or withdraw services, the social component of public investment is usually the first targeted; and given their relative size, it is where the impact is most felt. It is critical at this juncture in our economic growth that we not begin to backtrack on these investments or the important work of many community based non-profit organizations that represent women, people with disabilities, the homeless, those living in poverty, youth and other marginalized groups.

Women are disproportionately affected in bad economic times (lower paying jobs, lack of childcare, and the increase in domestic violence where jobs are lost). When government clearly states that we are in challenging economic times, they should shore up funding to community-based women's organizations, which provide the bulk of violence prevention and intervention work, as a mitigating factor, and allow them to continue to support the needs of their communities. Continued cuts to women's led organizations are in them selves a pervasive form of violence against women. It is time that we recognize and redress the fact that diminished or no access to basic services because of chronic underfunding places women's lives – and by extension their children and communities – at risk.

The negative outcomes of increased prosperity necessitate sustained or increased support for those who are more economically vulnerable and who struggle to make ends meet in a growing economy. In addition, we need social investments in the areas of early childhood education, childcare, mental health, access to post secondary education and immigration. These would include initiatives / organizations that focus on issues related to poverty reduction as well as violence prevention initiatives. Tough economic times are not a signal to cut

funding to such groups. In fact their services are more in demand during such times.

**Recommendation #6**

Reinstate the Family Violence Intervention Court and strengthen the support provided to community organizations that are focused on poverty reduction, violence prevention initiatives and issues related to addressing gender inequality.

## Investments in Youth and Immigration

If NL hopes to retain and attract young workers, young families and immigrants, access to high quality affordable post secondary education is key. Providing young families with the ability to enter the labour market and not have to bring staggering debt with them is a great advantage. We applaud the decision of government in this area. Tuitions costs in NL have remained the lowest in the country, allowing for greater access to a quality education for our young people. It has also become a great tool for attracting students from across the country and internationally, which provides a greater opportunity to retain them as residents.

	<b>2013/14 (final)</b>	<b>2014/15, (P)</b>	<b>2013/14 to 2014/15</b>
	Current dollars		% Change
<b>Canada</b>	<b>5,767</b>	<b>5,959</b>	<b>3.3</b>
<b>NL</b>	<b>2,631</b>	<b>2,631</b>	<b>0.0</b>
PE	5,688	5,857	3.0
NS	6,215	6,440	3.6
NB	6,112	6,324	3.5
PQ	2,657	2,743	3.2
ON	7,257	7,539	3.9
MB	3,790	3,887	2.6
SK	6,402	6,659	4.0
AB	5,675	5,730	1.0
BC	5,018	5,118	2.0

Statistics Canada: The Daily, Thursday, September 11, 2014  
(P=preliminary)

In our recent report entitled “*Great Expectations Opportunities and Challenges for Young Workers in Newfoundland and Labrador*” one of the key recommendations stated:

“The 2009 Youth Retention and Attraction Strategy should be revisited and updated, so as to inform the development of policies and programs. A gender analysis and one that pays attention to the diversity of workers’ needs should figure prominently in future strategies to address youth retention and attraction. The province can build on strategies focused on the provision of affordable child care, and other family-friendly policies, programs and services, as well as on affordable housing, all of which help address quality of life and cost of living issues facing youth in NL.”<sup>3</sup>

<sup>3</sup> Deatra Walsh, with Mary-Dan Johnston and Christine Saulnier; *Great Expectations Opportunities and Challenges for Young Workers in Newfoundland and Labrador*. (Ottawa: Canadian Centre for Policy Alternatives, 2014)  
[https://www.policyalternatives.ca/sites/default/files/uploads/publications/National%20Office%2C%20Nova%20Scotia%20Office/2015/01/Great\\_Expectations\\_Nfl.pdf](https://www.policyalternatives.ca/sites/default/files/uploads/publications/National%20Office%2C%20Nova%20Scotia%20Office/2015/01/Great_Expectations_Nfl.pdf)

In addition one of the key ideas put forth to complement the above recommendation and enhance outcomes around youth attraction and retention included:

**“Progressively reduce and eventually eliminate all tuition fees** (including ancillary fees) for all students (both domestic and international) at public post-secondary institutions in Newfoundland and Labrador. At the same time, expand the current needs-based grants system until a full system of grants is restored.”<sup>4</sup>

#### **Recommendation #7**

Maintain the current tuition fee freeze and needs-based grant system. Increase efforts and investments to attract and retain youth and immigrants.

#### **Recommendation #8**

The NL Government must reprioritize action on youth retention and attraction, which must include meaningful youth engagement.

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<sup>4</sup> *Ibid*



## Investing in Childcare and Early Childhood Education

Newfoundland and Labrador has long debated the merits of investing in public childcare and early childhood education. We have done plenty to position our province as a great choice for investment and have implemented all of the standard measures that attract business. But now we need to invest in families. If we want our province to be one of choice for young workers and families to live and work – we will need to ensure that we have a full suite of social programs, one of which will have to be publically funded, accessible and regulated childcare.

Major public policy strategies currently under development such as population growth and workforce development will be wasted efforts if we cannot demonstrate our commitment to being at the forefront of family friendly policies in the country. This is an investment we need to make now – and it not only will benefit children and families but will also bring the following benefits:

- Greater participation rates for women in the labour market;
- Increased economic activity;
- Increased Workplace productivity; and
- Enhanced women's equality

The cost of not doing this is significant and will have lasting impacts. We need to move towards a system that is public, affordable, and accessible. It would also send a positive message not only to Newfoundlanders and Labradorians, but also to the rest of the country. Full day kindergarten combined with a progressive child care strategy would solidify NL's position within the Federation as a premier destination for young workers and their families.

### **Recommendation #9**

The NLFL recommends a strategic investment in building a public, affordable, and accessible childcare system. One that meets the needs of families and children, and puts us at the forefront of family friendly jurisdictions in Canada.

## Conclusion

Our province has used the natural resource wealth we have generated in the past decade to create a very business friendly environment. We have the lowest taxation in Atlantic Canada. Corporate profits as a percentage of GDP have never been better. The current downward slump in commodity prices cannot be brought to bear on the citizens of NL or public sector workers. We have learned through past experiences that wage cuts, job losses in the public sector and higher unemployment do not offset conditions brought about by commodity prices. Implementing measures of severe fiscal restraint will not solve our budget issues but will exasperate economic inequality.

This budget should be focused on long-term measures that don't create a negative economic spiral in the short-term. In this situation austerity measures actually produce the effects that they are intended to remedy.

Now is the time for bold investments in people and families. We believe government should make those important social investments to ensure everyone benefits from this prosperity, that no one gets left behind and that we have the strong social programs to ensure that it happens. If we do not make these investments now – the previous investments to ensure the economic side of the equation flourishes will be wasted.

## Summary of Recommendations

1. The NL Government should avoid any type of austerity program as a means to solve the current budget deficit and use continued investments in the public sector to sustain and stabilize the provincial economy until commodity prices rebound.
2. Government should restore personal income tax rates back to 2008 rates and also add an additional income tax bracket for high-income earners.
3. Government should consider measures that can capture a larger share of resource rents when commodity prices increase past a certain value.
4. Government should not use cuts to public sector investment or employment as a means to offset the deficit. In fact we should maintain or even enhance public investment as a means of stabilizing and supporting the provincial economy.
5. Government should avoid outright adopting public private partnerships as a means of financing public infrastructure, maintaining our long standing record of retaining ownership of public assets while using private construction firms to build.
6. Reinstate the Family Violence Intervention Court and strengthen the support provided to community organizations that are focused on poverty reduction, violence prevention initiatives and issues related to addressing gender inequality.
7. Maintain the current tuition fee freeze and needs-based grant system. Increase efforts and investments to attract and retain youth and immigrants.
8. The NL Government must reprioritize action on youth retention and attraction, which must include meaningful youth engagement.
9. The NLFL recommends a strategic investment in building a public, affordable, and accessible childcare system. One that meets the needs of families and children, and puts us at the forefront of family friendly jurisdictions in Canada.

## **Notes and Reference for Charts**

Diana Gibson and Greg Flanagan, Prosperity for All: An Alternative Economic Path for Newfoundland and Labrador (CCPA, 2013)

Diana Gibson and Greg Flanagan, Newfoundland and Labrador Options for a Strong Economy (CCPA, 2014)