

**Newfoundland and Labrador  
Federation of Labour**



**Budget 2020 Submission:  
Stronger Revenues and Economic Growth**

**January 2020**

January 31<sup>st</sup>, 2020

Minister of Finance  
c/o Pre-Budget 2020  
Department of Finance  
P.O. Box 8700  
East Block Confederation Building  
St. John's, NL  
A1B 4J6

Sent by Email to: Budget2020@gov.nl.ca

Dear Minister,

**Re: 2020 Provincial Budget Submission**

The Newfoundland and Labrador Federation of Labour (NLFL) thanks the Government of NL for consulting with the public and for the opportunity to provide our input to the 2020 provincial budget.

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## **About the Newfoundland and Labrador Federation of Labour**

The Newfoundland and Labrador Federation of Labour (NLFL) has a proud history of representing the interests of union members and workers since 1936. The Federation of Labour is made up of some 25 affiliated unions, 500 locals and four District Labour Councils. We represent more than 70,000 members from every sector of our economy and from every community in our province.

The NLFL is dedicated to advancing the cause of working people and promoting a progressive civil society where no one gets left behind. We advocate for improved workplace rights and stronger laws including occupational, health and safety laws as well as workers' compensation and Employment Insurance programs that are fair and there when people need them.

We fight for better labour laws and strong, accessible public services such as universal health care, education, worker training, elder/home care, childcare and early learning. We stand up for the principles of equality, equity and social justice and we work with our affiliate unions and social partners to build a better world for all citizens.

## **Consultation Improvements**

We commend the government for its ongoing commitment to consulting the public and stakeholders about provincial budgets. We want the consultations to be effective in engaging the public and getting thoughtful input.

As noted in our January 14th letter (attached in appendix A), we are concerned about some of the methods used for the consultations and we would like to suggest some improvements.

### **The Online Survey**

The online survey ("feedback form"<sup>1</sup>) is important for public input; people will be drawn to it because it is easier than preparing a written submission, and everyone has busy lives.

The problem is the online survey is mainly focused on spending cuts. This is unacceptable.

"Anchoring" is a bias that is well-known in survey design and in many other fields, including psychology, behavioural economics, marketing and negotiations.<sup>2</sup> The first item that engages

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<sup>1</sup> <https://www.engagenl.ca/content/2020-pre-budget-feedback-form>

<sup>2</sup> An introductory blurb on Wikipedia: "Anchoring or focalism is a cognitive bias where an individual depends too heavily on an initial piece of information offered (considered to be the "anchor") when

people tends to influence their minds in relation to later items. In the online survey, anchoring on spending cuts makes the respondent more prone to think about cuts later in the online survey and in other conversations about the budget.

The online survey's requirement to choose where to target spending cuts to support comes before discussion of alternative revenue streams (own-source or transfer) that would help to balance the budget. And it comes without any discussion of the potential for economic growth to increase revenues without spending cuts or tax increases.

A well-designed survey intended to obtain opinions without influencing would have started out with a non-biasing option. For example, the first question could have been choosing among the broader set of options - spending cuts, tax increases, negotiated transfers and economic growth to drive higher revenues, or it could have been an open-ended question.

## **The Negative Impacts of Spending Cuts**

Anchoring on spending cuts is doubly problematic because of the many negative impacts from cuts.

Spending cuts - whether directly or through privatization and P3s - would mean:

- lost jobs;
- worse services for Newfoundlanders and Labradorians;
- more families depending on unemployment insurance and food banks;
- losses to small businesses who depend on the spending of those families;
- a smaller tax base and reduced tax revenue; and
- heavier demand for public services and social assistance.

We support the government's clearly-stated and ongoing rejection of deep public spending cuts and austerity. Deep cuts would shock the economy (and thereby undermine tax revenues).

However, we are concerned about the death by a thousand cuts - small, continued cuts that, over time, add up to major cuts.

This province cannot afford the impacts of more cuts. We need a strong economy, good services for our people and a large tax base.

In light of this biasing of the online survey toward cuts, we also note question 3a, which is supposed to elicit input on potential spending on new programs or services or improvements to existing ones. Despite that stated intent, it actually lists tax cuts as the first two options.

Now, while tax cuts have a similar overall fiscal effect as spending, it is rare that tax cuts are described in mainstream media or government communications as a type of spending. And

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making decisions." See more, at <https://en.wikipedia.org/wiki/Anchoring>. There are numerous articles and books written on anchoring and other biases.

they definitely are not “new programs or services or improvements to existing ones.” Finally, the government’s own Independent Tax Review Committee concluded that the provincial government is “not in a position to reduce taxes significantly.” Including tax cuts in a list of spending items - and at the top of the list - is very questionable.

## **Tight Timeline**

The consultation did not provide sufficient time for average citizens or citizen groups to learn about the subject matter and properly engage. Organizations that expect to engage in budget processes will be able to provide submissions. Some others, such as individuals and organizations that engage less often, may not have sufficient time. The current process only allowed for slightly more than three weeks.

Often people will have limited availability during such a short window, due to vacations, illness or other commitments. This places people and organizations with less experience engaging in budget consultations at a distinct disadvantage, which biases the participation and the results of the consultation.

In our January 14<sup>th</sup> letter, we asked for the consultation period to be extended in order to fix this flaw and enable better engagement with citizens.

We urge the government to commence future budget consultations in the fall and provide several weeks for citizens to review the government’s direction, consult other sources of information, develop their own thinking and provide their thoughts to government. Not everyone will be able to do so, but everyone should be given a good opportunity.

## **Manner of Engagement**

Finally, the overall format of the consultations could be improved. The process seems not to be designed to actually seek meaningful engagement by members of the public.

As noted above, the online survey itself is biased toward spending cuts and places tax cuts in the foreground of a discussion about new spending options. The in-person sessions of previous consultations tend to be flawed, with little real opportunity for engagement and lack of clarity on whether input received has been considered; NLFL staff have attended them for many years, and we have made similar observations in the past.<sup>3</sup>

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<sup>3</sup> See also The Telegram, "NL Federation of Labour calling for budget consultation reform" Feb 2, 2017. <https://www.thetelegram.com/news/local/nl-federation-of-labour-calling-for-budget-consultation-reform-24589/>

Because of the bias built into the online survey and other consultation problems, we respectfully asked in our January 14<sup>th</sup> letter:

- that you redesign the online survey and the questions for the in-person sessions;
- that responses to the existing online survey be either disposed of, or marked as biased and treated and reported separately from other input; and
- that the consultation process be extended.

Again, we commend the government for its ongoing commitment to consultations, and we provide these observations and requests in the spirit of making those consultations more effective, and their results valid.

## **Fix the Revenue Problem(s)**

The government has a debt and deficit problem. This became very obvious when the global price of oil crashed in 2015, but it had its roots earlier.

As this government has pointed out, tax cuts of the previous government were “not sustainable.”<sup>4</sup> The revenue shortfall caused by those cuts pushed the provincial budget into deficit even when oil was at \$100 per barrel, and it hasn’t recovered since. Those tax cuts created several billions of dollars of provincial debt, and hundreds of millions in annual deficits<sup>5</sup> that continue to this day.

For too long we have allowed tax breaks we simply can’t afford, and we continue to provide high-income individuals tax breaks. This is not progressive taxation.

The best way to fix the debt and deficit problem is to fix the revenue problems - increase revenues substantially.

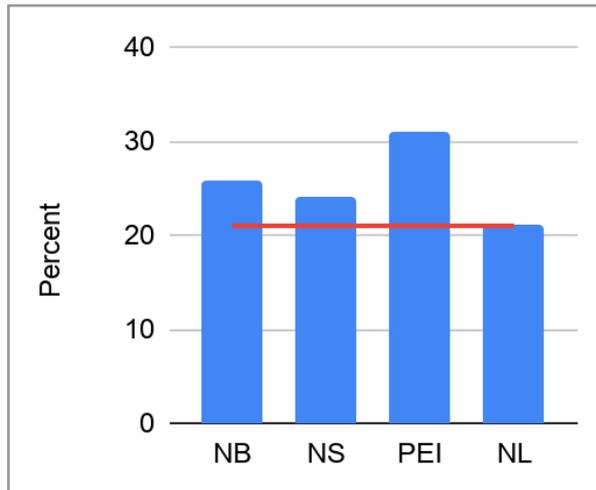
Provincial revenues per GDP are the lowest in Atlantic Canada (see figure 1). Changing the revenue system to reach just the average would result in an extra \$1 billion per year - enough to balance the budget.

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<sup>4</sup> Government of Newfoundland and Labrador, "Budget Action," 2016, <https://www.budget.gov.nl.ca/budget2016/highlights/revenueaction.pdf>.

<sup>5</sup> Then-Finance Minister Johnson put the annual cost at \$600 million in the 2014 budget speech Charlene Johnson, Minister of Finance, Budget Speech 2014. p11 [https://www.budget.gov.nl.ca/budget2014/speech/budget\\_Speech\\_2014.pdf](https://www.budget.gov.nl.ca/budget2014/speech/budget_Speech_2014.pdf).

**Figure 1 - Provincial revenue / GDP lowest<sup>6</sup>**



Also, the province still depends heavily on revenues from the sale of non-renewable resources, which are highly variable and undependable.

### **Progressive Reform of Revenue Sources**

The government has correctly noted that taxes are more dependable than natural resource revenues. They are needed for reliability in funding hospitals, schools, roads, police, firefighters, etc. As the saying goes, taxes are the price of civilization.

We also need to be maximizing revenues from the sale of our non-renewable resources.

We urge the government to avoid increasing taxes on the majority of people who are struggling with the cost of living - middle and lower income people. However, there is room to increase some tax rates in the short term.

The rate for the **highest personal income bracket** is significantly below the Atlantic average. This rate could be raised to the Atlantic average, or to the population-weighted Atlantic average, which is higher. This province has the highest level of after-tax income inequality in Atlantic Canada. Rich people can afford to pay more.

- If you earn \$161,000 in New Brunswick you will be taxed at 20.3%.
- In Nova Scotia you will be taxed at 21%.
- In Newfoundland and Labrador you are taxed at 17.3%.<sup>7</sup>

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<sup>6</sup> RBC Economics "Canadian Federal and Provincial Fiscal Tables" Jan 14, 2020 [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), also Financial Accountability Office of Ontario, "Comparing Ontario's Fiscal Position with Other Provinces" Feb 14, 2019 <https://www.fao-on.org/en/Blog/Publications/inter-prov-comparisons-feb-2019>.

<sup>7</sup> These and following tax rate figures from KPMG Federal and Provincial/Territorial Income Tax Rates and Brackets for 2020 <https://home.kpmg/content/dam/kpmg/ca/pdf/2020/01/federal-and-provincial-territorial-income-tax-rates-and-brackets-for-2020.pdf>; and Government of Canada, "Canadian income tax rates for individuals - current and previous years" <https://www.canada.ca/en/revenue->

This is outrageous. This considerable discrepancy needs to be fixed immediately. It is time for progressive taxation whereby those who can, contribute more for the services we all benefit from:

- Newfoundland and Labrador's highest tax bracket of 18.3 does not take effect until one's earnings are \$189,605 or greater.
- New Brunswick's highest tax rate is 20.3 and starts at \$160,777.
- Nova Scotia's highest tax rate is the region's highest at 21% and yet it is for incomes \$150,001 and higher.

Where would Newfoundland and Labrador be if it adopted the Nova Scotia tax regime?

Both New Brunswick and Nova Scotia have larger populations, 780,021 and 976,768 respectively, when compared to Newfoundland and Labrador's 521,922. Newfoundland and Labrador also has a much smaller population density, 1.4 per sq. km, in comparison to New Brunswick at 10.5 and Nova Scotia at 17.4.

In brief, we know that with a smaller population and greater land mass, Newfoundland and Labrador can expect to pay more for basic health and social services. Yet still the province allows significant tax breaks to its high-income individuals. This must end now!

Combined federal-provincial rates for the top brackets were once much higher. "During Canada's high growth years between 1940 and 1980, the top marginal income tax rate was well over 70%."<sup>8</sup> Many European top-bracket rates are much higher than Canadian rates, and the revenue-maximizing rate is still higher. The rich have lobbied Canadian federal and provincial governments for decades to reduce tax rates for top brackets.

Adopting Nova Scotia's system would contribute tens of millions of dollars per year to the provincial treasury. Adopting a more historic, European, revenue-maximizing rate would contribute hundreds of millions.

The rate for **large corporations** is below the Atlantic average. Provincial revenues from corporate income taxes are less than a quarter of revenues from personal income tax revenues. Large corporations can also afford to pay more.

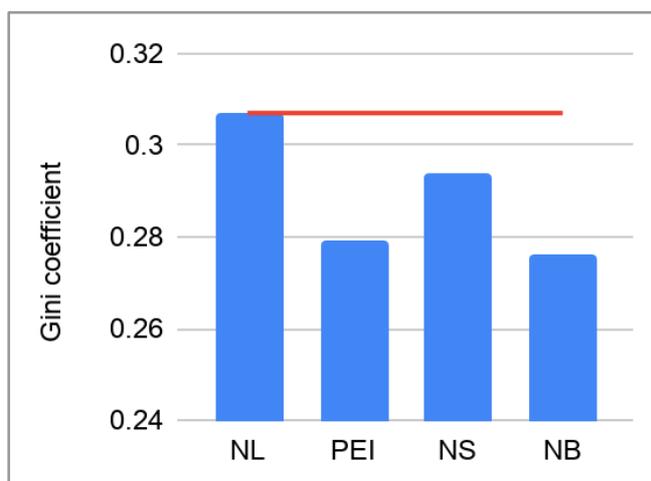
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agency/services/tax/individuals/frequently-asked-questions-individuals/canadian-income-tax-rates-individuals-current-previous-years.html#provincial.

<sup>8</sup> L. Osberg, "How Much Income Tax Could Canada's Top 1% Pay?" CCPA 2015.

<https://www.policyalternatives.ca/newsroom/updates/how-much-income-tax-could-canadas-top-1-pay>.

**Figure 2 - Highest income inequality (after-tax income)<sup>9</sup>**



We support the following revenue increases:

- Taxes for high-income individuals:
  - Adopt a more progressive tax system; similar to Nova Scotia and New Brunswick. Significantly lower the top income to be taxed and significantly increase the actual tax rate.
  - Add a new, higher bracket or a surtax for incomes over \$1 million per year.
  - Make it mandatory for people with incomes over \$1 million per year to *actually pay* at least at the same rate as the average tax filer pays (regardless of deductions, credits and schemes created by accountants and lawyers).
- Taxes for large corporations:
  - Restore the income tax rate for large corporations to its earlier level of 17 per cent.
  - Use the favourable small business tax rate for small businesses that have at least a given minimum number of employees, as Quebec did.
  - Add further brackets to make corporate taxes more progressive (a reduced rate for micro businesses that employ people and higher brackets for larger corporations).
  - Apply the six per cent capital tax on financial institutions to all large corporations.
- Close loopholes and change the law so that corporations (and individuals) cannot use tax havens to avoid paying taxes.
- Accelerate increases to the carbon tax and provide increasing rebates to make the majority of Newfoundlanders and Labradorians (low and middle income earners) better

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<sup>9</sup> Statistics Canada, Table 11-10-0134-01, Gini coefficients of adjusted market, total and after-tax income.

off than they would have been without the tax-and-rebate (as per the federal backstop tax).<sup>10</sup>

- Accelerate the electrification of our economy (e.g. electric vehicles and electric heat pumps) in order to reduce the costs of electricity and increase electricity revenues, thereby reducing the financial impact of Muskrat Falls.
- Maximize overall revenues from sales of non-renewable resources. The public owns the resources; in market transactions, sellers aim to maximize revenue. This should be the case with our non-renewable resources. The revenues should be invested in steering our economy away from dependency on fossil fuels.

Beyond these short-term changes, we urge the government to consult on ways to increase revenues and make them more sustainable in the long-term.

For further discussion of these and other fair revenue options please see the numerous proposals of Common Front NL and the Newfoundland and Labrador Federation of Labour, e.g.:

- Common Front NL, “Tax Review Submission;”<sup>11</sup>
- Newfoundland and Labrador Federation of Labour, “Submission to Independent Tax Review Committee;”<sup>12</sup> and,
- Newfoundland and Labrador Federation of Labour, “Newfoundland and Labrador Budget 2018: Measuring What Matters.”<sup>13</sup>

## **Economic Growth and Diversification to Raise Revenues and Reduce Costs**

In addition to the above, the province can increase revenues in the long term - and make revenues more reliable - by building a stronger and more diversified economy, starting now.

The government should steer the economy in the direction of:

- Education and a healthy, productive workforce:
  - Reducing K-12 class size / teacher ratios;
  - Improved apprenticeship supports;
  - A post-secondary tuition freeze and phased reduction to zero tuition;
  - Preventive health care and health enhancement programs; and
  - Better safety standards for workers and enforcement (e.g. in mines and on offshore oil platforms).

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<sup>10</sup> M. Rabson, “Budget watchdog says carbon rebate will be higher than carbon tax for most people” CBC News April 25, 2019 <https://www.cbc.ca/news/politics/parliamentary-budget-officer-carbon-price-revenues-1.5110618>.

<sup>11</sup> <http://wearenl.ca/wp-content/uploads/2018/12/CommonFront-NL-Tax-review-submission-Sept-25-.pdf>

<sup>12</sup> <https://nfl.nf.ca/2018/07/nfl-meets-with-independent-tax-review-committee-to-talk-progressive-taxation-jobs-fairness-and-sustainability/>.

<sup>13</sup> <https://nfl.nf.ca/measuring-what-matters-nfl-budget-indicators-report-feb-2018/>.

- Industries that create jobs while reducing climate change emissions:<sup>14</sup>
  - Insulation and other energy efficiency retrofits for homes, which also reduce the cost of living;
  - Conversions from oil furnaces to electric heat pumps; and
  - Building a dense network of electric vehicle chargers;
- The arts - a sector that supports the tourism industry and creates a large number of jobs per dollar invested; and
- The community and voluntary sector - non-profit organizations, charities and individuals helping one another (another sector with a large number of jobs per dollar invested).

Some of the above require investments - some of which can be phased in over time - and others can be achieved without public spending (e.g. regulation of heating sources and requiring EV chargers or charger-ready on new buildings). However, it is well to note that this province's spending per GDP is the lowest in Atlantic Canada. Some of these investments can begin right away.

Underscoring the need to diversify is the uncertain future of oil. Recently, the largest asset manager in the world stated that it is changing its focus to climate change, noting that 'In the near future ... there will be a significant reallocation of capital.'<sup>15</sup> This is not something that Newfoundland and Labrador can afford to ignore, and only a fool would pretend that it is not significant for choices that the government needs to make today. Diversifying the economy is not only an imperative, but needs to be a priority that informs all significant budget decisions.

## Conclusions

The provincial budget is on a path to surplus. The government may or may not balance the budget by 2022-2023. However, that date is somewhat arbitrary; what matters is the direction.

The government has several revenue opportunities, through making the tax system fairer and greener, and through growing and diversifying the economy to generate more revenues with greater reliability. This makes it clear that further spending cuts are not required.

Again, the Newfoundland and Labrador Federation of Labour thanks the government for this opportunity to provide input to the budget.

Yours truly,



Mary Shortall,  
President, Newfoundland & Labrador Federation of Labour

<sup>14</sup> See also NLFL "Good Jobs, Green Jobs: Exploring Opportunities for Newfoundland and Labrador" 2012 <https://nfl.nf.ca/2012/02/green-jobs/>.

<sup>15</sup> AP, "BlackRock, world's largest asset manager, changing its focus to climate change" CBC Business News. January 14, 2020. [https://www.cbc.ca/news/business/blackrock-investment-climate-change-1.5426465?\\_vfz=medium%3Dsharebar](https://www.cbc.ca/news/business/blackrock-investment-climate-change-1.5426465?_vfz=medium%3Dsharebar).