Newfoundland and Labrador
Federation of Labour

Mary Shortall, President

Bert Blundon, Secretary-Treasurer

Options for a Strong Economy for all Newfoundlanders and Labradorians

Much has been said by the Employers Council and the Board of Trade lately about the loss of revenue to the Province due to falling oil prices and the need to cut the public sector as the only viable solutions to our woes. The argument that not to do so would put the next generation in a "very, very difficult position" seems a much too simplistic, knee jerk response. The NL Federation of Labour believes that what we need is a balanced discussion that explores all options to address the challenges and sustain our economy for the benefit of all Newfoundlanders and Labradorians – including tomorrow's generation. We have already seen proof that cutting social spending and the public sector does not work!

While it is true that the deficit has increased over the past fiscal year, on the fundamentals, between 2003 and 2013, NL's trends are strong across a range of economic measures. The deficit as a percentage of gross domestic product (GDP) is still a fraction of what it was.

According to a recent report by the Canadian Centre for Policy Alternatives, ***"Newfoundland and Labrador: Options for a Strong Economy",*** since 2006, the province's absolute debt decreased as revenues substantially exceeded expenditures and although slightly higher this year is still stable. The net debt of the province - $737 million in 2013-14 and is forecast to increase again in 2014-15, is still down as a percent of GDP from 70% in the 1990's to less than 25% today and has been relatively stable at that level.

NL government spending as a share of GDP has been falling from 30% through the 1980s and 1990s to a low of 17% in 2007/08 and now stands at approximately 18% of GDP. In short, government expenditures have not kept pace with the rapid growth of GDP and the province has so far not utilized the fruits of growth on public spending.

The province has reported significant deficits over the past two years but at the same time Muskrat Falls spending is on the books as a transfer to Nalcor – this has given rise to a temporary, not a structural deficit.

Yes, there are challenges! Recent oil price fluctuations are a good reminder of the risks associated with resource revenues. In addition, our province has a history of public underinvestment in social and physical infrastructure, a highly rural population, a difficult geography, higher than average growth in the cost of living, high unemployment, high poverty and outmigration. Overall revenue is lower- a lot of which is due to tax cuts implemented since 2008, amounting to more than $500 million.

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Government should look at all options to return to surplus to ensure that programs and services provided to all Newfoundlanders and Labradorians are sustainable for the long term.

We respectfully disagree however, with the options suggested by Richard Alexander and Sharon Horan.

A strong public sector helps the economy weather the volatility of resource fluctuations. In fact, that was a major factor in how we weathered the 2009 recession. Cuts in the public sector means the loss of jobs that support local economies all throughout NL.

Resource booms are expensive and inflationary. Resource revenues are volatile and oil and gas creates relatively few jobs. Public sector spending can create up to 20 times the jobs per dollar invested compared to oil and gas.

Even in the Canadian context, NL is not a high spender on public services, Although provincial program spending is relatively high on a constant dollar per capita basis compared to other provinces, it is not high when considered as a percentage of GDP. In fact, NL is in the middle of the pack – and that includes capital spending.

The direct effects of government program spending are clear; increased access to public services and programs as well as more quality public sector jobs. Spending creates jobs and services directly, both inside and outside of government, in education, health care, construction, administrative, professional and consulting services and other sectors. And, it has been proven to be far less costly overall than public-private-partnerships.

In addition, we are much wealthier than we were a decade ago. Governments can play a role in ensuring a fair distribution of the wealth workers create so that all people have the opportunity to share in our prosperity. The best way to ensure that equal distribution is through public services.

NL is capturing a smaller share of GDP in revenues than other provinces – with a disproportionate and larger share of growth going to corporate profits – profits that do not stay in the economy. Corporate profits make up a much bigger share of NL's GDP than most other provinces at twice the National average. On the flip side, a smaller portion goes to wages. There are other provinces with higher corporate tax rates and NL has room to move. We could also consider a windfall profits tax as countries like Australia and Norway have done.

In 2007, NL turned early surpluses into tax cuts, the bulk of which went to the wealthy.

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Over a three-year period, the cumulative cost of combined tax cuts for NL exceeded $750 million. Today, the gap between the rich and poor is wider than ever.

Tax revenue as a percent of GDP is quite low for NL compared to other provinces. Even at the Canadian average, we could boost our revenue substantially.

Our province is a very unique place, at a very unique time in its history, and we really cannot afford any more reductions in public services and public investments.

Let's not take the low road and risk short changing our citizens of long-term, stable prosperity in favour of short-term gains for a few. Taking the high road means we recognize and implement options of raising revenues and maintaining a strong public sector and strong public services, and have the courage to invest not just in our province, but also in its people and its future.

Mary Shortall
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