



**FREDERICTON
CHAMBER
OF COMMERCE**

— *The Voice of Business* —

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2018-19 Budget Priorities: Competitiveness and Fiscal Balance

Presented to the Honourable Cathy Rogers
Minister of Finance,
Province of New Brunswick

Fredericton Chamber of Commerce
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Introduction

As the provincial government prepares the final budget of its current mandate, the Fredericton Chamber of Commerce encourages the Department of Finance to focus on finding a balance between business competitiveness and fiscal responsibility that will move the province forward. Of course, these are intimately intertwined - the debt is a primary driver of competitiveness erosion as the government struggles to pay the bills and in our current fiscal position, New Brunswick can neither cut, nor tax itself to prosperity. Economic growth is the only plausible way in which to return to balance and gain momentum by reducing our net debt, along with the associated \$2 million per day interest payments.

The time for decisive action from the Government of New Brunswick to reduce our debt has long since passed. The promise of the Strategic Program Review has not materialized. Once health and education were taken off the table and the decision was made to continue the status quo, the exercise had limited itself to such a degree that transformational change in the province was not possible. New Brunswick needs to rethink how it taxes businesses and individuals, how best to finance our social programs and position ourselves for the new economy.

Example: In the early 1990s, Saskatchewan was in a similar economic and demographic situation as New Brunswick and faced many of the same challenges, such as a population that was more rural than the Canadian average and two small urban centres in the southern half of the province. The NDP government of the day took a two-pronged approach: (a) prepare the population for hard decisions/tough cuts - and then followed through; and (b) aggressively developed their natural resources. Their decisive and necessary actions worked - Saskatchewan remains one of the strongest provinces economically and voters rewarded the NDP with a 15-year run in power.

Fiscal responsibility is the baseline requirement for ensuring that New Brunswick remains viable. To accelerate and sustain the growth needed, government must put businesses and the economy in a position to be competitive not only within Canada, but the globe. This means both ensuring costs are manageable and that businesses have the resources needed to succeed - human capital.

Recommendation 1: *We therefore renew our call for fiscal triage at the provincial level - New Brunswick is in an emergency situation and it is important that our government send this message to the populace (which it seemed to be doing at the beginning of the Strategic Program Review) in preparation of tough decisions that need to be made. This triage should be coupled with a comprehensive review of the province's entire tax structure will help ensure the province is focused on their primary tax generators, businesses, and helping them to grow and flourish.*



Part One: Fiscal Balance

Debt

Our chamber of commerce has been calling on the provincial government to put more emphasis on reducing the public debt and educating the public on the importance of such. The Department of Finance tends to publicly focus on the deficit, particularly when new estimates are seen as positive. The more relevant figure to the province's continued viability is the net debt. When the government speaks about the deficit being lower than expected, the public is prompted to think that decisive and immediate action is not warranted - but that is exactly what our situation requires.

We were quite surprised that the government did not attempt to further restrain spending in 2017-18 - it was broadly understood that the Strategic Program Review would require a sustained effort on restraint over multiple years and multiple mandates. Once health and education were taken off the table, the exercise was unable to meet its laudable goals. Shifting demographics demand a serious rethink of these departments - which could even result in providing better service at a lower cost. With combined budgets of around \$4 billion, even minor tweaks could result in big savings. There may be opportunities for transformational savings, but not if we aren't looking.

Example: All of the tax increases over the past two years, including the \$300 million raised annually by increasing the HST in 2016 have not been enough for the government to balance the budget and make progress on the debt. There can never be enough revenue if there isn't a corresponding reduction in spending. The population was prepared in 2016 for tough decisions after the Strategic Program Review - the government not following through will make it more difficult to prepare citizens for inevitable cuts in the future.

Recommendation 2: *Balance the budget in 2018-19 and begin to make progress on the province's debt.*

Spending

Of course, we understand that the government cannot simply cut New Brunswick's way to prosperity. Services must be provided and investments must be made. It is in the details where progress can be made - particularly on the spending side. Not all spending is detrimental, but more emphasis must be put on receiving a clear and demonstrable return on investment. Too often decisions are made in New Brunswick without a logical justification and called 'investment' when it's really just 'spending'.

Particularly relevant is investing in trade-enabling infrastructure that will allow our people and natural resources to efficiently get to global markets. These types of investments have the opportunity to



provide a multi-generational economic impact on the province and New Brunswick needs to think more about what the future economy will look like, rather than trying to maintain the status quo - which is neither appealing nor plausible.

Example: the Fredericton airport was designed to accommodate 200,000 passengers annually but has seen steady year-over-year increases, hitting 377,000 in 2016 and is expected to exceed 400,000 by the end of 2017. The local airport authority is prepared to invest one-third of the total cost.

The airport expansion is a good investment for all levels of government and the community - independent consultant InterVISTAS measured the airport's impact to be 586 jobs and \$24-million in GDP (including direct and indirect impacts), and an expansion would mean 1,015 jobs and \$41.5-million in GDP to New Brunswick by 2030 - in addition to the short-term construction-based economic impacts and job boost of 319 positions. The proposed expansion is necessary to maintain the airport's growth and achieving these targets.

Recommendation 3: *Provide return on investment estimates and/or economic impact statements for any major spending initiatives or decisions that could affect business competitiveness.*

Similarly, for a government that emphasizes evidence-based decision making in their public statements, it should produce the evidence publicly whenever possible, such as what was released when announcing the Tuition Access Bursary. This will help New Brunswickers understand the true costs of decisions and give confidence to outside investors that the Province is a transparent and safe place to do business.

Example: When announcing the new February statutory holiday, the government stated that an economic impact study was completed prior to implementing that decision, but none has been made public, despite business' repeated requests. This leaves the impression that the decision was hastily made for political reasons - and that no such analysis exists.



Part Two: Competitiveness

As the business world becomes increasingly globalized, allowing businesses to maintain competitiveness grows in importance. This is particularly true in an export-heavy province such as New Brunswick. We are competing with every jurisdiction in the world and there is a tipping point where uncompetitive costs will stifle any growth. Many businesses can be located anywhere, there has to be a compelling reason they choose New Brunswick other than a financial incentive. We should all be able to quickly and effectively answer the question “Why is New Brunswick a great place to do business?” In a province where industry is viewed with suspicion, certain projects require social license and strategic programs reviews ignore half of the budget - being cost competitive is critical.

Example: The pending carbon tax to be introduced in 2018 is an excellent opportunity to show balance in policy decisions. If the primary goal of such a tax is to provoke behaviour that will reduce carbon emissions, that can be accomplished while making it revenue neutral - i.e. proportionately lower some other cost to maintain competitiveness. The government has stated that the carbon tax will not be revenue neutral, the next best decision would be to earmark funds collected for the debt, which is also a threat to future generations of New Brunswickers.

Cost of Doing Business in New Brunswick

Two years ago, KPMG’s Competitive Alternatives Survey named Fredericton and several other Atlantic Canadian communities at or near the top of the list. These high rankings were primarily on the basis of market conditions such as the cost of labour: “Labor costs represent the single largest cost category, and represent between 40 and 86 percent of total location-sensitive costs for the industries examined¹.” New Brunswick has not, in recent memory, been a favourable tax location - as exemplified by the double taxation regime on commercial and non-residential properties. Despite this, immediately after that report was released, any competitive advantage in the province has been steadily and systematically eroded by governments searching for ways to deal with their growing debts.

¹ [KPMG Competitive Alternatives 2016](#)



Over the past two years, New Brunswick businesses have had to absorb the following federal and provincial cost increases. If New Brunswick and its businesses are serious about competing globally, governments must factor in the entire tax burden on business from all sources:

Over the past two years, increases in:	Coming in the next two years are:
Gas tax	Carbon tax
Diesel tax	Changes to federal tax planning policies
Property tax	New statutory holiday
Land transfer tax	Canada Pension Plan premiums
Income tax	Minimum wage
Minimum wage	WorkSafeNB rates
HST	Rising Energy Costs
EI rate	Provincial fees annually indexed
WorkSafeNB rates	First Contract Legislation

The potential consequences of these increases are more dire than just the effect they are having on New Brunswick’s current businesses. They are sending a signal to the world that New Brunswick is not open for business, further exacerbated by such things as the demise of Energy East and the natural gas industry in the province, and the ongoing property tax debacle. The reasons for outside investors to stay away from New Brunswick are mounting - completely undermining the province’s foreign direct investment strategies and population growth plans, amongst other things. If we can’t compete on costs or reputation we are in real trouble.

Example: We commend your office for refusing the City of Saint John’s recent request to the government to change legislation to provide municipalities control over setting property tax classes and rates. We were particularly concerned with the possibility of ending the exemption of commercial machinery and equipment in the provincial property tax system. Acquiescing to this request for change would have negatively impacted New Brunswick businesses’ competitiveness and the province’s economy.

Recommendation 4: *We recommend a comprehensive review of the province’s entire tax structure, including personal, corporate, property and consumption taxes to ensure that New Brunswick is following best practices in a competitive global marketplace. The province’s tax structure is a critical economic development lever available to government and must be modernized.*



Human Capital

Post-Secondary Education: In our 2017-18 pre-budget submission, we recommended investing in education at all levels as a long-term growth strategy and we renew this call. Post-secondary educational institutions are not only credential-granting bodies - they drive GDP growth and are the hub of entrepreneurship, innovation and skills-acquisition in our communities; they are the centrepiece of our modern economy and one of the smarter investments a government can make for returning taxpayer investment. As innovation and knowledge-based industries continue to grow in importance, New Brunswick must keep pace with the rest of the world - this requires a sustained commitment from both government and business.

Example: UNB's economic impact was recently studied: "It shows that for every \$1 spent on UNB, students, society and taxpayers more than double their investment: \$2.80 is returned in lifetime earnings for students; \$2.80 is returned in added provincial income and social savings for society; \$2.10 is returned in added taxes and public-sector savings for taxpayers.^[2]" Enhancing access and participation in post-secondary education is therefore a concrete return on investment for the province of New Brunswick. Not only will it increase the number of individuals in the skilled workforce, but it also has significant financial benefits in its own right.

In order for New Brunswick and its businesses to take advantage of potential opportunities, job creation and upskilling must be a singular strategy, with roots in our post-secondary education system. New Brunswick is competing on a global stage in the knowledge sector and can still grow with the right investments in infrastructure and skills training. Experiential learning can be a means to both engage and direct future labour sources towards growth sectors or job placement gaps. Post-secondary institutions also have a role in this area, with the potential to take some of the burden off of the government.

Recommendation 5: *As part of this human capital strategy we recommend that experiential-support programs continue and be expanded, such as the new non-STEM experiential learning fund being proposed by the New Brunswick Student Alliance. Narrowing our recent graduates' experience gap will retain more skilled young people in the province by introducing them to career opportunities earlier on.*

International Students: We need to increase our population by about 1% per year in order to keep pace with the country and grow the economy, according to economist Richard Saillant - about 7,500 people per year. Our population has declined for the past three years. Even with our primary immigration mechanism - the Provincial Nominee Program - we are only bringing in 1,000 people per year. This coupled with the average 1.6 children per family has meant a consistent population decline for the past 3 years. Best estimates are that the province needs 2.4 children per family to grow the population.



We commend your government for extending medicare coverage available to international students earlier this year. This is precisely the type of action that government can take to improve the economic climate in the province that allows businesses to create jobs.

Immigration has long been identified as a key component to present and future growth. This was evident in the latest census data: Canada added approximately 1.7 million people between 2011 and 2016, with two-thirds of this increase attributable to immigration. The ratios are even more prominent in New Brunswick and Atlantic Canada, generally, where most of our population increases are driven by immigration. However, we struggle with retaining our newcomers with retention rates that hover around 40% for international students.

Example: At the Canadian Chamber of Commerce conference in September 2017, delegates supported a policy resolution submitted by the Fredericton Chamber of Commerce that calls on the federal government to change rules regarding the eligibility of international students to have expanded work experience opportunities while studying in Canada, to remove unnecessary red tape and extend the post-graduation job search period. 93.6% of delegates supported the resolution and identified similar challenges in their provinces.

There may never be a better time to attract and retain international students as political and social shifts have made other jurisdictions less desirable destinations. In the short term they infuse local economies with billions of dollars annually. But in the long term boosting our numbers of international students and retaining a greater portion of graduates has the potential to address some of the really big challenges in the province, such as skills, aging, and population growth.

Employers and recent graduates agree that a major impediment to employment is a lack of work experience and the current rules around international student employability put them at a significant disadvantage. The more we can reasonably remove these barriers and facilitate faster integration into the community, the more likely international students are to remain in Canada and New Brunswick. International students add \$200 million to New Brunswick's economy annually and they represent an opportunity to make our population larger, more highly educated, younger, and more diverse.

Recommendation 6: *As a mechanism to increase our immigration numbers, we recommend that the Province not only continue to work with the federal government to create a path for international students at public and private institutions to obtain permanent residency, but also provide resources to assist international students navigating the system. The Province should also continue pushing for targeted increases in raw numbers and provide support programs where available to increase retention.*



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Conclusion

With a costlier-than-expected capital budget released by your government on 8 November 2017, our organization and the business community more broadly is concerned that the upcoming election is going to provoke increased spending by the government. We see a direct correlation between the province's growing debt and the rising costs to businesses and citizens in New Brunswick and are concerned for both the long-term sustainability of the province and our member businesses.

We encourage you to look closely at the Saskatchewan experience - namely, tight budgetary control and development of natural resources. Voters will respond to strong leadership and making the tough decisions that will get us further ahead in the medium- and long-term. New Brunswick is heading for financial pain - the sooner and more decisively the government of the day acts, the more likely we are to manage and control that pain. The subsequent recovery will be led by the private sector, but we need government to ensure that conditions are conducive to growth. Amongst other things, this means cost competitiveness, efficient and effective regulations and an infusion of skilled labour.

We do not underestimate the difficult job being asked of the provincial government, but it is necessary and it has to start with this budget.