

2017-18

Budget Priorities

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

Fredericton Chamber of Commerce
2 November 2016



Synopsis

As the Department of Finance prepares the third budget of its current mandate, the Fredericton Chamber of Commerce urges the government to ignore the political election cycle and fully commit to making decisions that will get our province back on its fiscal track. While we recognize government cannot and should not run fully like a business, there are some broad principles that should be adopted - particularly when it comes to finances.

Any business facing a fiscal situation analogous to New Brunswick's would take one of two courses of action: (1) take immediate action to stop financial losses with a view to reinvesting those savings into future growth with a clear vision; or (2) close its doors and file for bankruptcy.

Every day that passes and New Brunswick continues to add about a million dollars to our debt, we creep closer to the second scenario. As a province, there is still time to commit to the first scenario, but it has to be now and it has to be decisive - this is the focus of our brief.

We believe that the government has to triage the Province's rising debt. New Brunswick's interest payments on our \$14 billion net debt are forecasted to reach \$700 million in the current fiscal year, meaning we are spending nearly \$2 million per day for the interest payments on past purchases. That amount of money can be a game changer for a small province like New Brunswick - if it is reinvested with economic growth as the only priority. Economic growth through business success is the only sustainable way for the Province to remain viable. It is the only route to protecting our health and education systems. It is the only way to retain our young people and begin to increase our population. ***This fiscal triage 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.***

This leads to where we believe government should focus their efforts for the longer term in order to obtain the greatest return – human capital. ***Investing in human capital through immigration, education and skills development will allow New Brunswick to build the foundation it needs for economic prosperity.***

Short Term Focus - Financial Triage and Tax Policy Review

In in the 2016-17 budget, the New Brunswick government committed to balancing the budget in 2020-2021. This is not acceptable. New Brunswick has doubled its net debt in the past decade. The 2008 financial crisis was part of the reason, but most jurisdictions have long since recovered and Canada as a whole fared better than most countries through this period.

We must also face the reality that a significant portion of our annual budget comes from federal transfer payments - payments generated in large portion from oil and gas industry, which is now facing its own long-term financial issues. Unable or unwilling to use our own natural resources to the economic benefit of the province, New Brunswick should get used to increasing pushback from “have” equalization provinces struggling themselves. In short - the Province has to find solutions internally and it starts with balancing the books.

Businesses are struggling for survival in New Brunswick. In the past year they have seen increases in personal income tax, minimum wage, HST and corporate tax. They are facing a massive increase in worker’s compensation premiums in 2017, a carbon tax in 2018 and a hike in the Canada Pension Plan in 2019 - at a minimum. The Province is already seeing diminishing returns on these costs to business. Growth is at a standstill - or worse. Further increasing taxes to raise revenue is a zero-sum game.

Citizens and businesses will accept the tough policy decisions that need to be made if they believe it will lead to the greater good of New Brunswick and not some perceived political benefit. They are also becoming more aware that **we are not ‘protecting’ health and education by maintaining the status quo but instead eroding our ability to be self-sustaining.**

Looking in from the outside limits our ability to specifically recommend what could reasonably be reduced - this was the fundamental problem with the Province’s Strategic Program Review. Only those inside government have a full appreciation of their division’s/department’s financial situation and how to best align available resources with service goals.

Our recommendation: As part of this effort, 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. Competitiveness will not only assist New Brunswick businesses, but also attract new, outside investment.

Long Term Focus - Investing in Human Capital

Modern economic development best practices include a focus on workforce development and people attraction^[1]. We agree with the province's Chief Economist that investing in human capital should be a focus for the province.

Investing in human capital can take on a number of forms. We are focusing on three broad areas:

1. Immigration
2. Education
3. Skills

Immigration

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.

Our recommendation: As a mechanism to increase our immigration numbers, we recommend that the Province work with the federal government to create a path for international students to obtain permanent residency while pushing for targeted increases in raw numbers. These are young, educated and often entrepreneurial people that have already chosen to come to New Brunswick. International students add \$200 million to New Brunswick's economy annually and have tremendous retention rates. They represent an opportunity to make our population larger, more highly educated, younger, and more diverse.

While increased immigration has to be part of any population-growth solution, its effectiveness (retention rates) will also ultimately be determined by economic growth, and more specifically - jobs. The symbiotic relationship between immigration, increasing the population and economic growth is not linear, but there is a thread that connects them all - education.

The Department of Post-Secondary Education, Training and Labour is a funding partner of our organization's recently launched Succession Connect pilot program that will match entrepreneurial newcomers with current business owners that are retiring or otherwise moving on from their business. This is an excellent example of governments and the community working together to use our collective resources to have an impact on retention – amongst other benefits.

Education and Skills

Post-secondary educational institutions are not only credential-granting bodies - they are also the hub of entrepreneurship, innovation and skills-acquisition in our communities. They are much more than an extension of the province's K-12 system - they are the centrepiece of our 21st century economy and one of the safer investments a government can make in terms of return on taxpayer investment. In fact, 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 already competing on a global stage in the knowledge sector and has room to grow with the right investments in infrastructure and skills training. High growth industries identified in both Fredericton's Vision 2020 plan and the Province's Economic Growth Plan require investment in matching the right skills with the right people at the right time.

Our recommendation: As part of this strategy we also recommend that experiential-support programs continue and be expanded. Narrowing our recent graduates' experience gap will retain more skilled young people in the province by introducing them to career opportunities earlier on. 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 an important role in this area, with the potential to take some of the burden off of the provincial government.

Conclusion

Getting the province back on its financial feet will be a long, hard road and maintaining a prolonged focus is critical. New Brunswick and its government must start thinking in generational cycles, not election cycles. The electorate will accept tough decisions if they think it represents progress towards prosperity. Everything hinges on stopping the financial downward spiral. No government can completely turn off the spending taps, but without balancing the budget – and more importantly, reducing our net debt – New Brunswick is further tying its hands to make meaningful investments that will spur sustainable growth.

^[1] Jupia Consultants, *Towards a stronger urban economic development model in New Brunswick*. October 2014, p5

^[2] <http://blogs.unb.ca/newsroom/2015/10/07/unb-releases-study-showing-1-2-billion-impact-on-provincial-economy>