

2016-17

# Budget Priorities

Presented to the Honourable Roger Melanson  
Minister of Finance,  
Province of New Brunswick

Fredericton Chamber of Commerce  
November 2015



**FREDERICTON**  
**CHAMBER**  
**OF COMMERCE**  
*The Voice of Business*

## **Contents**

<b>Section</b>	<b>Page</b>
Introduction	2
Part I: Economic Development	3
Part II: Revenue & Expenses	4
Taxes	4
Strategic Infrastructure Investment	5
Post-Secondary Education	5
Conclusion	7

## Introduction

New Brunswick is at a crossroads. Our population is declining, our economy is weak and we are not creating a significant number of jobs. As a province we do not seem to have a clear vision or path to reverse these trends. But where there is uncertainty, there is also opportunity. A number of sectors including natural resource development, information and communications technology, and biosciences provide optimism for growth. The province's strategic program review, the creation of a new economic development agency and an alignment of federal/provincial governments with a mandate to invest in strategic infrastructure have the potential to realign our economy for the future - contingent on making the right choices.

Decisions made by this government over the next one to two years will have long-term impacts on the province - for good or ill. In the past, funding projects or initiatives based on partisan politics, geography, or factors other than 'what is best for the province' have been akin to bloodletting in New Brunswick - a supposed cure without fully appreciating the symptoms. Infrastructure investment has the potential to provide the conditions for a long-term boost to the provincial economy, but it has to be the right infrastructure at the right time in the right places.

We also need the right (and aligned) economic development policies to compliment any infrastructure spending. The New Brunswick Jobs Board was a good idea and has been populated with smart individuals with their finger on the pulse of economic development. Let them do their job. We particularly endorse the ideas put forth by Chief Economist David Campbell in his October 2014 discussion paper, "*Towards a stronger urban economic development model in New Brunswick.*"<sup>1</sup> Given the timing of the current government's election, this paper's release and Mr Campbell subsequently being put in the Chief Economist role, we can only assume that this government endorses these ideas as well.

Nearly every fiscally successful jurisdiction in the world has an urban area (or areas) at its economic core.

In brief, nearly every fiscally successful jurisdiction in the world has an urban area (or areas) at its economic core that allow not only for centralizing of services, but perhaps more importantly a centralizing of business, talent and innovation. New Brunswick's history, geography and demographics mean that this particular model has to be contextualized for our province (smaller urban centres with easily identifiable regions they serve), but in broad terms this is the direction we must go - and not the direction New Brunswickers are used to. It will take political will, vision, leadership and sacrifice.

Effective economic development is the only way to turn New Brunswick's fiscal situation around. Reductions in spending (while important) cannot get us there alone. As a baseline, non-social spending - particularly infrastructure spending - should reflect an expected return on taxpayer investment.

---

<sup>1</sup> Jupia Consultants, *Towards a stronger urban economic development model in New Brunswick*. October 2014.

## Part I: Economic Development

Economic Development in New Brunswick over the past decade has been marred by a lack of cohesive vision as evidenced by the rise and fall of the Enterprise Network, the creation and dismantling of InvestNB, the splintering of regional interests and decision-making with political motives. Now, Opportunities New Brunswick has been in existence for more than a year and key staff members are still being hired, consultations with local economic development organizations are not taking place and there is no clear vision of what a prosperous New Brunswick should look like.

We submit that what New Brunswick's economy (and ONB) needs most is an urban strategy based on the model presented by David Campbell in *Towards a stronger urban economic development model in New Brunswick*. Urban centres are the engine of economies and have the high growth potential. Worldwide, approximately 50% of the population lives in urban centres,

**"It's not that New Brunswick is too rural; it is just not urban enough."  
- New Brunswick Chief Economist David Campbell**

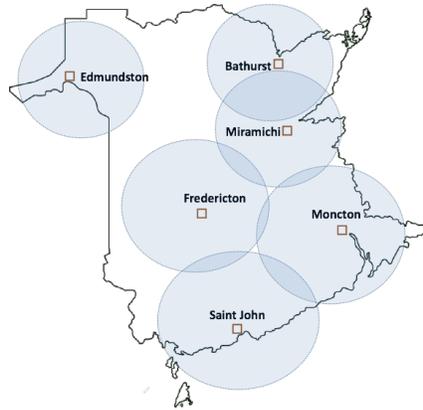
while 70% of economic activity takes place there (and have about 25% higher productivity rates, according to Richard Florida)<sup>2</sup>. JP Morgan Chase recently invested \$100 million into innovative efforts in *Detroit* (Michigan's centre of influence) to revitalize its economy<sup>3</sup> - opportunity where there is uncertainty.

We have to place more emphasis on New Brunswick's urban centres than in the past. This doesn't mean leaving rural areas behind - far from it. Increasing provincial wealth through the high-growth-potential urban areas and efficiencies realized through centralized services will also allow regional/rural areas to focus on particular niches, traditional areas of strength and natural resource development. Increased strategic infrastructure may be needed in rural areas if we are able to foster development in individualized areas of strength. But we have to get away from the 'one-size fits all approach' and honestly examine and accept the relative strengths of each part of the province. As Mr Campbell writes in his "It's The Economy Stupid" blog in May 2012 - it's not that New Brunswick is too rural; it is just not urban enough<sup>4</sup>.

<sup>2</sup> <http://www.citylab.com/work/2014/04/11-reasons-un-should-make-cities-focus-its-new-sustainable-development-goals/8896/>

<sup>3</sup> <http://www.forbes.com/sites/jpmorganchase/2015/05/19/cities-are-the-engines-of-economic-growth/>

<sup>4</sup> <http://davidwcampbell.com/2012/05/new-brunswick-is-not-too-rural-it-is-not-urban-enough/>



The figure above illustrates how 97% of New Brunswick’s population lives within a one-hour drive of one of six ‘urban’ centres: Saint John, Fredericton, Moncton, Bathurst/Campbellton, Edmundston and Miramichi<sup>5</sup>. We submit that a one-hour drive for work and/or government services from a rural area to an urban centre is reasonable and is the case for many other rural-living citizens in Canada and the world. It’s even the case for many urban-living residents in larger metropolitan areas. Each of these six ‘zones’ would then be able to tailor their economic development activities to their relative strengths - without competing for a piece of what the other zones have. Regional rivalries tend to go by the wayside when everyone feels like they have enough.

## Part II: Revenue and Expenses

### Taxes

Only three OECD countries (Sweden, Denmark, Portugal) have a higher personal income tax rate than New Brunswick for their top earners<sup>6</sup>. And this is before a promised 4% federal hike takes effect - which would put the province’s top combined bracket at 58.75%. Finance Minister Melanson has said this government will look at the issue - but New Brunswickers were also assured during the 2014 provincial election campaign that New Brunswick’s top rate would not exceed Quebec’s, which then happened in the newly elected government’s very first budget.

High-income earners may be convenient political targets, but these are the people that sign paycheques, provide our healthcare and create amazing companies that we are proud to claim as New Brunswick’s own. This is a short-sighted policy choice that immediately eliminates New

Only three OECD countries (Sweden, Denmark, Portugal) have a higher personal income tax rate than New Brunswick for their top earners.

Brunswick as a potential destination for many highly skilled workers, physicians, businesses looking to relocate and more. Any short-term fiscal benefits are simply slowing our demise.

We recommend a comprehensive review of the province’s entire tax structure, including personal, corporate, property and consumption taxes to

<sup>5</sup> Jupia Consultants, *Towards a stronger urban economic development model in New Brunswick*. October 2014, page 8.

<sup>6</sup> [http://stats.oecd.org/index.aspx?DataSetCode=TABLE\\_I7](http://stats.oecd.org/index.aspx?DataSetCode=TABLE_I7)

ensure that New Brunswick is following best practices in a competitive global marketplace. Part of this review should include how the province can use the tax code as an economic development tool. Universally available incentives that attract businesses, industries and new property investors to the province may have a greater impact than the current model of providing payroll rebates, case-by-case tax breaks and the like to particular companies selected by Opportunities New Brunswick staff (or worse, elected representatives). New Brunswick needs to signal that we are open for business - increasing taxes on high-income earners, moratoriums on natural resource development, double taxation on some properties and cutting incentives to retain post-secondary graduates are currently having the opposite effect.

### Strategic Infrastructure Investment

Modern, necessary and effective infrastructure is critical to a healthy economy, whereas infrastructure created to fulfill some political end or short-term job creation scheme sets economies back, sometimes for decades. It is our understanding that the government's strategic infrastructure fund is (correctly) meant to stimulate private investment. We submit that as part of an urban economic development strategy, this will most often mean investment in the urban cores that are most likely to stimulate not only private investment, but economic activity generally.

Projects like the Port of Saint John investment, the proposed Fredericton International Airport expansion, the Canaport Marine Terminal, or a new performing arts centre in Fredericton are projects with the potential to have generational impacts on the economy. The Conference Board of Canada's calculations suggest that needed infrastructure returns \$1.14 to \$1.78 for every \$1.00 invested<sup>7</sup>. However, to make these critical large-scale funding decisions in a logical and effective manner, they must relate back to a larger vision.

### Post-Secondary Education

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."<sup>8</sup>

For every \$1 spent on UNB ...  
\$2.10 is returned in added taxes  
and public-sector savings for  
taxpayers.

### Research and Innovation

Particularly in Fredericton - the knowledge economy heartland - a healthy knowledge sector is critical to our role in creating wealth for New Brunswick. This is perhaps the most promising avenue we have to grow our way out of debt. Successful companies like Radian6, Q1 Labs and Green Imaging Technologies along with promising startups like Simptek Technologies, Hotspot

<sup>7</sup> <http://canada2020.ca/crisis-opportunity-time-national-infrastructure-plan-canada/>

<sup>8</sup> <http://blogs.unb.ca/newsroom/2015/10/07/unb-releases-study-showing-1-2-billion-impact-on-provincial-economy/>

Parking and Resson Aerospace were all beneficiaries of both their post-secondary institutions and Fredericton's clearly defined vision as being the entrepreneurial and technological hub of Atlantic Canada.

### Experiential Learning/Training

The government has made good decisions to provide training for recent graduates and students. Introducing the Youth Employment Fund while maintaining other programs such as the One Job Pledge and apprenticeship training initiatives was critical. We recommend all such experiential-support programs continue and be expanded. 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. We have to do everything we can to keep these young people in the province (which starts with jobs).

As Chief Economist Campbell points out in his discussion paper, modern economic development agency best practices include a focus on workforce development and people attraction<sup>9</sup>. New Brunswick (and Fredericton in particular) is in some respects ahead of the game here. We have a wealth of high-quality and diverse institutions and programs - universities, community colleges, private colleges, arts and culture-based schools - institutions that are critical starting points to achieve both of these priorities. But again, it is a piece of the puzzle - more than anything, we need opportunities and growth to retain these talented (mostly) young people for the long term.

---

<sup>9</sup> Jupia Consultants, *Towards a stronger urban economic development model in New Brunswick*. October 2014, page 5.

## Conclusion

The current government has been quite clear on its intention to make tough decisions to get the province's finances in order, particularly regarding the 2016-17 budget. We strongly urge the government to make these tough decisions in a non-political manner. This begins with investing in our urban communities and moving towards the urban economic development strategy as outlined by David Campbell in October 2014. The discussion paper makes clear that both urban and rural areas will benefit - i.e. all New Brunswickers. Artificially propping up some areas with investments that will not produce a long-term benefit will put the province still further behind.

Economic development, population growth, infrastructure investment, education and the workforce are interrelated. We need strategies and policies that equally align with this reality. Decisions made in isolation to serve a political need are regressive and damaging to New Brunswickers.

Strategic infrastructure, post-secondary institutions and the tax system are foundational components of our economy. Missteps in any of these areas cause other parts of the economy to breakdown. Investing in infrastructure and post-secondary education is investing in New Brunswickers. We can collectively move forward, but we need a government willing to create the conditions to make this possible.

Economic development, population growth, infrastructure investment, education and the workforce are interrelated. We need strategies and policies that equally align with this reality.