SUBMISSION TO THE NEWFOUNDLAND LABRADOR MINISTER OF FINANCE PRE-BUDGET CONSULTATION

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INTRODUCTION

The Canadian Union of Public Employees (CUPE) Newfoundland Labrador is a union of more than 6,200 members province wide working together for better wages and working conditions, strong public services, and a prosperous economy.

CUPE members in Newfoundland Labrador work to deliver public services in healthcare, including hospitals and long term care; education, both school boards and post-secondary; childcare; provincial libraries; municipalities; and public housing, among other sectors of the economy.

CUPE members are proud to provide services in our communities as we work toward a better society, a better standard of living and safe working conditions for all.

CUPE supports the development of vibrant, healthy communities and strong local economies. A provincial budget that invests in people and public services is key to realizing this goal.

CUPE expresses thanks to the Premier and the Minister of Finance for meeting with the Newfoundland Labrador Federation of Labour (NLFL) and affiliates, including CUPE, on February 22, 2016 to hear our views on the upcoming budget and economic future of our province.

CUPE reiterates that it is public investment – not cuts – that Newfoundland Labrador needs to weather the storm created by the dramatic drop in global oil prices. As Federal

Finance Minister Bill Morneau has said, "The right approach is to invest in the economy."[1]

POSITION OF CUPE NEWFOUNDLAND LABRADOR

- **Newfoundland Labrador needs to invest in public services for economic growth**
- **Public sector employment is at a record low in Newfoundland Labrador**
- **Public services are terrific value**
- **Investments in childcare grow the economy and the labour force**
- **P3s increase costs**
- **Increased revenues can be generated through the tax system**
- **NL needs federal government action to support the health care system**

Invest in Public Services

Now is the time for government to invest in public services and public infrastructure, not the time to implement cuts.

The International Monetary Fund (IMF) has recently advised that the negative economic impacts of austerity and spending cuts are considerably larger than first anticipated. Spending cuts in many cases have made the fiscal situation worse, not better.

A strong public sector and investments in public and private infrastructure helped stabilize the Newfoundland Labrador economy through the economic crisis of 2008/2009. This is why the Province's economy did not contract in the way that New Brunswick's has. The New Brunswick government, rather than support growth through investment, chose to

[1] Bruce Campion-Smith, "Despite sea of red, Grits commit to investment", *Toronto Star*, February 23, 2016.

pursue a program of austerity with uniformly bad results.[2] Spending reductions will only deepen the current economic crisis and make it more difficult for the government to pave the way to durable and sustainable economic and job growth.

CUPE warns that any fiscal plan focused on spending cuts, cuts to services, selling of public assets, privatization and suppression of public sector wages is an economic strategy now widely discredited by leading economists. This is not the road to economic recovery.

Cuts impact public and private sector employment, private sector businesses, tax revenues and out-migration. Cuts disproportionately affect the young, the most vulnerable and rural communities.

Resource-driven economies are volatile, as the people of our province know well. Government investment in public sector jobs and programs now will both stabilize volatility in the private sector and act as an engine for economic growth.

As economist David Thompson has pointed out, Newfoundland Labrador measures up well on a broad range of economic indicators compared to other provinces. (See Figure 1)

[2] http://www.bmonesbittburns.com/economics/monitor/201210/monitor.pdf

Figure 1 Provincial Financial Comparison

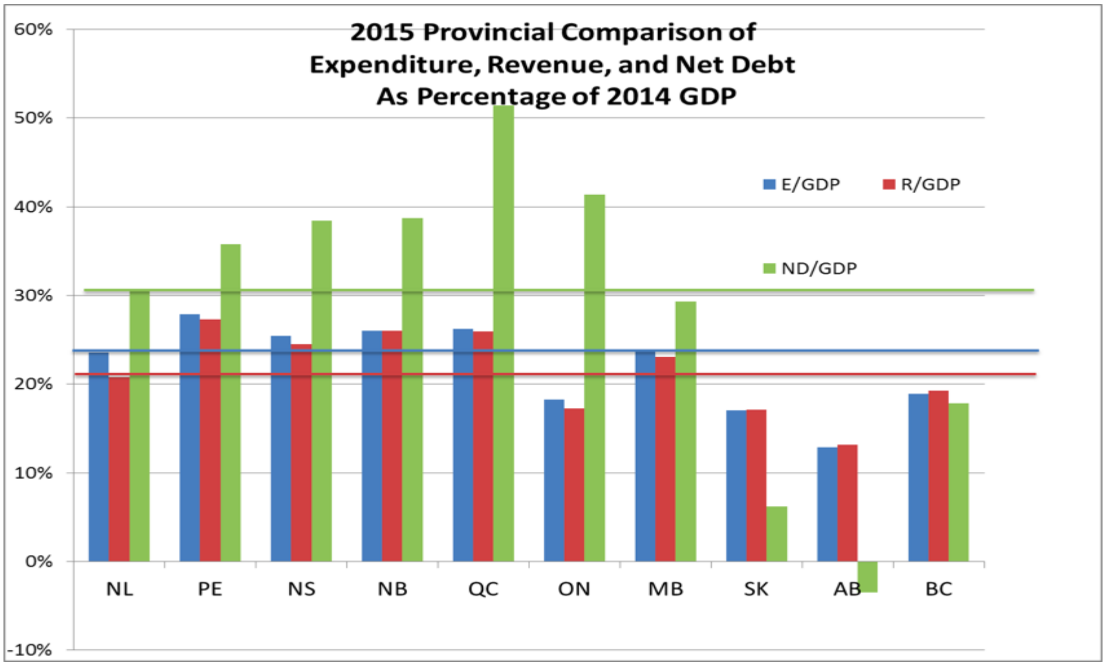


Figure 1 prepared by PolicyLink Research and Consulting

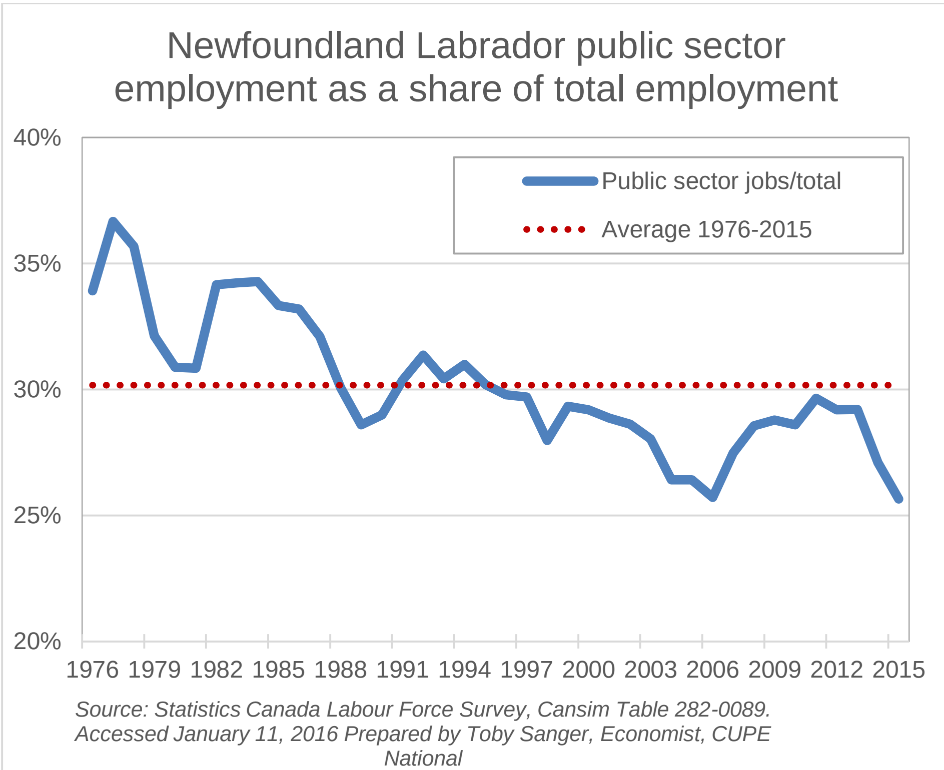
While there needs to be a plan to address the current fiscal deficit, rash cuts are not needed and could well damage economic recovery. The province's debt-to-GDP ratio, for example, is lower now than it has been in past decades.[3]

Public Sector Employment Levels Are Low

Public sector employment in Newfoundland Labrador has been reduced to a record low share of total employment in the province. (See Figure 2)

[3] The debt of NL was about 40% of GDP in the 1980s, almost 70 % in the 1990s and less than 25% in the 2000s.

Figure 2 Public Sector Employment Declined as a Share of Total Employment



According to Statistics Canada's monthly Labour Force Survey, there was an average of 60,500 public sector workers in Newfoundland Labrador in 2015, or a 25.6% share of the province's total average employment of 235,900. This was the lowest share of public sector employment since these statistics began in 1976.

There has also been an absolute drop in the number of public sector workers in Newfoundland Labrador in the past few years. In 2014 there was an average of 64,600 public sector workers – or 4,000 more than last year – and in 2013 there was an average of 71,000 public sector workers in the province, or more than 10,000 more than in the past year. That means there has been an absolute drop of 15% in the number of public sector workers in the province.

Public sector employment as a share of total employment in Newfoundland Labrador is higher than the national average, but that's the case with all eastern provinces including Quebec. Newfoundland Labrador is the only province in Canada besides Ontario where public sector employment as a share of total employment has declined in the past two years – and the drop in Ontario has been much smaller.

Public sector employment averaged a 30.2% share of Newfoundland Labrador's total employment from 1976 to 2015. If it were at this same share now, there would be an extra 10,000 public sector workers in the province. This means fewer public sector workers are being required to do more work to deliver the public services Newfoundlanders need and deserve. Further cuts will simply mean cuts to public services.

<u>Public Services Provide Terrific Value</u>

CUPE Newfoundland Labrador estimates that, on average, every provincial resident receives about $17,000.00 worth of value from the public services they use and upon which they rely. For an average family of four in Newfoundland Labrador, that figure then jumps to more than $40,000.00 of value, well above the amount that most families pay in taxes.[4]

While it costs more to deliver public services in Newfoundland Labrador, they are still a great value.[5] Indeed, government expenditures as a percentage of GDP have been falling. Newfoundland Labrador spends less on public services than other Atlantic provinces. There is capacity and need to increase investments in provincial programs.

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[4] Statistics Canada and CUPE calculations. H. Mackenzie and R. Shillington, "Canada's Quiet Bargain", Canadian Centre for Policy Alternatives, 2009.

[5] Newfoundland Labrador's rural population, geography, demographics and the resource boom make it more costly to deliver services.

Public sector services provide stable employment that is good for the economy. It is important to note that public sector workers do not make more than most workers in the private sector. Over the last three years, public sector wages have barely kept up with inflation. In other words, public sector workers not only deliver terrific value, they have already sacrificed to help improve the province's current situation.

CUPE members, and public sector workers in general, also provide higher-quality service than do private contractors whose primary concern is to mind profit margins, not maintain to the highest standards in terms of things like the cleanliness of our schools, the safety and growth of our children, and the health and welfare of our young people at college and university. Shifting priorities from social programs will only do damage, not add value.

Invest In Early Childhood Education: The Big Multiplier

CUPE has long championed high quality public child care programs. This is a public investment that would deliver social and economic dividends for Newfoundland Labrador.

Spending on early childhood education has a huge economic impact: for every $1 million that the Province spends on childcare, estimates are that we will see $2 million in GDP growth.[6] In fact, the research on investing in childcare is clear: this is one public investment that pays for itself, over and over again. When children get a good start, they continue to achieve down the road.

Good daycare means that children go on to:

- do better at school;
- attend to higher education more frequently and do better when they are there;

[6] Sources: Informetrica Ltd, Centre for Spatial Economics, Finance Canada Budget 2009 (p. 240)

- contribute more to our economy – and pay more income tax;
- use healthcare and income supplement programs less frequently.[7]

More immediately, by investing in early childhood education, the Government would help to drive growth, not just by adding to the number of Early Childhood Educators (ECEs) who are employed, but by freeing up what is often a sizeable chunk of families' disposable income.

Working families in St. John's, for example, pay almost $1,400 a month for infant care, second only to parents in Toronto. As any family with young children will tell you, childcare expenses make penny-pinching elsewhere a necessity. If Newfoundland Labrador had an affordable, publicly-run child care system, more parents would choose to work, pay taxes and contribute to the economy. [8]

Five years ago CUPE Newfoundland Labrador commissioned a Vector poll to learn about the province's Early Learning and Child Care provision.

It found that 89 per cent of parents in the province support having the provincial government set up child care programs as part of the public school system. Only 30 per cent of families surveyed are using child care centres, while 86 per cent of respondents are using relatives to provide care and 65 per cent are using a babysitter.

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[7] Alexander, C., & Ignjatovic, D. (2012). Special Report: Early Childhood Education has widespread and lasting benefits. TD Economics. http://www.td.com/document/PDF/economics/special/di1112_EarlyChildhoodEducation.pdf

[8] Amy Stoodley, "Daycare Debt: Parents are Paying More Than They Can Afford for Childcare", CBC News Newfoundland Labrador, 17 March, 2015; David MacDonald and Martha Friendly, "The Parent Trap: Child Care Fees in Canada's Big Cities" Canadian Centre for Policy Alternatives, November 2014.

It's time to take the realities of 21st century family life into account. Parents and guardians should be able to work with the assurance that children are enjoying themselves playing and learning safely. Envisioning a province where all children – regardless of their family's income – have access to pre-school programs that prepare them for the years ahead is not only sound public policy, it's a sound economic investment.

More than half of the part-time workers surveyed (54 per cent) said lack of child care was a barrier to finding full-time work. Parents further indicated they would prefer a public system – even if it means their taxes would go up.

A larger, expanded workforce creates a gross domestic product that would help contribute to a public system.

Let's face it, the prohibitively high fees and the lack of good quality, public, non-profit early learning and care centres are barriers when considering having children. In provinces like Quebec and countries with family-friendly policies, long-term declines in their fertility rates have reversed.

We can learn from two provinces who are doing child care right. Quebec's universal, public, low fee child care system has been in place since 1997. It costs parents $7.00 a day.

Prince Edward Island has recently built a network of 45 licensed Early Years Centres with stable funding agreements in place. Parent fees are set by the province, staff training is ongoing and a provincial curriculum is in place. The province doubled the number of infant spaces immediately.[9] Fees range from $27 to $34 a day depending on the age of the child. This is more than Quebec's $7.00 a day but a great deal less than the close to $70.00 a day parents pay in St. John's today.

Prince Edward Island, along with Quebec, considers early learning a labour force strategy as well as a child development issue. To boost its population and its economy, PEI has increased immigration and launched public relations campaigns to lure native islanders home. Affordable and high quality child care is part of the province's campaign to attract immigrants and young workers. The same thing could be done here in Newfoundland Labrador.

Investing in early childhood education makes sense now, as part of a short-term jobs strategy, and will continue to make sense over time, as the returns to that investment become clearer.

The High Cost of Public-Private Partnerships (P3s)

CUPE Newfoundland Labrador commends the government on its recall of the request for proposals (RFP) in long-term care issued by the previous government and calls on the provincial government to continue to say no to P3s. Interest rates are low. Governments can always borrow more cheaply than private businesses. P3s do not make economic sense.

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[9] Erin Anderssen, "What PEI and Quebec can teach the rest of Canada about improving child care", *Globe and Mail*, October 24, 2013.

Public-Private Partnerships (P3s) are proven to unnecessarily increase costs. Despite many promises of private sector efficiency for the delivery of public services, this has not been borne out. Recent high-profile failures of these schemes have resulted in cost over-runs, poorly managed facilities, loss of democratic control, and undermined workers' wages and benefits.[10]

Successive Auditor General Reports have highlighted problems with P3s[11]:

In her 2014 Report, Ontario's Auditor General reviewed seventy-four P3 projects and concluded that the province paid $8 billion more to private contractors than would have been spent had these projects been provided through the public sector. She also questioned the main justification for using P3s – the assertion that they transferred risk to the private sector. The P3 projects used unrealistically high risk transfer, averaging about 50 per cent of the capital costs.

In 2014 the Auditor General of British Columbia raised major concerns about the high cost of debt through P3 projects. The interest rates on this $2.3 billion of P3 debt ranged from 4.42 per cent to 14.79 per cent. Her review shows that P3 projects are creating higher levels of debt than if the government had financed the projects itself, since interest rates are almost double with P3s.

In 2010, the provincial auditor of Quebec found that the Montreal University Health Care Centre (MUHC) P3 cost more than the public option, and that the analysis used to compare the P3 model to a conventional public model was extremely faulty. Instead of the P3 model

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[10] The Centre for Civic Governance, *Public-Private Partnerships: Understanding the Challenge - A Resource Guide,* Second Edition, June 2009.

[11] CUPE Research, *CUPEFACTS*, "What provincial auditors have said about P3s", April 2015.

saving $33 million, the provincial auditor found that the public model would have saved $10 million. The auditor's special report to the National Assembly also found that there was a cost overrun of over $108 million to the original price tag of $5.2 billion.

In 1998, the Auditor General of New Brunswick reviewed two P3s in that province: Evergreen P3 School and Wackenhut's Miramichi Youth Facility. The Auditor General concluded that the capital cost of the Evergreen School would have cost $774,576 less had the province done the work itself and that the Youth Facility cost the Province $700,000 more because of higher financing costs through the private corporation Wackenhut.

In 1995, the Auditor General of Canada reviewed the Confederation Bridge P3 project and concluded that the construction cost $45 million more than if the government had directly borrowed the money.

Nova Scotia's Auditor General found the P3 route to build 39 schools has cost the province millions more dollars to build and operate than the traditional public procurement program.

Public-private partnerships (P3s) have been shown to be a false economy, costing far more over the long term and delivering less. Indeed, the new federal Trudeau Liberal government has eliminated the "P3 screen" requirement for recipients of federal infrastructure funding, a welcome policy move.

<u>Progressive Taxation System</u>

Newfoundland Labrador's personal income tax system has become less progressive since 2008 because of a series of tax cuts. The bulk of those income tax cuts went to the wealthy.

Low income tax rates combined with the various tax loopholes and capital gains giveaways at play both federally and provincially mean that high-earners not only pay less tax, they are also able to send their money to off-shore tax havens, things that are of no benefit to Canada and to most Canadians. Lower income earners are much more likely to spend their income in the local economy.

The Province's tax system, like many others, was revised in response to claims that tax cuts would promote economic growth and job creation. Clearly, that has not happened. Since 1980, the only Canadians who have meaningfully benefitted by the restructuring of our tax system are the wealthiest of the wealthiest, the top .01% of income earners.[12]

Remaking our tax system has also meant that the government's capacity to provide high quality social programs has been slowly eroded. The same tax cuts that were supposed to promote economic growth also meant that government revenues as a percent of provincial GDP have been pared back. This means that the government simply has less money on hand to operate social programs, to promote the kind of investment and economic growth that will bring with it good, well-paying jobs.

To grow again, the provincial government needs to be able to provide high quality social programs, invest in infrastructure, education, and healthcare, the very things that drive private sector investment and job growth. To do this, the government should look to rebuild the province's tax structure.

By simply adopting tax rates and structures similar to those of its neighboring provinces, Newfoundland Labrador could raise from $300 million to $600 million a year. Adjustments

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[12] Saez and Veall, The Evolution of High Incomes in Northern America: Lessons from Canadian Evidence, American Economics Review, Vol. 95, No. 3, June 2005

to corporate tax rates, personal income taxes, and sales taxes (HST) to bring Newfoundland Labrador in line with tax rates in the other Atlantic provinces is one way to address the short term revenue shortfall.

The Government should act to close loopholes and stop the giveaways on capital gains that net high earners and corporations with another huge advantage. Though CUPE recognizes that capital gains and stock options are purported to be within the exclusive jurisdiction of the federal government, we believe that this is neither constitutional nor difficult to work around.

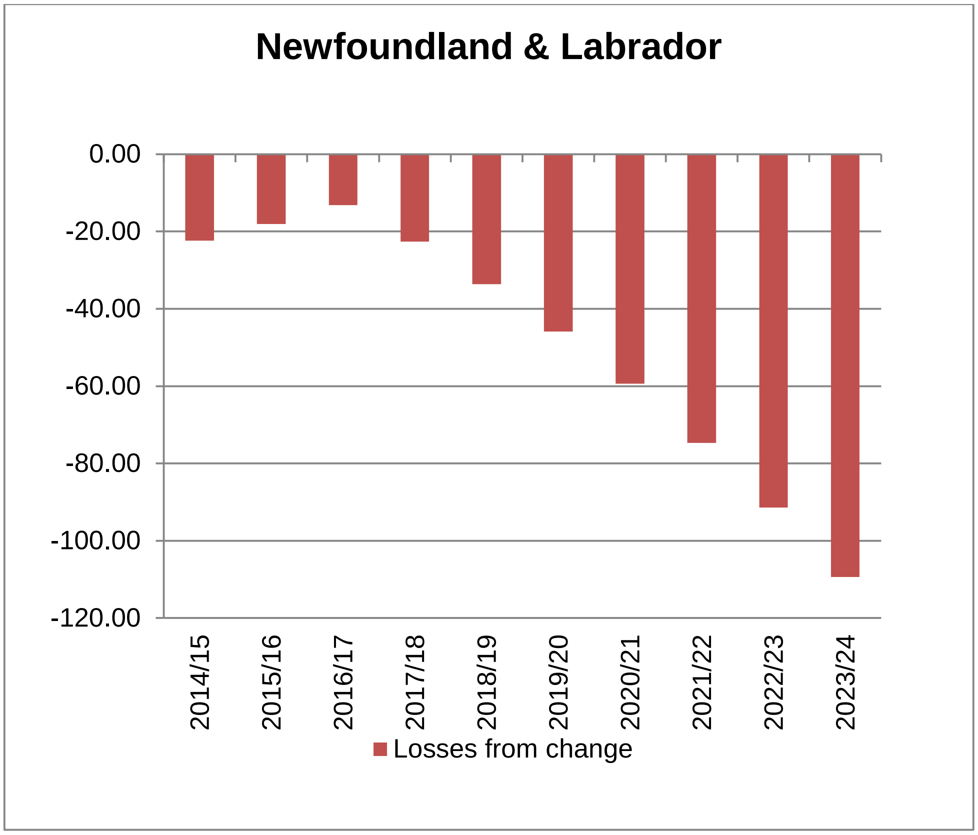
The offshore sector which is mostly foreign-owned has done very well from their investments in Newfoundland Labrador. CUPE agrees with those economists who have argued that Newfoundland Labrador should have higher corporate taxes and a tax on excess profits to maximize the benefits of the offshore industry to local citizens.

Federal Action on a Health Accord and Canada Health Transfer

Newfoundland Labrador's public health care system is threatened by recent federal funding restrictions, cuts, privatization and the abandonment of federal leadership in improving health care. The federal government once funded 50 per cent of provincial health care funding; soon it is projected to be less than 20 per cent. This leaves the province of Newfoundland Labrador facing the fiscal pressure of rising health care needs.

CUPE urges the provincial government to continue to press the federal government to negotiate a new health care funding accord with provinces and territories, providing annual 6 per cent increases in federal funding over a decade, tied to improvements to public health care. This was a key recommendation of Premiers at their 2015 Council of the Federation meeting.

Figure 3 Cuts to Health Transfers from Federal Changes to CHT Formula



Source: Report of the Council of the Federation Working Group on Fiscal Arrangements, July 2012

CUPE further urges the government of Newfoundland Labrador not to backtrack on demands to re-establish the equalization component of the Canada Health Transfer (CHT). If changes made by the former Federal Conservative Government to the CHT continue unchanged, it will cost Newfoundland Labrador dearly. (See Figure 3)

A long-term agreement that takes the aging population of some provinces into account is essential to the fiscal health of Newfoundland Labrador. CUPE is concerned that Atlantic premiers may now be backing away from asserting this position with the new Liberal federal government.[13]

Better quality public health care is not only important in its own right, but also helps businesses compete, creates jobs and improves productivity. Improved health care is estimated to be responsible for about 25 per cent of productivity growth in recent decades.

A new Health Accord and reinstatement of the equalization portion of the CHT would have positive impacts on Newfoundland Labrador's bottom line.

CONCLUSION

The provincial budget shortfall is of concern to all Newfoundlanders and Labradoreans. But concern should not lead to panic, program cuts or privatization and P3s.

Investment in public sector jobs and programs now will both stabilize volatility in the private sector and act as an engine for economic growth. Cuts to the public sector never save money in the long run and could well derail economic recovery.

These are the measures CUPE Newfoundland Labrador believes will ensure a vibrant economy over the long term.

Wayne Lucas
President, CUPE Newfoundland Labrador

[13] Jacques Poitras, "Premiers say increase in transfer payments for health care unlikely", CBC News NB, February 10, 2016 at http://www.cbc.ca/news/canada/new-brunswick/atlantic-premiers-health-care-1.3442644