

Newfoundland and Labrador Leadership in Crises: The Importance of Planning

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This is one of several essays that CARE will be releasing over the coming days and weeks. The essays are intended to facilitate debate on the fiscal and economic issues that are important to Newfoundland and Labrador. The essays provide context for this debate and present the opinions of the authors on how fiscal and economic issues may be viewed and tackled.

Late last week, on July 24, 2020, the Government of Newfoundland and Labrador's Fiscal Update 2020-21 revealed that the Province is expecting the second largest fiscal deficit in its history. Although deficits are part of our normal fiscal history for Newfoundland and Labrador, the situation has been deteriorating for almost a decade. The fact that these problems and challenges have persisted and are growing in intensity is not news. The fact that the impact of the pandemic on our economy has made our fiscal situation worse was to be expected. The Government's position that the pandemic is responsible for the crisis and we have been more greatly affected by this pandemic than other provinces are, in our opinion, a convenient, but less than accurate, narrative.

Despite the overwhelming evidence that demonstrates unequivocally that the Province is in a fiscal and economic crisis, Newfoundlanders and Labradorians, in general, and many of its elected and/or aspiring provincial politicians, in particular, appear reluctant to have a full-throated discussion about how the Province should move forward. Although people seem to be both aware, at least in a general sense, and willing to acknowledge that the government has a problem that it needs to deal with somehow, Newfoundlanders and Labradorians and their elected and/or aspiring politicians seem reticent to acknowledge the problems publicly and take ownership of their roles in helping devise a solution to fix the Province's fiscal and economic crisis. Any solution to the Province's economic and fiscal woes will necessarily entail a lower standard of living for the residents of the province and perhaps, an increased loss of population. This observation may explain the reluctance of politicians to talk about our future. The flip side is that our excessive borrowing coupled with deficits has produced winners – more jobs and more income for residents of the Province. While the path out of our current fiscal situation may be difficult for most of us to accept, this sacrifice will be an integral part of the anticipated long struggle for the Province to transition to a sustainable fiscal framework, bolstered by a viable economy. The length of this struggle will depend on the direction provided by elected officials and commodity prices for our vast resources.

Obviously, reasonable people can disagree on the specifics of how to frame the best solution to our fiscal/economic problems. The purpose of our essays is to not have the final word on solutions to our fiscal problems. Rather, it is to initiate and invite discussion and specific program/policy solutions. We believe that it is important to appreciate that without vigorous and informed discussions/debates on these issues, an effective and acceptable solution to Newfoundland and Labrador's economic and fiscal problems may never be achieved internally by our own provincial government. We believe that our continued looking to Ottawa for guidance and intergovernmental transfers is in reality an abdication of responsible (independent) government for the second time in our history (the first being 1934). Alternatively, the outside control may be even harsher than dictates from the federal government, it may have to come from the financial institutions, which collectively are our creditors. If we don't act now to address our fiscal problems, you should assume that of our creditors will eventually and their priorities might not be our priorities.

Since Newfoundland and Labrador's economic and fiscal problems are in large part of our own making, consequently, the solution must be driven in large part by changing our own actions. We cannot continue to spend more than we collect in revenue. The hard facts are difficult to acknowledge and deal with. It is easier to ignore the problems and live in blissful ignorance until the day of reckoning arrives. Symbolically burying our heads in the sand and hoping that the problem goes away because of enhanced intergovernmental transfers from Ottawa or through sustained, higher oil prices, is a very short-term, anxiety-minimizing strategy that works to deflect personal and political responsibility, it is, however, neither an effective strategy nor a plan.

How should a government, elected to represent the best interests of Newfoundlanders and Labradorians, move forward in the face of a fiscal/economic crisis? A crisis that has been exacerbated, but not caused, by the COVID-19 pandemic. Firstly, it is important to recognize that the current financial position of the Government of Newfoundland and Labrador is a result of decades of poor spending decisions and public policies, which were not based on any long-term strategic planning, but appears to have been based on 12 month budget cycles and 4 year election cycles. Secondly, while it is popular to blame Muskrat Falls for all of the fiscal woes of the province, it is important to appreciate that project has had a relatively small impact on both the current operating deficit and the current net debt figure. It should be noted also that the Muskrat Falls project has had a tremendous impact on employment, personal incomes and business activity. However, in the future, recognizing the impacts of rate mitigation, debt servicing, and additional equity borrowing associated with the project, there will be future additional costs for the treasury that will compound the fiscal challenges faced by the Province. Thirdly, from a fiscal perspective, it is important to recognize that Newfoundland and Labrador has been treated fairly by the Government of Canada and the fiscal problems that we now face are unrelated to the fact that our per capita revenue-raising capacity is too large to qualify for equalization. Our thoughts on the treatment of Newfoundland and Labrador by the Government of Canada from a fiscal perspective will be addressed in the next essay.

Fourthly, we need good leadership. It is of paramount importance that the next Premier exhibit good, effective leadership, characterized by open, transparent, straightforward, and honest communications. The aim of this communication strategy ought to be to explain precisely and concisely what policies are under consideration, how these policies are expected to affect the residents of the province and, most importantly, how these policies will be funded. Politicians can no longer afford to be divisive, rather all politicians must support a common, and perhaps harsh, approach to addressing our fiscal reality. In other words, the leader needs to lead, rather than simply accede to the populace demands and sentiments. The time for placation and platitudes is past, being supplanted by the need for hard decisions followed by specific and appropriate actions.

The next Premier should be a leader who:

- is well informed on the issues,
- is aware of the constraints that we, as a province, face,
- appreciates and recognizes which policies need to be put into effect,
- has an explicit plan for when these policies will be implemented,
- understands both how these policies will be implemented,
- explains explicitly how these policies are to be funded, and
- articulates clearly a vision and plan for the province which explains how the province can expect to achieve a sustainable framework supported by a viable economy in which people have realistic career options to pursue in an attractive place to live and raise a family.

In simple terms, **the Premier should explain where we are going, how we are going to get there and how we are going to pay for it.** Equally important, this explanation should consist of specific content and not simply be comprised of process statements. A plan constructed on sound bites is no longer acceptable or desirable. The plan needs substance, which implies clearly articulated goals and objectives, combined with a realistic and achievable schedule that specifies both short-term and long-term deliverables. Planning to plan or announcing a plan to plan is not a plan. It is simply politics as usual. It is a political tactic and Newfoundland and Labrador no longer has the luxury to afford political gamesmanship.

As we see it, the real issue is: recognizing that we are in large part, over a long period of time, responsible for the current situation, can the people of this province and its provincial government find a solution out of this situation. We believe yes, but really at stake is whether responsible government for our province is possible. We will explore these issues in the coming days.