



**Reasonable Solutions to Newfoundland and
Labrador's Fiscal Reality**

Issues from the Perspective of Business

2:15 – 2:35, Tuesday, February 11, 2020

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I am a history buff.

I have an intense love history. I read it, I have studied it at university, and I watch countless documentaries.

One of the things that I love about history is its lessons can be used to inform our decisions making today. We make better decisions by studying what has happened in the past.

We can even use history to better answer the questions posed by this symposium. Reasonable solutions to our fiscal reality. And there are lots of examples to draw from.

The Liberals under Clyde Wells in this province after the collapse of the fishery and a drop in federal funding
The federal Liberals under Paul Martin in 19xx
And the NDP government of Roy Romanow in Saskatchewan in the 90s
The financial crisis of Ireland a little over a decade ago

The Employers Council's biggest advocacy issue has been this province's fiscal situation for years.

We have held roundtables with individuals involved in these governments to help educate our advocacy and our recommendations to government and the public.

We have also hired think tanks and Memorial university professors to analyze provincial government spending and government service delivery, and commissioned economists from the Conference Board of Canada to propose ways to achieve sustainable prosperity.

What have we learned?

The only way to eradicate the problem is to grow your economy. A sustained, consistent growth of two to three percent GDP Growth year after year after year. Is this hard? You bet it is. But it can be done.

To do this, you must make the province attractive as a place to invest and to do business. It is not enough to be an OK place to do business, you must be better than the other options.

You also must make the province an attractive place to live and work, with a bright long-term future.

We've also learned that you cannot grow your economy while burdened with mountains of debt, and out of control government spending.

And the key to economic growth and fiscal stability is to modernize the way we delivery government programs and services.

The modernization and reform of government services is not about "cuts" as some think. It's about innovation.

It's about finding new, more efficient ways to deliver services that also improve outcomes to citizens. It's about allowing government to focus its limited resources on the things we really need government to do. And it's also about creating a policy environment that encourages competitiveness and productivity in the private sector.

Body:

1. What recommendations do we have for Modernizing Government?

Let's just take a look at our performance in one of our most important areas:

Adjusted for age and gender, NL spends the second highest on health care per person of any province in the country, 28% higher than the average of the other Atlantic Provinces.

Despite the amount we put into health, our health outcomes still fall behind the rest of the country.

The solutions to these challenges are not easy. They require breaking out of the status quo and doing things different. But they do exist.

If NL is going to get out of this fiscal crisis, we need to shake up this system and modernize government service delivery.

Modernization Solution 1) Specialization and amalgamation

Any politician who tells you they can resolve our province's fiscal situation without modernizing the delivery of health care doesn't understand the problem or is lying to you.

It is simply too large an expenditure and the demands on our health system are increasing every day.

We asked the Conference Board of Canada to look for opportunities in our health system, what makes us different from other provinces if anything?

Hospitals and Other Institutions are the main outlier in our health care spending.

NL spends almost \$2300 per person more or 27% more on running hospitals compared to the Canadian average.

We have 31 acute care facilities in NL. Some of these are within an hour's drive of one another.

But buildings don't make people healthier.

Professionals working in our health care system have made suggestions to government.

We don't need a study by outside consultants, we don't need province wide consultations, and we don't need a royal commission.

The professionals running our health care system know what needs to be done. They just to be allowed to do it.

What would they do to modernize our health system? In a word, specialize. You remove duplication.

Not every community needs the same medical services. Some rural areas of the province don't need surgery beds, they need ambulatory care clinics. They need more community health.

You don't need a hospital with empty beds and a full complement of staff to watch over those beds just in case something happens when you have another hospital with wait lists.

A modern health care system targets communities with the services and care that it actually needs, not the services it wants because the community an hour's drive away has it.

Its about having facilities specialize, moving more resources into community care, and travel assistance for patients.

And an amazing thing happens when you specialize facilities. You get better surgical and health outcomes. You get better outcomes when you have a procedure performed by a physician that performs that procedure 30 times a month than the one who performs it only once a month.

This, by the way is not something the business community came up with. This is the proposal put forward by the NLMA to government. They know that the current system is unsustainable, so if change is coming, they wanted to they recommend what they felt was the best way forward.

When you bus our children from a small school with few resources to a larger school with greater resources and more opportunity their test scores tend to improve.

Amalgamation is not just about saving money, it's about improving education outcomes of our school aged children.

Modernizing solution 2) Use technology

Other jurisdictions have benefited greatly by using technology to improve access to services.

In 2018 government released a five year plan to make services “digital by design”, including a centralized government portal, to be fully realized by 2023.

But there are so many more services that could benefit from use of technology.

NLMA is also working with government to try and increase the use of technology in the health care system. There are regulatory barriers that need to be addressed.

We’ve spoken with groups in education, including the NLTA, who suggested that use of technology could be increased in schools to address some of the challenges in rural regions of the province.

We need to be faster and more open to adapting these types of innovations.

Modernizing solution 3) Partner with the private and non-profit sector.

In order to address our fiscal situation and improve our productivity, we need to move as much as we can, anything that is not critical to be delivered by government, into the private or non-profit sectors.

In particular, when it comes to infrastructure spending, we should be using public private partnerships.

Why do we need to use public capital to finance infrastructure when there is private capital available and willing to do it? Public capital should be put toward the things we need our government to do...health care and education. Not things like \$85 million dollar ferries servicing communities of 150.

And this applies to service delivery as well.

Partnerships in the delivery of government services work because they separate regulation from service delivery, and take advantage of both party's strengths.

- They allow government to focus its limited capacity on regulation and core government functions.
- They harness the private sector's capacity to innovate and find efficiencies.
- They introduce competition and diversity into public services.
- They increase accountability to citizens through outcome-based contracts with private providers.
- They drive commercial activity and grow the economy.

And guess what, the public wants it.

At the end of 2018 Narrative Research conducted public opinion polling for us that showed strong majority support, as much as 4.7 times as much support for areas such as:

- Construction & maintenance of public buildings including hospitals and long-term care facilities
- Diagnostic imaging services
- Low risk day surgery clinics, such as eye surgery clinics or hernia clinics
- Food services, laundry services, janitorial, and other support functions in government facilities (4x more support than opposition)

- Staffing and administration of long-term care facilities
- Ferry services
- Administration of motor vehicle registration
- Low risk, transactional health services such as blood collection
- Collection of outstanding government fees and taxes

The public wants these types of partnership partially because they save money, but mostly because they believe that they will receive better outcomes and faster access to those services.

Why modernization of govt services is key:

Whenever we talk about the need to modernize or reform government services, there are some people who say we are calling for massive cuts.

But that's not the case. What we are asking for is a long term plan.

We shouldn't be using our credit card to buy our groceries. That's what we're currently doing. And there is no plan to change the way we do things and get out of this situation.

Meanwhile, the amount we pay on interest increases every year. In the last couple of years it went from \$900 million to \$1.4 Billion.

We spend more on interest than we do on education and income support combined.

Whether government wants to admit it or not, the reality is that CUTS are already happening.

Government is holding spending flat, and interest is crowding out what we spend in all government departments.

Our health and education professionals, and the public sector unions, are fighting over scraps and operating in a constantly constrained and uncertain environment.

If done right, and soon, modernizing service delivery will end this constrained environment and unlock opportunity for economic growth.

Here's how:

It will allow us to lower taxation and attract investment.

High spending and borrowing means high taxes. In a province that already has high transportation costs and high utility costs, it is even more important that we are competitive on taxation.

On the corporate side. Capital is mobile. Many of the people I represent are choosing to invest their capital outside the province due to high tax levels.

We need a framework at both personal and corporate levels that recognizes that our competitors are not PEI and New Brunswick. They are places like Alberta, Saskatchewan, Texas, North Dakota, Norway and the UK.

We need tax policy that isn't a disincentive for employers to hire more people or pay them higher wages – like our payroll tax – a tax that has been called a job and wage kill that doesn't exist anywhere else in Atlantic Canada.

Tax policy that doesn't penalize a business for investing in capital – the corporate capital tax. A tax that has been eliminated is being eliminated by most other jurisdictions.

We also have one of the highest personal tax burdens in the country. When some of the businesses I represent try to attract talent from other jurisdictions our personal tax burdens make it challenging or impossible. That includes the oil and gas sector all the way down to vet clinics.

Other jurisdictions have been very successful at growing their economies by lowering tax rates to attract business investment. Dublin has become the European center for tech giants like Google and Facebook by doing this. It's become a vibrant and youthful economy.

But it's very difficult to create attractive, highly competitive tax policy when you are running close to billion-dollar deficits. We need to change that.

Modernizing service delivery will allow us to focus on things we really need – like growing our population.

If you grow your population, you will grow your economy. In Newfoundland and Labrador, our population is shrinking and getting older.

Following the tax increases in budget 2016, our public opinion polling told us that if you make \$75,000 or more, have a post-secondary degree, and are between the ages of 18-34 there is a 1 in 2 chance that you thought about leaving the province because of the tax increases.

Since then the province's population has dropped by 8,664. That's about the size of Portugal Cove-St. Philips.

Last year our province attracted about 1500 immigrants. Their target is 1700. To just maintain our population, we would have to double that number. We've been saying that we need much higher targets for many years.

But, the problem is: the provincial government struggles to process all the applications they receive now. Doubling our targets would mean doubling the size of our provincial office, just to administer those extra applications.

How do you double the size of your immigration department when you are running \$1billion deficits? You can't.

Because of our resistance to change how we do things in areas like health and education we have no new money to spend in other important areas.

A structural modernization of government program and service delivery would enable government to make a stronger commitment to growing our population and subsequently our economy.

Policy Environment - Democratic Reform

The final lever that influences productivity growth is the public policy environment.

We advocate for public policy that enhances the ability of employers to contribute the economic growth and prosperity of the people of the province.

There are many public policies that impact productivity.

But when you advocate to make improvement, you want to focus on the root cause. If you can make improvements to the root cause, you can generally improve all the downstream issues that are barriers to success.

If you look at the fiscal realities we are in today. What is the root cause?

It is our political system.

Our political system incentives our political leaders to prefer short-term decision making at the expense of long-term sustainability. There is a strong case to be made for democratic reform to address some key issues:

- 1) There is a consolidation of power in the office of the Premier, and MHAs have little power or influence over policy and direction of government.

Their job is to stand and vote and be good soldiers. This does not make for healthy public policy debate.

- 2) The concept of one vote one person and every vote holds equal power, is not accurate. A vote cast in one district, can be as much as 3.84 times more powerful in electing a government than a vote cast in another. This skews election outcomes and policy development.
- 3) Our political system does not incentivize politicians to be open and honest. In the 2015 election, both parties knew the drop in the price of oil was going to mean significant hardship and significant change to public purse. But neither wanted to talk about it.

To quote former Prime Minister Kim Campbell, an election is no time to discuss serious issue.

Therefore no party had a mandate to do what needed to be done. And now were are worse off.

The hyper partisanship within our political system makes the political parties play a game of chicken if you will. Make the other guy do the dirty work.

- 4) Due to the way our political leaders are elected and political parties are financed, special interest groups hold too much power.

There are other democratic jurisdictions who operate differently. If we really want to solve our fiscal crisis, the root issue of democratic reform needs to be addressed.

Conclusion

Dr. Janice MacKinnon was the finance minister under Roy Romanow's NDP government in Saskatchewan when that province's borrowing got to the point where no one would lend them money. They had to go to the federal government for help.

We brought her in to speak in this province a year ago, and we're bringing her back again in a few weeks' time. Her message, based on her experience was this:

Don't let your government sleepwalk into a crisis.

The people that you most want to protect in society, those on social support and fixed incomes, your health care system, and public sector pensions will be the very things that get cut. She says, it's better to make your own plan to address these things than be dictated to by the federal government or lenders what must go.

Which brings me back to my story about what history can teach us about what to do now.

In each of those situations I spoke about, the Liberals under Clyde Wells, the Federal Liberals under Paul Martin, and the NDP under Roy Romanow, they all did the same thing.

They made meaningful spending reforms, that freed up government resources, that was then followed by economic growth, and finally by their re-election with larger majorities.

They presented a credible plan to resolve the fiscal situation they were faced with, they stuck to their guns in the face of massive opposition from special interest groups, and they electorate rewarded them.

They rewarded them because they gave them hope. They ended the demoralizing cycle of debt, deficits and constraint and offered a brighter vision for the future.

This conference was started by Doc O'Keefe reciting a passage from John Crosbie's book, No Holds Barred.

Allow me to finish with what John Crosbie said to me one time, "What's the point in getting elected if you are not going to do anything?"

Thank you