

Lessons for Newfoundland and Labrador from New Brunswick's Experience

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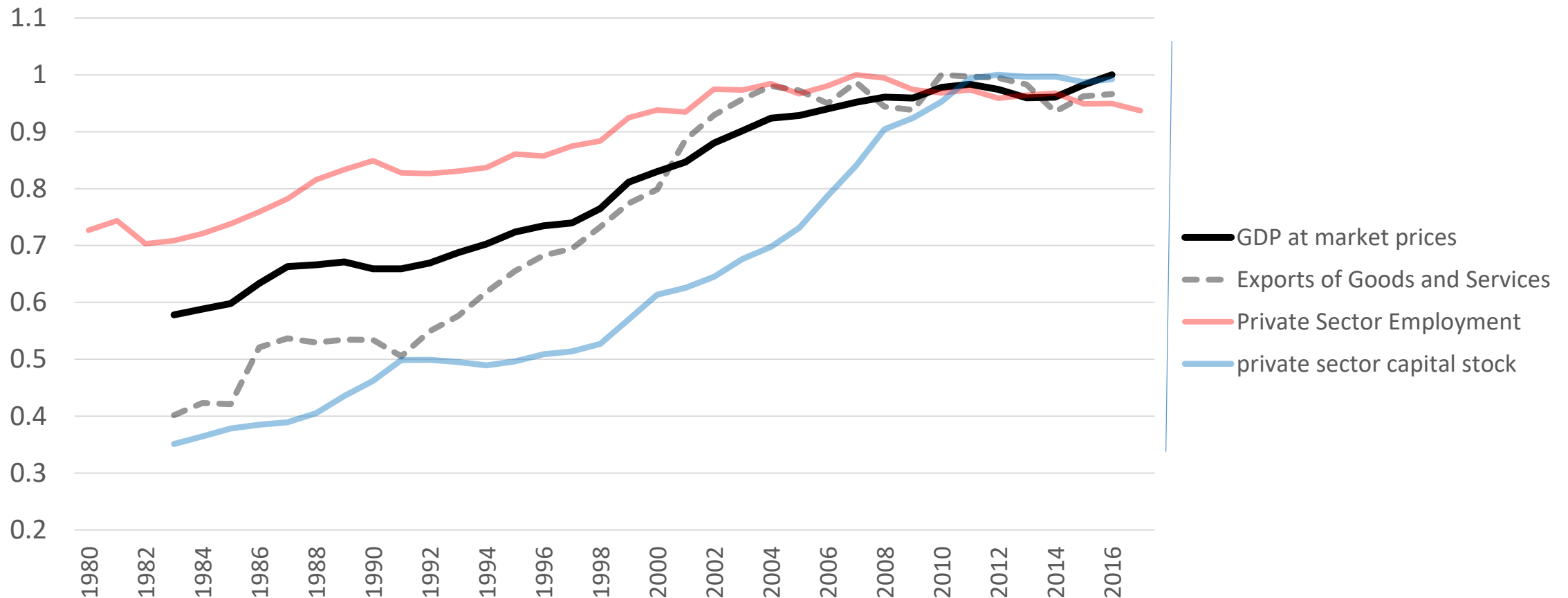
Lessons for NFLD from NB

- 1) it doesn't matter if you have energy revenues or federal cash transfers
 - Debt results from failure to align spending with sustainable revenue
- 2) megaprojects around energy investment have created liabilities not assets
- 4) we aren't talking about the biggest problem – health care liabilities
- 3) It doesn't matter who is in government,
 - Government choices are more a product of their current balance sheet than long term planning or ideology
 - tough decisions aren't supported by voters
 - stabilizations are always delayed until governments have no choice
 - When tough decisions are made it because of external pressures

What happened in the NB Economy?

Unlike NFLD roller coaster of boom and bust, NB stalled

Indexes of Economic Indicators for New Brunswick, 1980-2016



NB has had comparable increase in Net Debt to GDP since 2008 as NFLD
 NL has higher per capita debt, but NB has accumulated more total debt since 2008

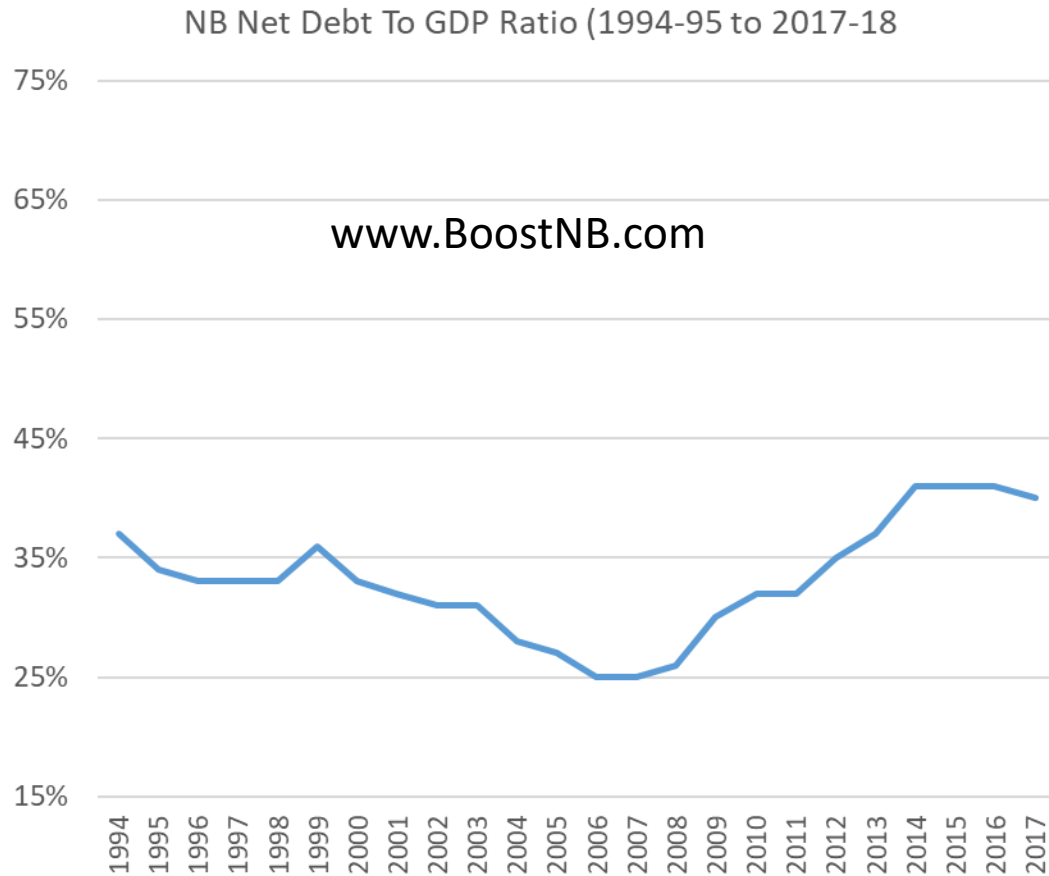
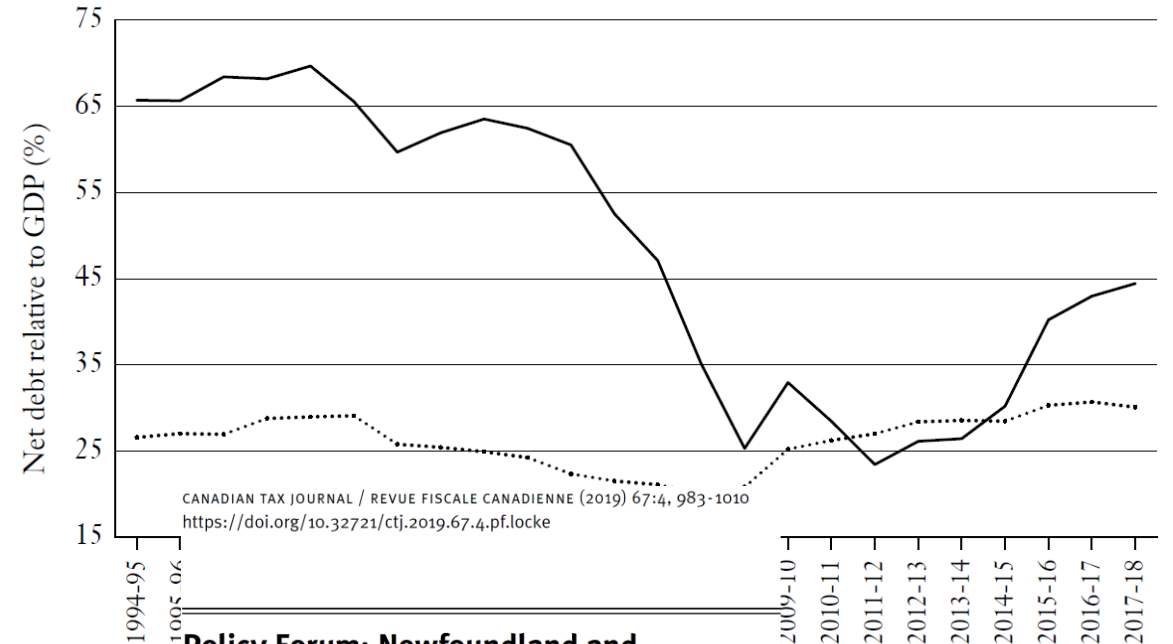


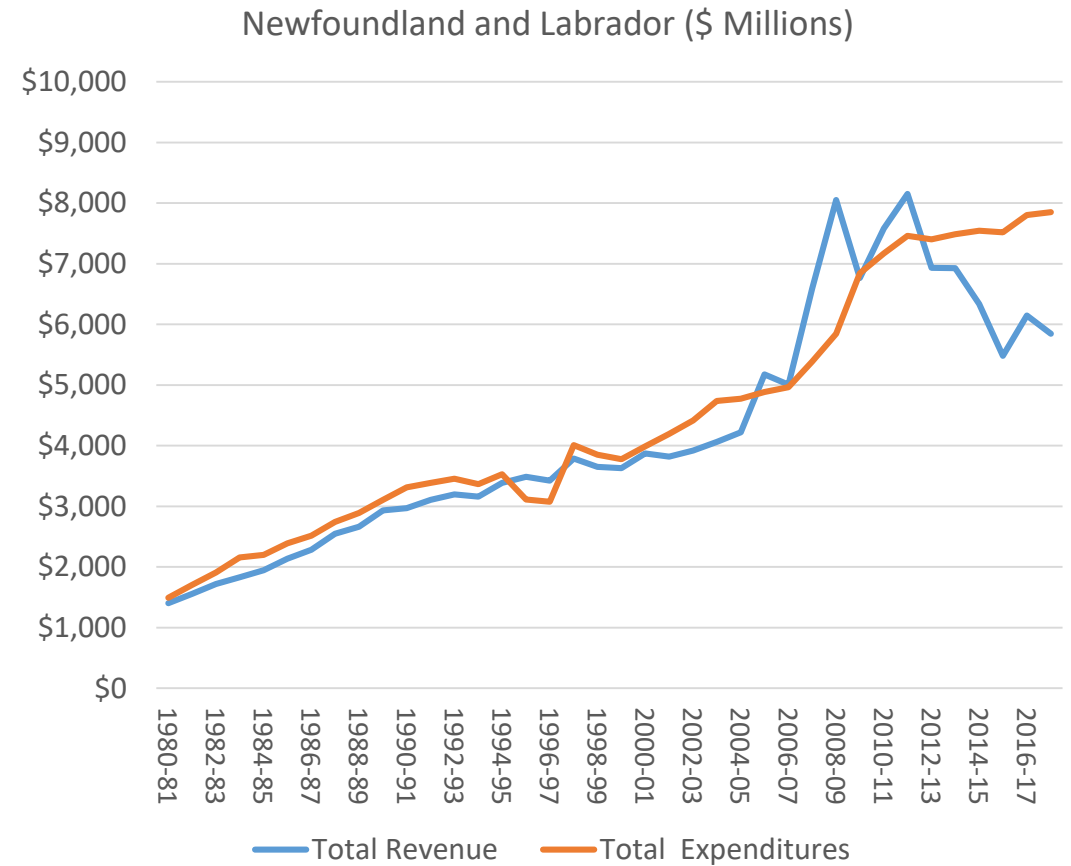
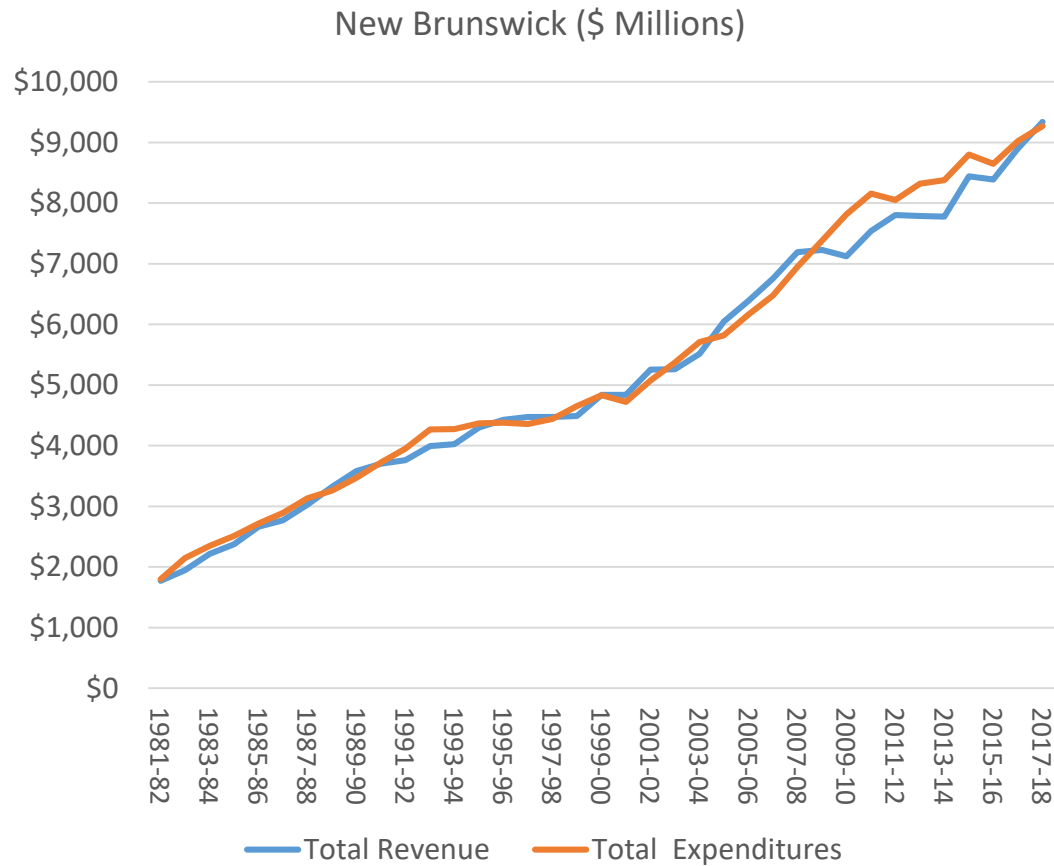
FIGURE 4 Net Debt as a Percentage of GDP, Newfoundland and Labrador Compared to the Average for All Other Canadian Provinces, 1994-95 to 2017-18



Policy Forum: Newfoundland and Labrador's Debt Strategy—Waiting for a Saviour or Godot?

Wade Locke and Douglas May*

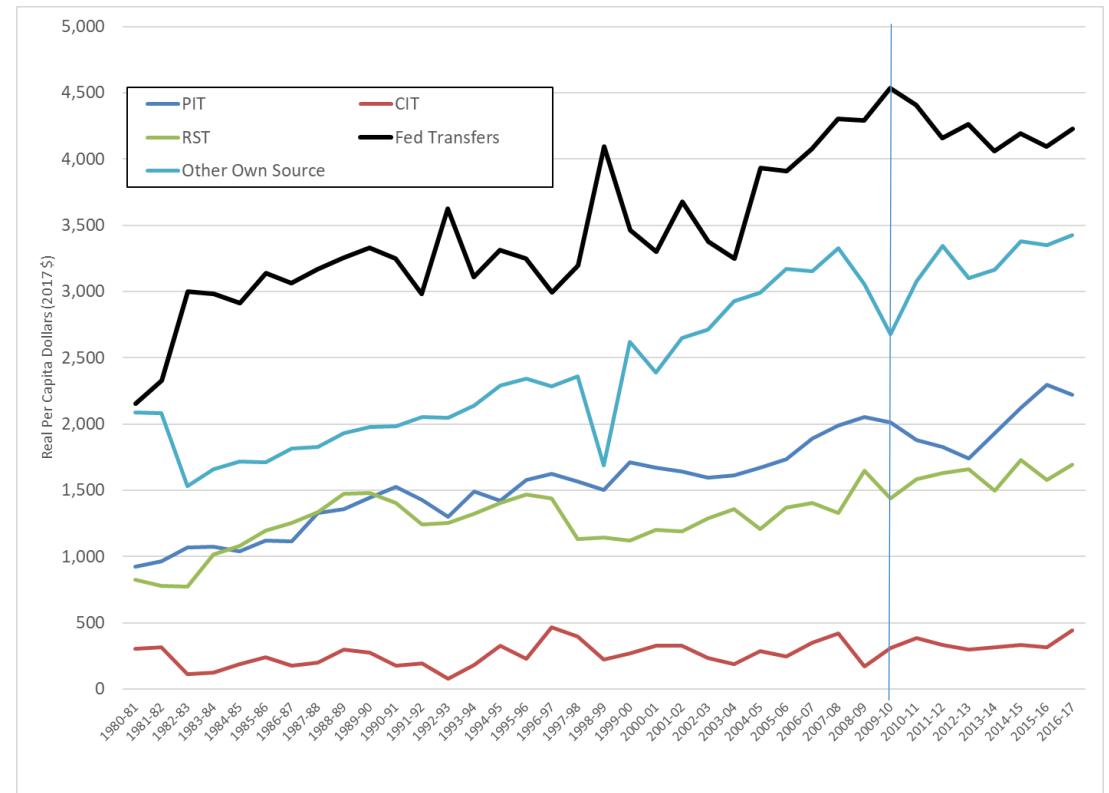
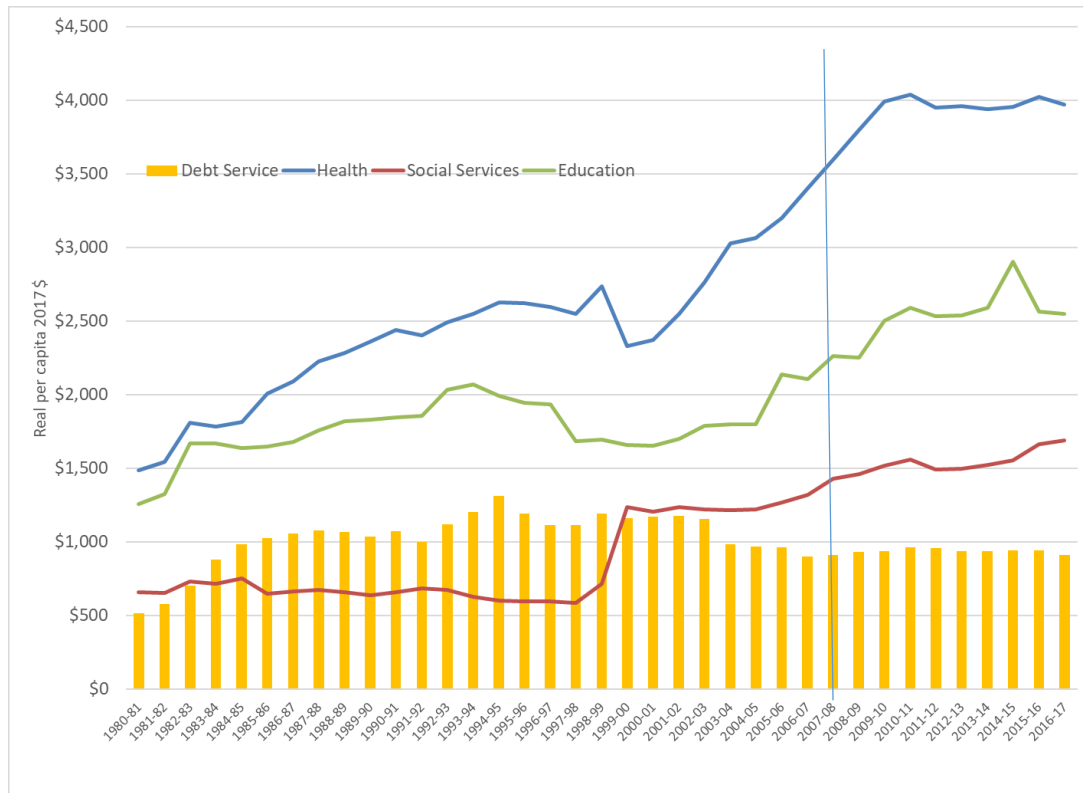
Lesson: Deficits and debt accumulation a result of slower adjustment of spending after revenue growth slows



Ronald Kneebone and Margarita Wilkins “Canadian Provincial Government Budget Data, 1980/81 to 2013/14” Canadian Public Policy Volume 42, Issue 1, March 2016. These data will be updated annually.

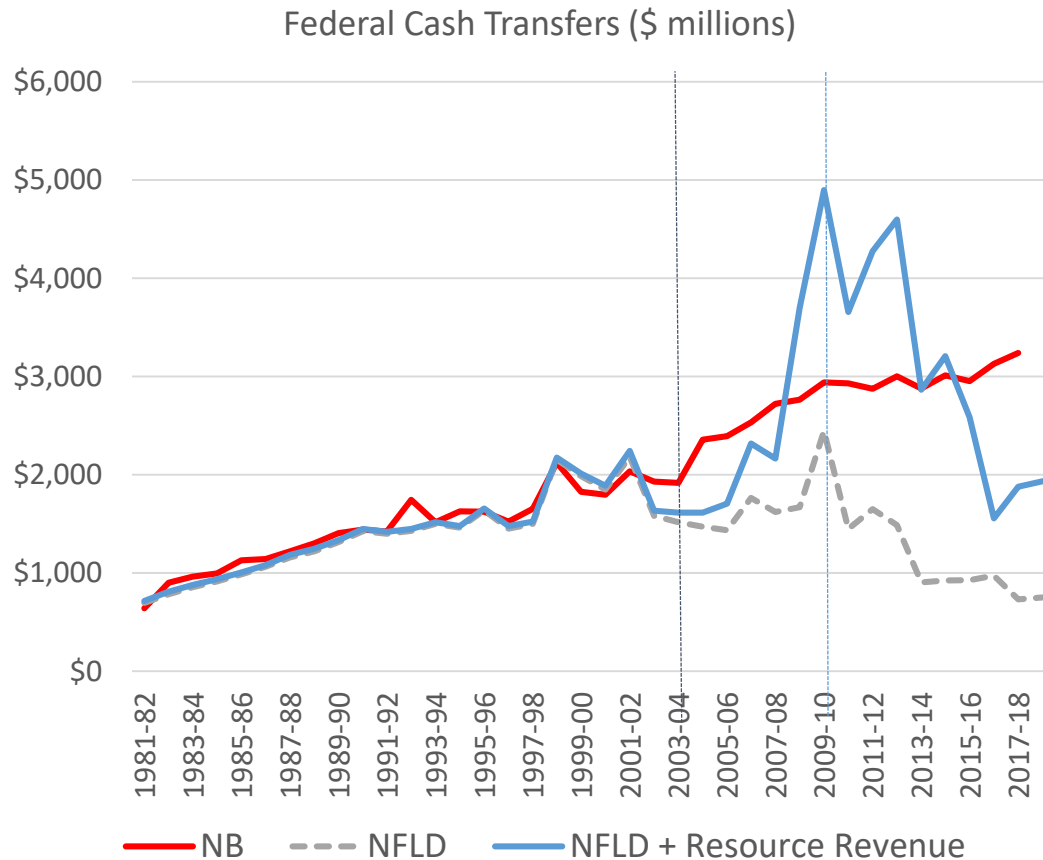
NB Spending from health and senior care outpaced revenue growth after 2008

Ron Kneebone (2019) "Government Finances in New Brunswick" Atlantic Canada Economic Review/Revue d'Économie du Canada Atlantique



Lesson: Don't let the energy revenue volatility fool you

It doesn't matter if you have energy revenues or equalization, it's what you do with them...



- **Since 1980-81**

- NB has received a total of \$77 billion in Federal transfers
- NFLD has \$76.5 in total federal cash transfers and resource revenue
- NB didn't face NFLD volatility but still accumulated similar amount of debt
- Treating transitory revenue increase as permanent
 - Expenditures expanded beyond sustainable revenue levels

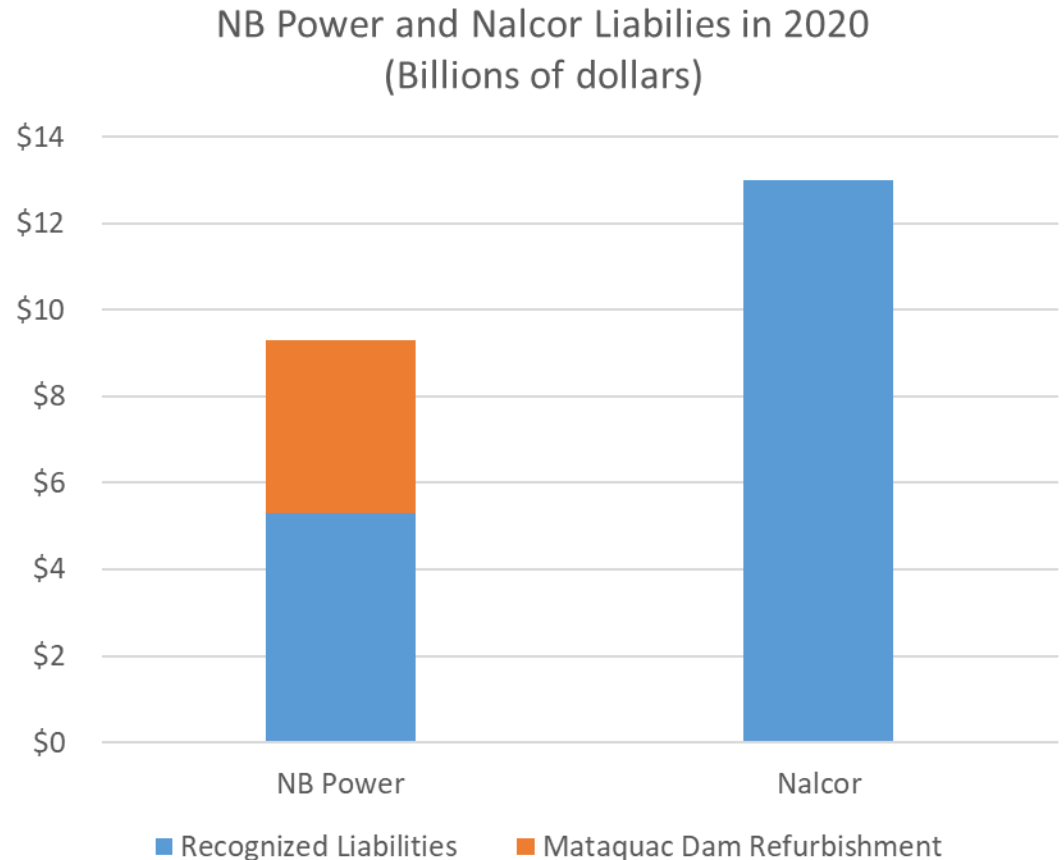
Lesson: NB's debt problem shows the problem of managing spending after unusual increase in revenues not raised through instruments that signal a "tax price"

- Prior to 2008, NB relatively successful at managing debt accumulation
- Prior to 2008,
 - NB rode a boom in federal transfers – 6.1% per year
 - Debt to GDP falling, public spending rising
- After 2008,
 - NB federal transfers grew slowly and fell in real terms, spending did not
 - \$4 billion "revenue hole" by 2018 relative to pre 2018 transfer growth
 - 2/3 of the increase in Net Debt since 2008
- Province borrows to make up shortfall rather than adjust to new normal for revenue growth
- So it's not a revenue problem, it's spending
 - Building permanent increases in spending based on expectation that transitory revenue growth was permanent
- NB is pursuing more federal monies to provide sustainable finances
 - mostly for health care claiming we deserve more for our older population

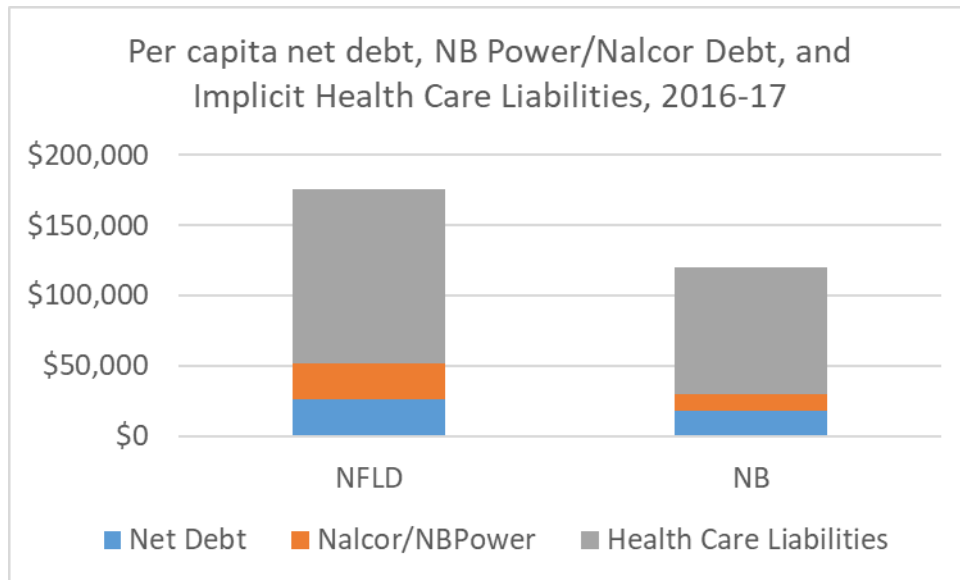
Lesson: NB and NFLD fiscal conditions are connected

Danny Williams and Muskrat Falls damaged NB after 2010

- 2010 NB sought to sell NB Power to Hydro Quebec
 - Would have got Quebec prices for power and got rid of the liabilities like Mataquac dam
 - \$4 billion to refurbish with no gain in generation
- Danny Williams alleged to have lobbied against the sale
 - He was getting Muskrat Falls up and running which has killed NL
 - He killed the sale of NB Power and left NB with the liabilities
 - No federal guarantees for NB Power debt like for Nalcor



Lesson: deficits and the net debt are a great diversion from the biggest problem of all – health care liabilities



- Health care liabilities = NPV of promised spending over next 50 years net of revenues available at current tax effort
 - \$90 billion for NB, 250% of GDP
 - \$120 billion for NFLD, nearly 400% of GDP
 - But these liabilities are much easier to default on

Final Lesson: It doesn't matter who you elect

It's not the politicians, it's the voters who kick the can down the road

- Ron Kneebone looked at NB and the fiscal responsibility of governments
 - Looked at debt accumulation due to policy choices
 - In NB, over 35 years since 1981 spending always increased
 - Debt accumulated when government didn't raise taxes or other revenues to cover increased spending
 - Debt fell when government raised taxes or received other revenues to cover the increase in spending
- Over 35 years, PCs governed 18 years and Liberals 17 years
 - “Interestingly, these periods of fiscal probity and fiscal recklessness were both nearly equally shared by Liberal and PC governments. It is therefore difficult to suggest that one political party might be appropriately labelled more or less fiscally responsible than the other.”