

"Newfoundland and Labrador is now a *have* province. That's a momentous day for the people of this province."

- Danny Williams, 9th Premier of Newfoundland and Labrador, Nov. 3rd, 2008 (CBC, 2008)

After centuries of relative poverty, the people of Newfoundland and Labrador (NL) have experienced unprecedented growth in income and living standards over the past decade. As a Newfoundlander myself, the effects became visible as construction boomed, gleaming new cars, outlets and wealthy foreigners flooded my quiet hometown of St. John's.

However momentous, that November morning foreshadowed what should have been a predictable problem. Towards the end of 2014, crude prices plummeted and the province entered the new year reeling. The PC government, accustomed to years of royalties supporting over 37% of its provincial revenue (Department of Finance, 2014), was left with a \$1.1 billion deficit, adding to the province's massive debt (Roberts, 2015). Taxes and borrowing are set to increase, as well as cuts to education and jobs. The economy is projected to contract markedly as we swing into a bust. Wonderful.

We have seen consecutive deficit budgets for the past four years, three of which were during an *oil boom* (Bailey, 2014). How does a government manage to *mismanage* their finances to such an extent that the debt keeps increasing during the most benign economic conditions imaginable? How could spending have outpaced explosive revenue growth? Finance Minister Ross Wiseman claimed there was one reason "... and that reason is oil." (Antle, 2014)

Correct, Mr. Wiseman. However, the FM was referring to the oil crash of 2014 - as if the previous three deficits were nonexistent. An unexpected decrease in the price of oil is thus not the true reason for our fiscal woes. Newfoundland's transformation into a veritable "oil sheikhdom," on the other hand, is.

Oil rents distort incentives and muddle long-term economic planning - Terry Lynn Karl's famed "resource curse." When states develop a "*rentier*" economy, especially ones with no previous industry or experience with prosperity, they tend to binge (Karl, 1999). As the populace does not need to bear the burden through taxation, populist politics becomes attractive, and large, dubious public projects meet little resistance. Less attention is paid to administrative cost and waste. Other industries are crowded out, and our economic eggs are put in a single, oil-slicked basket (Ainslie, 2013). Spending rises lavishly: pension boosts, wage raises, cheap daycare, tax credits and other fruits are showered on the people. Why plan for the hard times, when they do not appear to be on the horizon?

This has been the story of Qatar, Saudi Arabia and other *actual* oil sheikhdoms. The Gulf states took a hit too, but they were not the ones posting deficits *before* the oil price drop (Ayoub, 2015). Newfoundland distinguishes itself as having squandered the greatest jump in wealth it had ever seen.

As a result of our mammoth increases in deficit spending, NL now has the largest relative public sector in Canada (Eisen and Fantauzzo, 2014). We spend a huge amount on healthcare and education, yet lag in these areas (CBC, 2015). It somehow costs us more to provide the same services as other provinces. We have poor business competitiveness and little endogenous productivity growth to speak of (NLEC 2015).

How could this have been avoided? Most importantly, we should have avoided the resource curse in the first place - allowing 37% of your revenues to come from volatile natural resources is a recipe for disaster. The government should have taken a liberal, hands-off approach to the mining and oil sectors and taxed them like any other commodity, making sure revenue was drawn from a broad base. Instead of expanding crowd-pleasing projects in the short run, more money should have gone to durable infrastructure, improving the province's loathsome K-12 education system, and investing in long-run healthcare improvements. The debt, although slightly paid down in the beginning (CBC, 2015), should have been a higher priority, and *every* new investment should have been met with *a priori* reviews to ensure efficiency and cleanliness.

Yet, the deed is done. How do we deal with this? FM Wiseman is right to propose a mild mix of borrowing, cutting and hiking, but fails to recognize that the public sector itself must be restructured - the province cannot return to old habits. Unfunded liabilities are a gargantuan problem on the horizon for NL's rapidly-aging population, and pensions need to be renegotiated. If taxes must be increased, the HST is generally agreed to be the least destructive route to do so (McBride, 2012). Megaproject spending should be frozen or reduced, and the public service must be cut dramatically.

The government must admit that this is, and always has been, a spending problem - a crisis of their own making. I hope, for the sake of my friends and family, that they lift this resource curse and shift course to a path of diversified, sustainable growth, based on real productivity gains and sound fiscal management.

## References

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