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Policy Paper

Platform for New Brunswick

PUBLIC POLICIES FOR GROWTH AND PROSPERITY

By Marco Navarro-Génie

Halifax, Nova Scotia,

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The Atlantic Institute for Market Studies (AIMS)

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About the Author

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Executive Summary

New Brunswick will hold its 39th general election on Sept. 24, 2018. The policy discussions that accompany the campaign are of vital importance to New Brunswick, given its financial difficulties and slow economic growth.

This paper raises discussion of public policy reform. Author Marco Navarro-Génie, President of the Atlantic Institute for Market Studies, makes the case for more disciplined fiscal stewardship, better use of market mechanisms in health care, developing New Brunswick's energy resources, and evidence-based education policy.

The Institute submits this platform as a point of discussion for New Brunswick media and voters. It articulates a policy direction that focuses on economic development and market-based solutions with the goal of greater prosperity. In the document, AIMS makes the following proposals:

Public Finances & Taxes

1. Balance the budget in 2019 and beyond;
2. Eliminate the provincial share of residential property taxes;
3. Cut personal and corporate income taxes to offset the HST increase.

Healthcare Policy

1. Encourage alternative delivery options;
2. Use market tools within the public system;
3. Tie changes in health spending to the HST;
4. Invest in preventive medicine.

Energy Policy

1. Overturn the moratorium on hydraulic fracturing;
2. Implement smart-grid technology for demand-side management;
3. Develop natural gas and nuclear options for baseload power;
4. Resist efforts to impose a federal carbon tax;
5. Work with Ottawa to restart plans for an eastbound pipeline.

Education Policy

1. Create space for charter schools;
2. Decentralize school governance;
3. Remove floor on number of teachers;
4. Create open disciplinary process;
5. Review French Immersion entry based on the evidence.

Introduction

As Atlantic Canada's leading public policy research organization, the Atlantic Institute for Market Studies provides peer-reviewed scholarship, all of it freely available to the public. Our experts write on all facets of public policy debate relevant to the region.

For the first time in 2017, the Institute published *Platform for Nova Scotia* during the most recent provincial election campaign. The project's purpose was to provide a series of policy prescriptions that any political party could implement in office to improve the provincial economy.

Now, the Institute is publishing its second provincial platform, coinciding with the New Brunswick general election of Sept. 24, 2018. Like the Nova Scotia document, this paper aims to give New Brunswick readers, voters, and policy-makers suggestions for public policy reform. There are four sections corresponding to the four main subjects of AIMS's research focus—public finance, healthcare, energy, and education—each containing a short background description and several policy prescriptions.

New Brunswick finds itself in considerable financial difficulties. It holds high public debt, runs persistent budget deficits, and is projected to have the slowest economic growth in the country in 2018. The province is approaching a demographic cliff in which seniors make up the highest proportion of the overall population in the country, while the labour force is shrinking. This indicates tough years ahead for the provincial economy if urgent, growth-focused action is not taken. Auditor General Kim MacPherson recently compared the province's debt burden to turning around the Titanic.[1]

AIMS was founded on a belief that classical liberal ideas such as property rights, greater reliance on markets, lower taxes, responsible fiscal management, and simplified regulations are the best prescription for ensuring long-term growth and prosperity. The policies we recommend in this document reflect these principles, tailored to circumstances specific to New Brunswick.

The Institute is a non-partisan organization, whose staff is unaffiliated with any political party, and whose board of directors and supporters come from many political stripes. Our purpose here is to provide policy ideas that any government could adopt for the urgent improvement of New Brunswick's economy.

TOPIC I

Public Finances & Taxes

Sound management of public finances continues to be one of New Brunswick's most pressing policy challenges. Prior to the Great Recession, provincial budgets were pretty well balanced and debt was reduced, largely thanks to fiscal discipline imposed during the Frank McKenna era that continued through the early-to-mid-2000s in the Bernard Lord era. But since the recession, governments have struggled to keep spending in line with available revenues.

For years, independent voices have criticized government's serious shortcomings on public finance and economic policy. And in the past year, institutional voices have joined this refrain. Auditor General Kim MacPherson offered a stern warning this summer, reiterating that New Brunswick's budgets are unsustainable. Dominion Bond Rating Services has also downgraded the province's debt rating[2]—a possible signal of a formal credit downgrade in the near future.

During the current government's mandate, provincial-sourced revenues have increased 16 percent in real terms while spending has increased 3.2 percent.[3] However, there is reason to believe that New Brunswick can no longer rely on growth to finance additional government spending; the economy will stagnate (as projected by government forecasts) unless the government adopts policies to strengthen investment and job creation in the private sector.

Chief among these policies is a concerted effort to lower the tax burden, which would free up more money for consumer spending, attract external investment without having to rely on corporate welfare, and ensure the long-term security of key government programs.

New Brunswick's taxes are indeed high. In a 2016 AIMS paper,[4] we showed that the four Atlantic Provinces, and especially New Brunswick, operate at a disadvantage to their closest geographic competitor in New England. With a tax burden well above other jurisdictions, it stands to reason that lowering rates would benefit consumers and businesses alike.

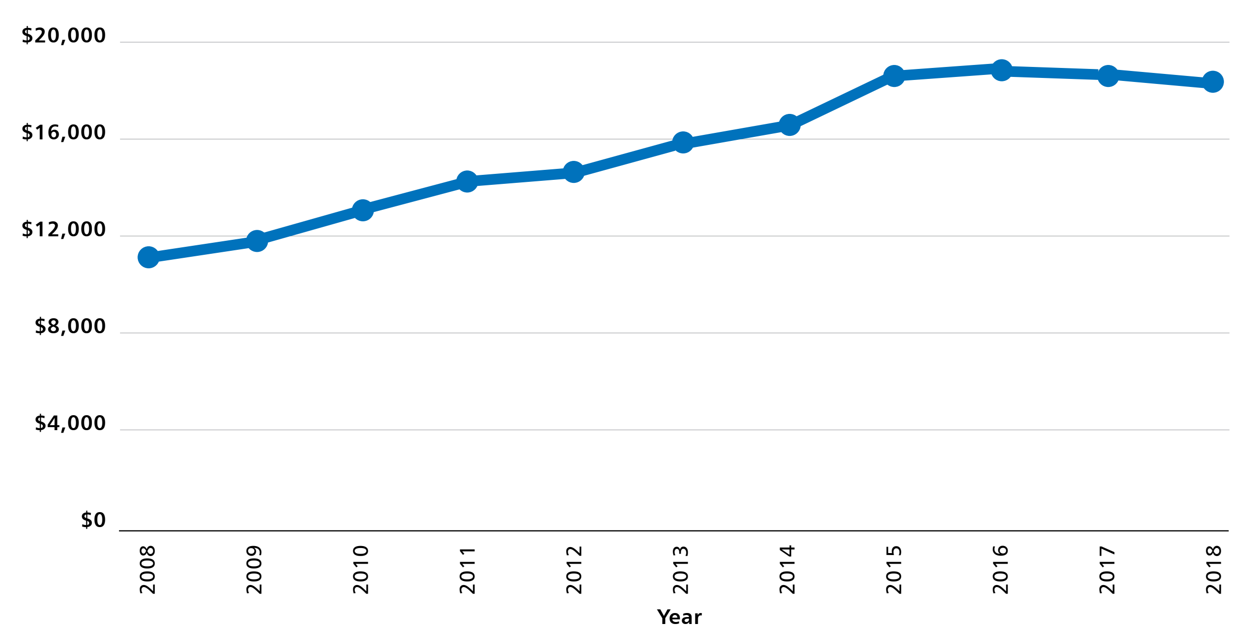
At the Institute, we believe that high taxes and persistent budget deficits are related problems. When government grows its spending each year, without regard to consequences for the public debt and the government's credit, higher taxes become inevitable.

1. Balance the budget in 2019 and beyond

New Brunswick's net debt now stands at $13.9 billion. In real terms, this is an increase of $5.6 billion or 67 percent over a decade. The per-person public debt, excluding federal and municipal debts, is $18,295.

Figure 1

New Brunswick Per-Capita Net Debt, 2008-2018 (2018$)



Source: N.B. Public Accounts and Statistics Canada CANSIM Population Table 17-10-0005-01.

These are damning statistics. In just a decade, each New Brunswick resident's share of the public debt increased about $7,108 in real terms, or 64 percent. When one combines these figures with worrying levels of consumer debt, it is a sign the province is growing poorer.

There is also a clear culprit: budget deficits going back to the Great Recession, with the exception of a $67 million surplus in the current election year—which the present government has pledged to reverse with a return to deficit spending. This is not a partisan problem: Liberal and PC governments alike have failed to balance the books, with deficits reaching their zenith in 2010. While deficits have decreased since then, the current government's plan is to put off eliminating the structural deficit until the third year of a second mandate.

There is also reason to believe that the province's deficit is underreported, since the official deficit number only includes designated expenses in the budget's main estimates. Governments across Canada have notoriously used Crown entities and capital budgets as "spending havens" for government dollars that do not show up on the operating books.

The easiest way to see the difference is to compare the reported deficit to the amount added to the province's net debt each year. The results, in the table below, show New Brunswick governments running significant true deficits.

Figure 2			
Discrepancy Between New Brunswick's Reported Deficit and Change in Net Debt, 2008-2018 (nominal $millions)			
Year	Reported Deficit	Change in Net Debt	Difference
2008	-241.1	354.4	595.5
2009	151.6	464.5	312.9
2010	695.2	1,004.5	309.3
2011	617.0	1,077.8	460.8
2012	244.3	447.8	203.5
2013	532.7	969.7	437.0
2014	600.3	624.3	24.0
2015	361.4	1,452.2	1,090.8
2016	260.5	542.1	281.6
2017	117.0	168.8	51.8
2018	-67.0	105.9	172.9

Source: N.B. Public Accounts.

In 2015, the change in net debt was 4 times larger than the official deficit figure. On 3 occasions in the past decade, New Brunswick governments have added more than 1 billion current dollars to the debt in a single year; in one of these years (again, 2015), the government added nearly $1.5 billion. And this is in an approximately $35 billion economy.

It is clear New Brunswick has a debt problem. Unfortunately, the consequences of putting off this issue are often not immediately apparent to voters. But in effect, the province is paying to service borrowing it did years ago. However, continuing to spend more money than government takes in is presented as a means to secure public services today; in effect, it is just pushing a greater cost down to the future.

There is no reason for consistent, annual balanced budgets to be put off any further. Whatever the next government's political stripe, it should build on the current small surplus and commit to ending deficit financing in all non-recession times. It should also pay down the debt principal to lower debt servicing costs.

2. Eliminate the provincial share of residential property taxes

Property taxes in New Brunswick have been a matter of controversy in the past 2 years. A botched implementation of new assessment technology—which uses low-flying planes to take pictures of property and software to judge property upgrades—caused incorrect assessments for thousands of New Brunswick residents. It also prompted an assessment freeze for 2018.

Unfortunately, the province's struggles with this particular form of taxation go beyond assessment issues. An AIMS report from earlier this year,[5] co-authored by UNB economics professor David Murrell, found that property taxes are inflating faster than other goods throughout Canada, worst of all in New Brunswick. An average good valued at $1 in 2002 would have cost a New Brunswick family $1.31 in 2017. But to pay property taxes valued at $1 in 2002, the family would have had to pay $1.79 last year, or 37 percent more.

New Brunswick's disproportionate "property tax CPI" puts residential and commercial property owners at a disadvantage and mitigates one of the province's few strong areas of inter-jurisdictional competitiveness: namely, cheaper housing costs. (A 2017 paper co-sponsored by AIMS found Saint John and Moncton to have among the most affordable mid-income housing in Canada.[6]) High property taxes are also partly responsible for depressing property values.

The policy issues here go deeper, however. New Brunswickers pay what is locally referred to as a "double tax" if a property is not their primary residence. This affects seasonal cottage owners, commercial property holders, and landlords of apartment buildings. Of course, New Brunswick is not the only province to offer a tax break to primary residences, but it is the only one to structure such a policy in this fashion.

The key factor here is the property tax rate. The provincial levy is $1.3373 per $100 of assessment, and this rate would not be extreme in isolation. However, this tax is layered upon municipal rates that vary significantly across the province, from a low of $0.9345 in Salisbury to a high of $1.785 in Saint John. Non-owner-occupied residential property holders thus pay more than 3 percent of their property's value to government each year in high-tax cities and towns. Plus, provincial legislation fixes the premium for commercial property taxes at 50 percent of the local base rate.

At present, the $515 million government takes in through real property taxes makes up a relatively small portion—8.9 percent—of the province's own-source revenue. In July, Finance Minister Cathy Rogers pegged the value of the so-called double tax, in particular, at $68 million[7]—about equal to the value of this year's budget surplus. For context, personal income taxes bring in $1.7 billion, HST $1.5 billion (net of credit), corporate taxes $311 million, gas taxes $249 million, and tobacco taxes $152 million.

The provincial government could afford to relinquish its share of property taxes, and ought to do so. This would eliminate the burden of paying two different taxes on the same base of wealth, putting more money into the hands of New Brunswickers. It would also place greater policy flexibility in the hands of the municipalities. Without the double tax, they could set up their own breaks for owner-occupied properties if they so wished. And it would give them more room to set rates by their own prerogative.

The larger issue here, worthy of strategic policy reform in the longer term, is whether property taxes should be levied at the provincial level at all. Traditionally, property taxes have been a local levy to pay for local services as a separate instrument from those used by national or sub-national governments. They aren't structured as fairly as other taxes; they have challenges of measurement and implementation (as New Brunswick knows well); and they create a disincentive to property development. Most importantly, by having a jurisdiction-wide property tax, the province is piling on top of the only tax base available to municipalities and undercuts their ability to compete among themselves through tax rates. While getting out of taxing residential properties should be an immediate and implementable policy, the province should also move in the long term to extricate itself from the property tax instrument altogether, leaving this for municipalities.

3. Cut personal and corporate income taxes to offset the HST increase

New Brunswick's government hiked the provincial portion of the harmonized sales tax by 2 percent in 2016. Unfortunately, this additional money has not eliminated the province's structural deficit. Today, New Brunswick is tied for the highest sales tax in Canada—along with the other Atlantic Provinces—and an above average per-person public debt.

When the HST hike was implemented, it was supposed to be part of an effort to balance fiscal recovery efforts between revenue increases and spending reductions. Yet, the additional revenues from the HST were immediate, while spending reductions were to be spread over many years. This was hardly a balanced approach. Now, it makes sense for the government to take more seriously the expense-reduction side of improving the province's financial health and lower taxes to stimulate growth.

The province could simply restore the 13 percent HST rate, perhaps in two stages as expenses are reduced, to undo the damage of higher taxes to the provincial economy. This would be better than no action on taxes at all. However, there are economic arguments in favour of the HST in comparison to other forms of tax. For example, the HST is more broadly based than other taxes, e.g., personal and corporate income taxes. This allows the HST to, in theory, have a lower rate and produce a less distortive effect, allowing economic activity and investment capital to be put to their most productive use. Unlike income taxes, they do not create the same disincentive to employment.

The following table (Fig. 3, next page) shows there is significant room for improvement in New Brunswick's tax competitiveness. Of particular weakness for economic development is the high general rate for corporate income taxes at 14 percent. By dropping this rate to 11 percent, New Brunswick would have the best rate in Canada

Figure 3

Ranking New Brunswick's Tax Burden, 2018

Personal Income Tax			Corporate Income Tax		
	Rate	Rank		Rate	Rank
Personal Exemption	$10,043	5th	Small Business Rate	2.5%	6th
Lowest Bracket	9.68%	5th	General Rate	14%	7th
$50,000 Bracket	14.82%	8th			
$100,000 Bracket	16.52%	6th	Sales Tax		
Highest Bracket	20.3%	8th	HST Provincial Share	10%	T-7th (Last)

Source: N.B. Public Accounts.

and return more money to the economy for investment and employment.

Similarly, lowering personal income tax rates would make New Brunswick more attractive to residents wishing to stay in the province and to potential immigrants from elsewhere in Canada.

Reducing the HST to 13 percent would lower the provincial tax burden by about $300 million, or approximately 4.9 percent of current own-source revenues. The New Brunswick government should capture the same reduction in the tax burden by lowering a combination of corporate income taxes, personal income taxes, and an extrication of the province from property taxes, financed by reducing spending.

Achieving these spending reductions to finance tax cuts would be challenging, but very possible. There is also a framework for program reform in the Chrétien-Martin era's restructuring of the federal public sector in the 1990s. In fact, the present New Brunswick government embarked on a strategic program review, apparently based on the federal process, early in its mandate.[8] Its ambition was not just to cut waste, but also to re-evaluate the role of government in the province.

Unfortunately, this effort was not seen through to its conclusion, with only technical efficiencies targeted under the rubrics of "administrative efficiencies", "reshaping the civil service", and "centralization of services". What the province truly needs is a search for allocation efficiencies and a willingness to part with spending that cannot be afforded with lower tax revenues.

We submit that an earnest effort to reduce program costs, through a renewed program review process, is the best place to start in seeking savings in New Brunswick's public sector.

TOPIC II

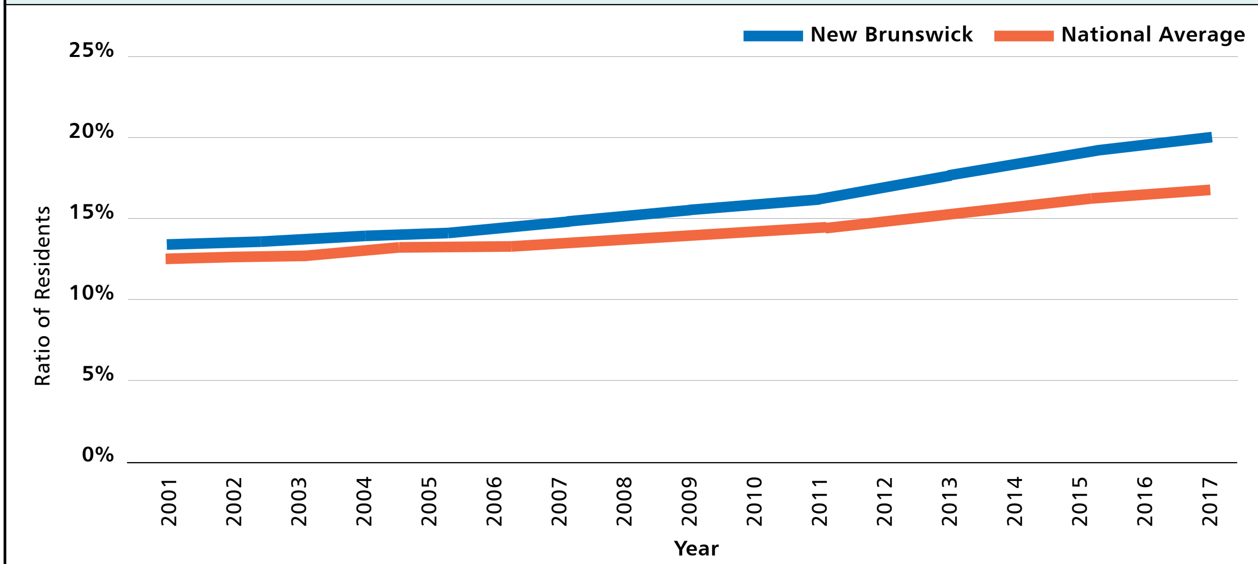
Healthcare Policy

New Brunswick's healthcare system is under strain from the province's changing demography. In a single-payer medical treatment system like Canada's, not all residents require health care at identical total cost. According to the Canadian Institute for Health Information (CIHI), adults 15 to 64 in age have healthcare expenditures, on average, of $2,663 per year. Residents above 65, by contrast, on average have expenditures of $11,635 per year.[9]

This matters for New Brunswick because of its increasing share of seniors. In fact, New Brunswick has the highest proportion of seniors in its population in Canada, at 20.1 percent in 2017. This is due in part to a larger number of 65-plus residents; the other part is emigration from the province by younger residents, often in search of work in other parts of the country. New Brunswick also has a low share of international immigrants, who tend to be younger.

Figure 4

Ratio of Residents Age 65+, 2001-2017

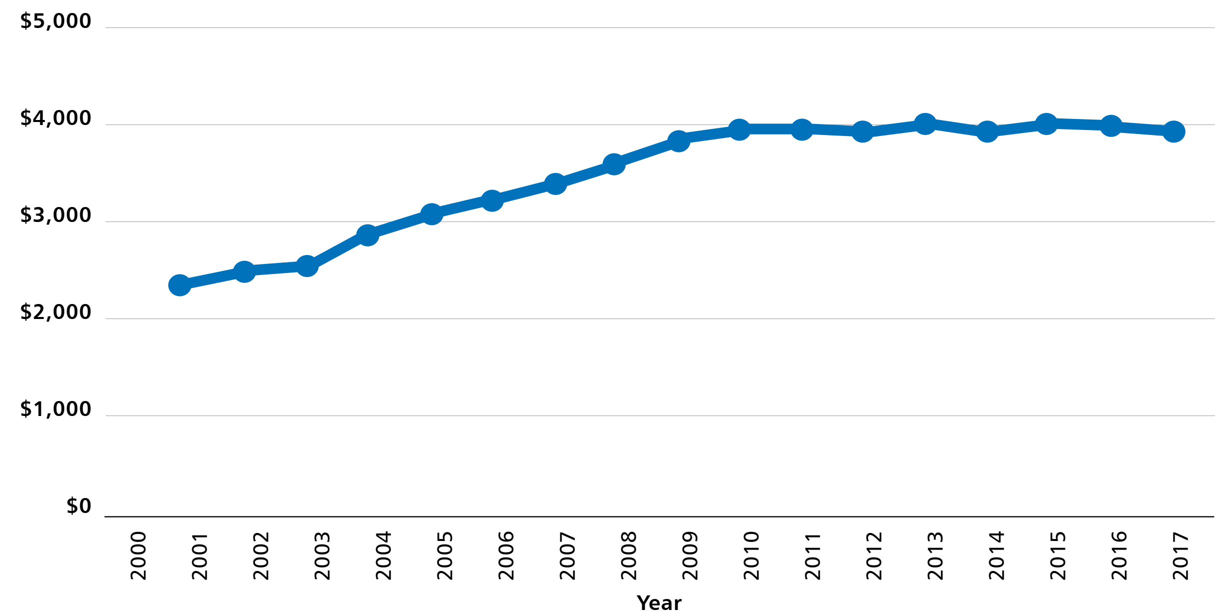


Source: N.B. Public Accounts and Statistics Canada CANSIM Population Table 17-10-0005-01.

At the Institute, we believe the best way to ensure the health system's long-term sustainability is to strengthen the province's economy and prevent the flight of younger, working, and taxpaying residents to other provinces. Among the many other advantages, it would secure steady health funding from the federal government, which bases its health transfers on provincial populations regardless of proportion. In short, the key is to stabilize the increasing old-age ratio.

Figure 5

New Brunswick Dept. of Health Real Spending, Per Capita, 2001-2017



New Brunswick's government has not dramatically increased its spending in the Department of Health in the last decade. Looking further back, however, the province spent 68 percent more in real terms on healthcare in 2017 than it did at the turn of the century, while government revenues only increased 34 percent. By this calculation, health spending is inflating exactly half as quickly since 2001.

Research by the C.D. Howe Institute in 2015 examined the long-term consequences of New Brunswick's "demographic glacier", noting in particular the effect of a dwindling working-age population.[10] The authors calculated percent-GDP spending for healthcare to rise "from 9.6 percent [in 2015] to 15.5 percent in 2035, to 20.9 percent in 2064". They also determined the province's implicit liability for healthcare over the next 50 years to be $68 billion, which is about twice today's New Brunswick GDP and worth about $100,000 per resident.

The province's auditor general has also warned of unsustainability with seniors and long-term care. In a 2016 report, she estimated 10,000 new nursing home beds will be needed in the following 20 years, compared with just 300 opened in the previous decade.[11] This will require a $1.6 billion capital investment, plus $600 million more per year to operate.

Increases in cost are only half of the situation, however. The other half is the rationing of health services to control expenditures. A 2017 survey by the New Brunswick Health Council found that 41 percent of New Brunswickers had waited more than 5 days to see their family doctor.[12] Fifteen percent waited 6 months or more for a first visit with a specialist. Further, a 2017 Fraser Institute report found that New Brunswickers waited the longest, on average, for referral from a GP to a specialist.[13] They also waited the longest from meeting a GP to having a medically necessary surgery.

Given the looming demographic concerns over the province's greying population and cost increases attributable to technological advances, it follows that New Brunswick needs to adopt policies aimed at lowering healthcare expenses to make its system sustainable.

1. Encourage alternative delivery options

Canada has the most rigid adherence to publicly financed healthcare in the developed world, with a national belief that socialized medicine is not just a policy choice, but a matter of identity. Yet, if Canadians and New Brunswickers are serious about providing high-quality health services in an affordable manner, they must also place a far stronger emphasis on making the healthcare system focus on patient needs, health outcomes, and financial stability—instead of serving providers' interests. Putting markets to work is the best way to achieve these ends.

This should not be controversial. The most successful healthcare systems in the world constitute a mix of public and private payment systems. Given long wait times in New Brunswick and a reported shortage of access to family physicians, having more residents pay out-of-pocket or through insurance for at least some health services would relieve pressure on the public system.

One anomaly of the *Canada Health Act* is its apparent requirement that government pay for services, but only in one's own province of residence. It follows that, if private clinics opened in geographically proximate locations—for instance, Amherst, Nova Scotia; Prince Edward Island; the Gaspé Peninsula in Quebec; or near the New Brunswick border in Maine—New Brunswickers could travel reasonable distances to access care without the lineups of the healthcare breadlines within their own province. These are developments that the provincial government should pursue and encourage.

2. Use market tools within the public system

A major challenge of the government-run health system is the lack of incentives traditionally provided by imposing costs for a service on the user. Since healthcare is free at the point of delivery, there is no reason for consumers to consider the extent of their use in comparison to cost.

No one would argue that cost should be a barrier to anyone accessing health services.

But it is also unrealistic to suppose the contrary: that patients could not contribute even a small amount to their own care in the form of user fees.

The Institute supports user fees as a market mechanism, to effectively price primary care time with a medical-care provider. This effective pricing would not recoup the whole cost of the medical visit, but instead affect consumer behaviour in reducing unnecessary trips to the doctor, hospital, or clinic.

A relevant example here is highway tolling, the central purpose of which is to limit congestion. Even small tolls motivate consumers to limit their use of a scarce resource, and they force users to contribute to the cost of their consumption. Similarly, small user fees would motivate consumers to use scarce health resources more sparingly, reduce congestion, and pass a portion of the cost directly to those using services.

The fee structure could also accommodate different levels of qualification for the medical provider, with a doctor's fee higher to perform the same consultation or intervention than that of a physician assistant or nurse practitioner. This would facilitate a transition to more services being delivered by less expensive providers, in line with the choice of users to be served by non-physician providers.

3. Tie changes in health spending to the HST

A significant challenge in public engagement with health policy is the lack of transparency between program funding and program spending. Because New Brunswickers do not see the consequence of delivery inefficiencies and waste, they are less motivated to demand improvements from their elected officials and public administrators. In short, we need more residents to realize that healthcare is not free, and to value incremental progress toward making delivery as efficient as possible.

The transparency problem will not be overcome so long as the province remains so reliant on transfers from the federal government—a stream of revenue collected by a different jurisdiction and from an altogether different tax base. The Institute supports an end to per-capita funding transfers from Ottawa, in exchange for greater taxation power for provincial governments. This would ultimately hold local officials to account for their healthcare spending decisions and discourage residents from viewing an endless supply of money from the federal government as a solution to rising costs.

In the short term, however, the best solution is for the province to tie increases in health expenditure to the most transparent tax method, the HST. Each year, increases in the budgeted allocation for the Department of Health and for seniors and long-term care under the Department of Social Development, plus any deficit from the previous year, should trigger a bump in the HST rate to cover the added expenditure.

In turn, decreases in health spending should be passed on to residents directly by a lowering of the income tax burden.

4. Invest in preventive medicine

The healthcare system is concerned almost entirely with addressing health problems when they arise. But it does far less work in trying to prevent health issues, most importantly chronic diseases and avoidable injuries—which comprise a quarter of health spending—that could be prevented by better lifestyle choices. Two-thirds of healthcare spending ends up going to 5 percent of the population with multiple chronic conditions. So if the province is serious about controlling health costs, it needs to invest in more preventive medicine.

To be effective, this must go beyond campaigns to make the public aware of the dangers of smoking and the imperative of healthy foods and exercise. Programs must engage directly with people and prevent or delay chronic diseases.

To take one example of this work in practice, consider a 5-year study of Alberta's Pure North program in the journal *Canadian Public Policy.*[14] During the study period, the program gave a cohort of about 4,000 test subjects access to dietary supplements, lifestyle counselling, and face time with a variety of healthcare professionals free of charge, in the aim of improving their health.

The results showed that in comparison with a control group, participants in the program ended up using hospitals and emergency departments significantly less. In fact, the study authors calculated that if the same results were mapped onto Alberta as a whole, it would result in 1/5 fewer nights in hospital and emergency ward visits, and 6 percent fewer visits to doctors.

The upshot is that preventive medicine saves money in the long term and makes people healthier. New Brunswick should invest in similar projects on a small scale, study their results, and implement successful programs for prevention.

TOPIC III

Energy Policy

New Brunswick faces many challenges on the front of energy policy and security. Residents contend with high power bills for home heating and electricity, worsened by the preponderance of inefficient baseboard heating in homes.

The $4.8 billion debt of NB Power, New Brunswick's publicly owned utility and Crown corporation, is a major liability for the province. Unfortunately, the organization has been unable to keep up with the schedule of repayment, while also committing to refurbish the Mactaquac Generating Station at the dam near Fredericton and find a new fuel source for the Belledune Generation Station, which presently runs on coal to provide baseload power for the provincial electricity grid.

As a body that is financed primarily by debt, leveraged against power rates, NB Power is destined to become a heavier burden to New Brunswickers in the years ahead. Given the missed chance a decade ago to offload the utility's debt through a sale to Hydro Quebec, energy policy in the province must be focused on exploiting more of New Brunswick's resources to generate revenue, stabilizing the utility's financial position, and lowering power rates for consumers.

1. Overturn the moratorium on hydraulic fracturing

New Brunswick's moratorium on shale gas exploration in 2014 prevented a key opportunity in economic development. While once considered a possible hub for only natural gas imports, technological developments to allow the extraction of natural gas in New Brunswick could allow the province to develop more of its own resources and export gas to serve regional markets.

The depletion of the Deep Panuke and Sable Island sources creates an uncertain future for domestic-sourced natural gas in the region. Nova Scotia's second-largest generating station by capacity runs in part on natural gas, while its first- and third-largest run on coal—from which governments and utilities alike are moving away due to pollution and heavy carbon dioxide emissions. Supplying the neighbouring province and other proximate markets with natural gas would be a prime opportunity for New Brunswickers to profit from their endowment of natural resources, contribute to decarbonization, and provide a reliable source of energy in the coming decades. These resources could also be exploited to supply more fuel sources to the New Brunswick grid from within the province.

A 2016 AIMS report by energy policy expert Andrew Pickford reviewed the capacity for natural gas development in Atlantic Canada, and recommended greater development of the industry in the region, including in New Brunswick.[15] Given the province's potential to harness significant shale gas deposits, leaving the resources in the ground would represent a missed opportunity.

Hydraulic fracturing is certainly controversial and we acknowledge that all efforts to extract natural resources carry risks—especially when one of the options on the table is to not develop these resources at all. But this will not help to develop the New Brunswick economy or fix the fiscal sustainability crisis of its power utility. It would also fail to contribute to greater job creation, which would result from the creation of a domestic gas sector.

Responsible governance should not include passing up the chance for significant economic development. The reality is that New Brunswick is a have-not province, heavily dependent on the transfer payments of other members to the Canadian federation to finance its public spending. The source of these transfer dollars, in part, is the development of natural resources elsewhere, including resources extracted through fracking. It should be mandatory for provinces to develop the energy sources they have in order to receive billions from the bounty of other jurisdictions who are willing to do so within their own borders.

With a stagnant economy and aging population, New Brunswick has few options available for achieving growth and attracting young people to come or stay in the province. Creating a vibrant gas sector, as has happened in Alberta and Saskatchewan, should be an important part of the economic policy mix.

That said, development of natural gas should be predicated on proper public protection. Industry must pay royalties to the province in exchange for its right to explore and extract natural gas. Policy should require those companies to finance the decommissioning of gas wells so this process is not borne by the taxpayer. Government should also levy penalties against companies for methane leaks. These requirements should be part of creating a gas industry—not a reason to prevent it.

At the very least, the New Brunswick government should permit exploration for natural gas on its territory so residents can properly see the potential being passed over under the current policy.

2. Implement Smart Grid Technology for Demand-Side Management

New Brunswick could achieve much greater efficiency in power usage, if users had the capacity to better track their consumption and make decisions based on this information. Smart-grid technology has the potential to provide such information to users in real time and thus help to decrease unnecessary power use during peak demand, when the grid relies most on baseload power.

Presently, the New Brunswick smart grid project is a partnership between NB Power, the University of New Brunswick, and Siemens Canada. It holds promise for delivering efficiencies in power consumption and needs to be implemented across the province for residential and commercial consumers alike.

Users will not ultimately shift their consumption habits without the incentives to do so, and without the tools. The incentive to reduce power bills is already there. Now, residents and businesses need access to the technology, the information, and the capital upgrades to take better control of their electricity use.

3. Develop natural gas and nuclear options for baseload power

To secure stable electricity generation in the province, New Brunswick must continue to employ fuel sources that can supply power during harsh winters. It is during these months that high power rates hit residents hardest, with heating bills going beyond what many families can afford.

The movement against coal by federal policy, which currently provides base power when renewable sources are not available, is pushing the province to seek cleaner options. NB Power has, for instance, been directed to convert the coal-fired Belledune plant in the north to a different energy source.

Natural gas should be an option at the top of the list, especially if the province elects to develop a domestic gas industry. But even with greater imports, natural gas would be a cleaner option than coal. There would also be an argument for extending the life of the Coleson Cove plant near Saint John, which already sits on a natural gas pipeline, with this fuel source.

Recent developments in the creation of alternative nuclear technology are also promising. So-called small modular reactors, presently in the prototype phase, can run on spent fuel from large traditional reactors to provide reliable power with infrequent refuelling. The provincial government has already invested in this technology with private-sector partners—a wise decision to back home-grown energy development.

4. Resist efforts to impose a federal carbon tax

The Institute does not support the levying of carbon taxes. Where this tax policy succeeds, it will effectively penalize industry and hold back economic development. Where it fails, it will burden taxpayers with additional reductions in their incomes.

New Brunswick is a case in point where it does not make sense to apply a carbon tax. The province’s forests already provide a significant carbon sink to offset carbon dioxide emissions. It is also ahead of targets for reducing these carbon emissions. The only logic in applying carbon taxes to New Brunswick is as part of a national scheme, largely intended to focus on bigger provinces and not on the Maritimes.

Carbon taxes are often touted as a means of promoting renewable energy sources by making the consumption of fossil fuels more expensive for users. But it is difficult to support the use of higher taxes on New Brunswickers, who are already overtaxed, to achieve this ambition. Rather, market forces should determine the direction of energy consumption in the province, not government policy aimed at eliminating particular sources that people rely on.

5. Work with Ottawa to restart plans for an eastbound pipeline

The failure of the Energy East pipeline represented a significant missed opportunity for the revitalization of New Brunswick's economy. Unfortunately, the project was stalled and eventually abandoned by its private-sector owner and sponsor, on account of haphazard changes to the regulatory process. This created an understandable loss of investor confidence.

Despite these hurdles, the idea of a pipeline to ship crude oil from Western Canada to the East Coast remains a viable one. After all, it was regulatory changes that ultimately doomed the previous project, not flaws in its concept. The carriage of oil by rail has reached an all-time high. Despite the reality of pipeline leaks, permanent structures are still a safer method of transporting oil.

In order for the national endowment in oil resources to have the best economic impact, Canada must be able to export its products effectively. Although Energy East was passed over at the time, Canada's ability to bring its oil to tidewater is far from secured. A recent court ruling has held up construction of the Trans Mountain expansion from Alberta to British Columbia and Keystone XL—the expansion to link Alberta more directly with the existing Keystone pipeline network—is not yet a done deal.

Here, there is opportunity for New Brunswick if an eastbound pipeline idea can be revived. The Institute has long supported the project of connecting Western and Atlantic Canada through pipeline infrastructure. It should be the policy of the next New Brunswick government to lobby for a renewed push for such a plan with the federal government's assistance.

TOPIC IV

Education Policy

Education is a persistent front-of-mind policy issue for New Brunswick. Creating a skilled workforce is of great importance to the provincial economy, especially when it comes to closing a labour shortage that holds back many private-sector firms in the province and prevents able-bodied workers from being matched with well-paying employment.

Yet, New Brunswick's school system is achieving sub-optimal and sub-standard results. A report by the Department of Education published a combination of reading, oral reading, and mathematics scores for Grade 2, Grade 6, and Grade 9 students in 2016-2017, for both official language groups. In none of the classifications did enough students succeed on the assessment to reach provincial targets of 90-percent success rates.

Education policy in New Brunswick needs to improve learning outcomes while contending with demographic changes that will inevitably alter the outlay of provincial government spending. Since 2000, the pre-adult population of New Brunswick has declined in raw numbers from 165,537 to 134,540. Meanwhile, the 65-and-over cohort has increased substantially, from 98,811 in 2000 to 152,590 in 2017. The proportion of children in the population declined from 22 percent to 18 percent in the same period.

If trends continue as expected, it is a certainty that more public resources will have to be put toward the care of seniors, either through official healthcare spending, home care, or nursing homes, while less will go to children in education.

The challenge facing New Brunswick, then, is to deliver better education with fewer resources. Provincial policy-makers need to be inventive in their experimentation.

1. Create space for charter schools

The inclusion of education within the welfare state in Canadian provinces creates an often unfair bias against the idea of private education, with substantial public support for the idea that the state should educate children. However, charter schools are a good middle-ground model that combines elements of public and private education.

These alternatives supply the freedom and flexibility that private schools enjoy, while also relying on public funding. Charter schools can be founded on unique circumstances or skills: for instance, an educational group in New Brunswick could found a school dedicated especially to trades, or to engineering, or to computer skills and coding. The schools would be obligated to meet outcome requirements set forth by the province, while also having the leeway to create their own special programs.

Charter schools may also be a good option for special education in New Brunswick. Presently, there are strict limitations on programming that can be offered directly to students with learning disabilities, on account of the inclusion model to which public schools adhere. Charters could offer the parents of special-needs children the option of seeking more specific educational programming tailored to them, as well as the public school model that already exists.

A new AIMS report from September 2018 recommends the charter school model for Atlantic Canada,[16] including New Brunswick. This policy paper referenced the successful Alberta experience with charters, including 23 academies that are publicly funded yet still independent. Research from the United States shows substantial educational benefits, with the greatest benefit accruing to economically disadvantaged students.

The paper also makes the financial case for charters, referencing 2015 numbers showing a per-student savings of $4,282 every year in Alberta. Were charter schools to take root in New Brunswick with significant enrolment, savings like these would be a godsend to a provincial education budget that will have to shrink, relative to overall spending, for demographic reasons.

2. Decentralize school governance

New Brunswick has gone through several iterations of governance, including the creation during the 1990s of so-called district education councils, or "DECs", as a replacement for school boards.

The Institute supports the downloading of as much power as possible to school administrations themselves, where principals can be accountable to parents for school performance. However, it must be acknowledged that DECs have not been as successful an experiment as hoped. Today, too much power continues to reside with the provincial education department, and far too little with community representatives who should have a greater say.

The best compromise is to reform school governance by reducing the education department's direct involvement for matters outside of base curriculum requirements and delivering a per-capita student subsidy at the provincial level. In addition to community representatives, local government officials should also play an important role in school governance. There is also good reason to support a role for local government budgets to fund schools in part, especially if more tax power is downloaded to municipalities. Education is one of the most important local, community-based services. It makes sense to push authority down to a more local level.

3. Remove floor on number of teachers

Media reported in 2017 that the provincial government and the New Brunswick teachers' union had agreed that the total number of teachers in the province could not fall below 7,280, regardless of a decline in enrolment.[17] This is unsound policy: If the reverse were true—with enrolment soaring—surely no collective agreement would put a cap on teacher numbers.

It's certainly not a good deal for taxpayers. As the school-age population declines, so should the number of teachers. In turn, if New Brunswick's demographic situation were to improve, it would make sense for the number of teachers to increase.

There is scant evidence that decreasing the ratio of students to teachers will achieve better outcomes. Yet, doing so has a big impact on education budgets. When the next collective agreement is negotiated, a mandated floor on the number of teachers in the province should not be included.

4. Create open disciplinary process

In 2014, AIMS published a report entitled *Maintaining Spotless Records: Professional Standards, Teacher Misconduct and the Teaching Profession.* It found that New Brunswick's processes for adjudicating complaints against teachers are lax, especially regarding public disclosure.

Certainly, there are greater issues when it comes to improving educational outcomes than teacher discipline, but this is still an important matter of public confidence. The fact that hearings into alleged misconduct or abuse are not open to the public or the media—as is the case in some other jurisdictions—creates the impression of secrecy. Further, the fact that rulings in such cases are not published does not help instil public trust in these institutions.

The Institute supports the creation of more open disciplinary processes so that these issues can be determined with public scrutiny, and not behind closed doors.

5. Review French Immersion entry based on the evidence

French Immersion is a valuable opportunity for Anglophone students in New Brunswick to be schooled in an environment conducive to effectively learning the province's second official language. It can also be a controversial subject, given tensions over official languages policy.

In 2008 the province bumped the entry for French Immersion to Grade 3 from Grade 1, a policy that the current government later reversed. Critics at the time pointed out that this policy change may have a negative impact on students learning basic skills in their native language in the first two years of school. The decision to push the entry to Grade 1 was made before testing results were available to learn the effect of the earlier move to Grade 3.

The subsequent evidence has borne out the critics' point. From 2013 to 2016, Grade 3 reading and math scores improved incrementally, suggesting that having two foundational years in English was helpful.

At the same time, the province has struggled to field enough qualified teachers to meet the demand of French Immersion entry to Grade 1. For example, the education department circulated a memo earlier in 2018, encouraging bilingual civil servants who aren't currently teachers to consider entering the system to fill the need.

Ultimately, it does not serve the province well to oscillate between years of entry into the program. We believe the decision to return entry to Grade 1 should be reviewed once substantial results become available.

Conclusion

Following a decade of financial difficulties and slow economic growth, the next government of New Brunswick will be making decisions of pivotal importance to the province's future. As we have argued, public finances need to be put under better control by eliminating deficit spending and reducing the debt burden. There must be more open-mindedness to using market mechanisms and private payment in healthcare, New Brunswick's largest financial liability. And the province's high tax burden must be reduced to stimulate the economy.

To conclude, we believe the following policy ideas can improve New Brunswick significantly:

Public Finances & Taxes

1. Balance the budget in 2019 and beyond;
2. Eliminate the provincial share of residential property taxes;
3. Cut personal and corporate income taxes to offset the HST increase.

Healthcare Policy

1. Encourage alternative delivery options;
2. Use market tools within the public system;
3. Tie changes in health spending to the HST;
4. Invest in preventive medicine.

Energy Policy

1. Overturn the moratorium on hydraulic fracturing;
2. Implement smart-grid technology for demand-side management;
3. Develop natural gas and nuclear options for baseload power;
4. Resist efforts to impose a federal carbon tax;
5. Work with Ottawa to restart plans for an eastbound pipeline.

Education Policy

1. Create space for charter schools;
2. Decentralize school governance;
3. Remove floor on number of teachers;
4. Create open disciplinary process;
5. Review French Immersion entry based on the evidence.

However, the list of policy prescriptions contained in this platform is by no means exhaustive. On demographics and immigration, trade and regulation, and municipal reform, there are many arguments for building a stronger economy, strengthening local government, making better use of markets, and reducing the size and cost of the public sector.

With a significant endowment of natural resources—from mining to gas to forestry—there is every reason that, with the right economic policies, New Brunswick can flourish as a leading power in Atlantic Canada.

AIMS is a leading voice for public policy in Atlantic Canada. We encourage all political parties to consider our submission in this document as a set of policy proposals to make New Brunswick a wealthier, more self-sustaining province for the long term.

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