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## Policy Forum: Is New Brunswick Heading over the Fiscal Cliff?

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### PRÉCIS

Cet article examine le bilan financier récent du Nouveau-Brunswick et les grandes tendances susceptibles de façonner sa trajectoire dans les années à venir. La situation financière du Nouveau-Brunswick s'est considérablement érodée au cours de sa « décennie perdue », de 2007-08 à 2016-17. Pendant cette période, les gouvernements qui se sont succédé à la tête de la province ont obtenu de piètres résultats, tant en termes absolus que par rapport aux autres provinces maritimes, dans leur adaptation aux chocs majeurs qui ont beaucoup nui à la croissance des recettes de la province. La capacité du gouvernement de générer des recettes restera probablement limitée dans l'avenir, tandis que les pressions en matière de dépenses en soins de santé s'accroîtront avec le vieillissement rapide de la population. Les auteurs concluent que, d'une manière critique, l'avenir financier du Nouveau-Brunswick n'est peut-être plus entre ses mains, mais entre les mains de provinces plus riches ayant une population plus jeune et celles du gouvernement fédéral.

### ABSTRACT

This article examines New Brunswick's recent fiscal track record and major trends likely to shape its trajectory in the years ahead. New Brunswick's fiscal position eroded considerably over its "lost decade," from 2007-08 to 2016-17. During this period, the province's successive governments performed poorly—both in absolute terms and relative to the other maritime provinces—in adjusting to major shocks that seriously impaired revenue growth. Looking forward, the government's revenue-generating capacity is likely to remain constrained, while health-care spending pressures will mount with a fast-aging population. The authors conclude that, in a critical way, New Brunswick's fiscal future may no longer be in its own hands, but in the hands of richer provinces with a younger population, and the federal government.

**KEYWORDS:** FISCAL PLANNING ■ REVENUE ■ SPENDING ■ EQUALIZATION ■ ECONOMIC DEVELOPMENT  
■ NEW BRUNSWICK

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## INTRODUCTION

In November 2007, New Brunswick premier Shawn Graham announced his vision to make the province “self-sufficient” within two decades.<sup>1</sup> To outside observers accustomed to equating success in the global economy with interdependence and collaboration, Graham’s call for self-sufficiency must have sounded puzzling, if not downright retrograde. Yet, in New Brunswick, there was little ambiguity about what the premier had in mind when he used this term. To most New Brunswickers, self-sufficiency meant reversing the province’s status as a perennial “have-less,” a laggard that depends on handouts from Ottawa. It also meant restoring pride by making the province a place where people would come to visit not just their grandparents, but also their grandchildren.<sup>2</sup> Finally, self-sufficiency meant no longer relying on Bay Street and Wall Street to make ends meet each year. On this last count, New Brunswick had been doing quite well in the years prior to Graham’s announcement. Since the turn of the millennium, the government had posted a surplus in all but two fiscal years. Net debt, which had doubled in the 1990s, had stopped growing. And with the economy going strong, the ratio of debt to gross domestic product (GDP) was on a firm downward trajectory, dropping from 33 percent in 2000-01 to 25 percent in 2006-07.<sup>3</sup>

New Brunswick’s motto is “*Spem reduxit*,” which can be loosely translated as “Hope restored.” Given how well the province had fared since the turn of the millennium, Graham no doubt felt that New Brunswick might at last achieve its longstanding dream of self-sufficiency. As it turned out, fate had different plans: ironically, the province’s economy and finances began to nosedive almost immediately after the premier made his announcement, entering what can aptly be called a “lost decade,” which stretched over fiscal years 2007-08 to 2016-17. During this

1 New Brunswick, Office of the Premier, “Release of Our Action Plan To Be Self-Sufficient in New Brunswick,” *News Release* NB 1522, November 23, 2007.

2 Donald J. Savoie, *Visiting Grandchildren: Economic Development in the Maritimes* (Toronto: University of Toronto Press, 2006).

3 Data on fiscal position from Canada, Department of Finance, *Fiscal Reference Tables 2018* (Ottawa: Department of Finance, October 2018) and data on GDP from Statistics Canada table 36-10-0222-01, “Gross Domestic Product, Expenditure-Based, Provincial and Territorial, Annual.”

period, the government recorded nine consecutive deficits, nearly doubling its net debt along the way. And with the economy in the doldrums, the debt-to-GDP ratio shot up dramatically, from 25 percent in 2007-08 to a peak of 40 percent in 2016-17.

Comparing New Brunswick with its sister maritime provinces, Prince Edward Island and Nova Scotia, reveals the sheer magnitude of New Brunswick's fiscal nosedive. As table 1 shows, New Brunswick stands out as the clear leader for debt growth among the three provinces from 2007-08 to 2016-17. On a per capita basis, net debt grew by 91 percent, compared to 51 percent in Prince Edward Island and 22 percent in Nova Scotia. The debt-to-GDP ratio tells a similar story, with New Brunswick registering the sharpest gain and moving from the lowest ratio among the three provinces in 2007-08 to the highest in 2016-17.

In Atlantic Canada, it is perhaps only comparison with Newfoundland and Labrador that can give New Brunswick some fiscal solace. However, comparing these two provinces is a challenging task. A first difficulty is that Newfoundland and Labrador's fortunes are now inextricably tied to the price of a single commodity (oil), and this injects a high degree of volatility into the province's fiscal outcomes. For instance, if the time frame in table 1 were pushed ahead one year (that is, to the period 2008-09 to 2017-18), the numbers would show that Newfoundland and Labrador grew its debt about as fast, rather than a third as fast, as New Brunswick.

A second difficulty relates to the debt carried by NB Power and Nalcor Energy, the electric utilities owned, respectively, by the governments of New Brunswick and of Newfoundland and Labrador. Between 2007 and 2019, Nalcor grew its liabilities by a factor of 10, from \$1.3 billion to \$13.0 billion,<sup>4</sup> as it struggled with the escalating cost of the Muskrat Falls hydroelectric generation and transmission project. NB Power, for its part, although also heavily indebted (with total liabilities of \$5.3 billion as of March 2019), did not grow its debt nearly as much.<sup>5</sup> As a result, if one focuses on the growth in provincial debt backed by taxpayers rather than net debt alone, it becomes clear that Newfoundland and Labrador saw its fiscal situation deteriorate much faster than New Brunswick's.

Of note, NB Power and Nalcor are considered "self-supporting" for accounting purposes; consequently, their liabilities are not rolled into consolidated provincial accounts. In practice, however, both are albatrosses around their owners' fiscal necks. The government of Newfoundland and Labrador has recently recognized that Nalcor is not self-supporting. On April 15, 2019, just before triggering an election, the Ball government announced a plan to shift a major part of the burden of the extra costs of power generation at Muskrat Falls (estimated at \$726 million for the first full year of operation) from ratepayers to taxpayers.<sup>6</sup> In New Brunswick,

4 Nalcor Energy, *2019 Q1 Financial Report* (for period ending March 31, 2019) (St. John's: Nalcor Energy, 2019) and *2008 Business and Financial Report* (St. John's: Nalcor Energy, 2008).

5 NB Power, *2018/19 Annual Report* (Fredericton: NB Power, 2019) and *2010/11 Annual Report* (Fredericton: NB Power, 2011).

6 Newfoundland and Labrador, Executive Council, "Premier Ball Releases Plan To Protect Residents from the Cost Impacts of Muskrat Falls," *News Release*, April 15, 2019.

**TABLE 1 Growth in Net Debt in the Four Atlantic Provinces, Fiscal Years 2007-08 to 2016-17**

	Total		Percent of GDP		Per capita	
	2007-08	2016-17	2007-08	2016-17	2007-08	2016-17
	<i>millions of dollars</i>		<i>percent</i>		<i>dollars</i>	
Newfoundland and Labrador . . . . .	10,188	13,598	35.1	42.9	20,014	25,684
Prince Edward Island . . . . .	1,347	2,172	29.1	34.2	9,781	14,779
Nova Scotia . . . . .	12,116	14,949	35.7	36.0	12,957	15,856
New Brunswick . . . . .	7,069	13,820	25.0	40.0	9,483	18,104

GDP = gross domestic product.

Source: Canada, Department of Finance, *Fiscal Reference Tables 2018* (Ottawa: Department of Finance, October 2018); Statistics Canada table 17-10-0005-01, "Population Estimates on July 1st, by Age and Sex"; Statistics Canada table 36-10-0222-01, "Gross Domestic Product, Expenditure-Based, Provincial and Territorial, Annual"; and authors' calculations.

the prospect of taxpayers coming to the rescue of NB Power and its ratepayers is less immediate, although concerns about the utility's debt load remain high. In 2016, Standard & Poors, a credit-rating agency, found that NB Power was no longer self-supporting,<sup>7</sup> a conclusion it reached before NB Power and the government of New Brunswick committed to the refurbishment of the Mactaquac hydroelectric generating station. This project, which is estimated to cost up to \$3.6 billion, will serve only to maintain rather than increase the utility's electricity-generation capacity.<sup>8</sup> Readers may recall that New Brunswickers could have been relieved of most of NB Power's liabilities had the Graham government not backtracked on a deal to sell the corporation to Hydro-Québec in 2010, amid popular opposition and harsh criticism from none other than Danny Williams, then premier of Newfoundland and Labrador and father of what critics now refer to as "the Muskrat Falls boondoggle."

## THE REASONS BEHIND NEW BRUNSWICK'S LOST DECADE

The government of New Brunswick was struck by three major shocks that deeply altered its fiscal landscape toward the end of the 2000s: the 2008 financial crisis and its aftermath, the progressive exit of baby boomers from the labour force, and a sharp decline in federal transfers. However, to understand New Brunswick's lost decade, one has to consider not only these shocks, but also how successive governments responded to them. As we will see, it is the government's responses to these

7 Standards & Poors Global Ratings, "Province of New Brunswick 'A+' Ratings Affirmed on Modest Improvement in Budgetary Performance and Exceptional Liquidity," June 23, 2016.

8 NB Power, "NB Power Recommends Life Achievement Option for Mactaquac Generating Station," *News Release*, December 20, 2016.

shocks, rather than the shocks themselves, that explain why New Brunswick fared so much more poorly than the other maritime provinces, and Nova Scotia in particular.

### **The 2008 Financial Crisis and Its Aftermath**

New Brunswick was hit hard by the 2008 financial crisis and its aftermath because of the province's high trade exposure, particularly to the US market. The Graham government, like the federal government and other provincial governments, resorted to Keynesian means to stimulate the economy and limit the negative effects of the US recession. Those included record spending on infrastructure and tax reductions for both individuals and corporations.<sup>9</sup>

### **The Progressive Exit of Baby Boomers from the Labour Force**

New Brunswick, like the rest of Atlantic Canada, has a much larger share of baby boomers in its population than the country as a whole. For about 10 years now, baby boomers have been retiring in droves. Largely as a result of this phenomenon, Canada's labour force growth has slowed down materially, from a long-term average (1981-2010) of 1.4 percent to 0.9 percent from 2010 to 2018.<sup>10</sup> Yet Canada's slowdown is quite mild compared to that in New Brunswick, where the labour force dropped from a long-term average growth rate of 1.0 percent to an actual *decline* of 0.3 percent.<sup>11</sup> This recent divergence in labour force growth is clearly reflected in economic data. Between 1981 and 2010, in terms of GDP, Canada and New Brunswick grew at roughly the same annualized pace (2.4 percent and 2.2 percent, respectively); by contrast, from 2010 to 2017, Canada grew more than five times faster than New Brunswick (2.1 percent versus 0.4 percent).<sup>12</sup>

### **Slower Growth in Federal Transfers**

New Brunswick relies on federal transfers for 35 percent of its revenues, the second-highest ratio (after Prince Edward Island) among the 10 provinces.<sup>13</sup> During New Brunswick's lost decade, federal transfers grew on average by 1.6 percent, below the rate of inflation; by contrast, from 2000-01 to 2007-08, they grew on average by 6.1 percent.<sup>14</sup> Overall, had transfer growth remained unchanged, New Brunswick would have received a cumulative total of over \$4 billion more in payments than it actually did.

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9 New Brunswick, Department of Finance, 2009 Budget, Budget Speech, March 17, 2009.

10 Statistics Canada table 14-10-0018-01 (Archived), "Labour Force Characteristics by Sex and Detailed Age Group, Annual."

11 Ibid.

12 Statistics Canada table 36-10-0222-01, *supra* note 3.

13 *Fiscal Reference Tables 2018*, *supra* note 3.

14 Ibid.

There are many reasons for this sharp drop in federal transfers. One reason is that transfers to all provinces had been growing at an unsustainable pace in the years leading up to the financial crisis. From 2000-01 to 2007-08, total major federal transfers doubled, from \$23 billion to \$46 billion. In annualized terms, this amounts to a growth rate of 9.3 percent, nearly three times the rate of growth in Ottawa's revenues (3.4 percent).<sup>15</sup>

A second reason is the changes to the allocation formula for the Canada social transfer (CST) and the Canada health transfer (CHT). Until 2007, funding allocated under these two transfers and their predecessors took into account the value of tax points transferred to provinces by the federal government in earlier decades. Since tax points are worth less to poorer than richer provinces, Ottawa provided less cash funding to the latter so that overall funding (cash plus value of tax points) to all provinces would be equal on a per capita basis. Starting in 2007-08, the value of tax points was no longer taken into account in calculating CST payments; consequently, all provinces started to receive the same per capita cash amount. Furthermore, the government fixed the growth in total CST payments at 3 percent annually. This did not mean that all provinces would see their payments under the transfer grow by 3 percent each year; rather, slow-growing provinces would receive less, while faster-growing ones would get more. For example, from 2010-11 onward, payments to New Brunswick grew by 2.2 percent annually compared to 3.7 percent for Alberta. As for the CHT, the shift to a per capita cash allocation took place in 2014-15; and, starting in 2017-18, total payment growth was changed from a fixed rate of 6 percent to the rate of growth in nominal GDP, with a floor of 3 percent.

A third and final reason for the decline in federal transfers to New Brunswick is the radical changes to the equalization program carried out by Ottawa in 2009, to shield itself from the consequences of Ontario's qualification for payments. Given its size, Ontario's inclusion as a recipient province threatened to produce a dramatic escalation in program costs. To avoid this, the federal government capped the growth in total equalization payments at the rate of growth in Canadian nominal GDP. This was a fundamental change to the architecture of the program. Previously, the total amount spent on equalization had not been determined in advance; rather, it was a variable sum whose level depended on disparities in fiscal capacities among provinces. With the 2009 reform, equalization became like a pie that, at best, grows in size in tandem with the national economy, and is then shared among recipient provinces. Making room for Ontario (which, at one point, received up to 20 percent of total equalization funding) meant that there was less money available to traditional recipients such as New Brunswick. As a result, between 2009-10 and 2015-16, equalization payments to New Brunswick *declined* on average by 0.2 percent annually—the most important multi-year drop since the establishment of the program in 1957. By contrast, from 2000-01 to 2008-09, payments to New Brunswick grew by 5.6 percent annually.

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15 Ibid.

## New Brunswick's Response to a New Era of Slow Revenue Growth

The financial crisis and its aftermath, the progressive exit of baby boomers, and the sharp slowdown in federal transfer growth dealt a serious blow to the New Brunswick government, crippling the revenue side of its ledger. Yet New Brunswick is not the only province to have faced such major setbacks. Nova Scotia, for example, found itself in similar circumstances but managed to produce much better fiscal outcomes. Why?

To answer this question, one must identify the differences in policy choices made by the two governments. At the outset, however, it is important to stress that New Brunswick did not systematically underperform on all counts by comparison with Nova Scotia. In at least one key area—program spending—New Brunswick displayed significantly greater discipline. Indeed, when revenue growth plummeted at the turn of the 2010s, both Nova Scotia and New Brunswick managed to reduce their spending considerably, but New Brunswick did a better job. Between 2010-11 and 2015-16, New Brunswick limited its growth in program spending to 1.2 percent, well below the rate of inflation. Nova Scotia, for its part, increased its spending by 2.8 percent, a rate roughly in line with the average for provincial and territorial governments in Canada.<sup>16</sup>

That said, there are three main reasons for Nova Scotia's superior fiscal outcomes. First, the province increased taxes much sooner than New Brunswick. In 2010, the New Democratic Party government, led by Darell Dexter, announced a 2 percentage point increase in its portion of the harmonized sales tax (HST), thus becoming the first provincial government to fully scoop up the fiscal room vacated by the federal government when it lowered the goods and services tax (GST) by 1 percentage point in each of 2006 and 2008. New Brunswick followed suit six years later. We estimate that by waiting that long to return the HST to its pre-2006 level, the New Brunswick government forewent a cumulative total of approximately \$1.6 billion in revenues.<sup>17</sup>

Second, in no small part because it increased taxes sooner, Nova Scotia ran fewer and smaller deficits. Between 2007-08 and 2016-17, Nova Scotia's accumulated deficit (the sum of annual deficits and surpluses) stood at \$473 million, a small amount compared to New Brunswick's \$3.3 billion. And since Nova Scotia did not borrow as much extra money as New Brunswick, when interest rates decreased, its

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16 Ibid.

17 Authors' calculations based on the average of HST revenues from 2009-10 to 2011-12 and nominal GDP growth over the 2010-2016 period. Of note, net forgone revenues would likely have been lower by about 25 percent given that, when New Brunswick ultimately raised its HST rate, it provided a tax credit to offset the impact of the increase for low income earners. Data on HST revenues are taken from New Brunswick, Office of the Comptroller, *Public Accounts for the Fiscal Year Ended 31 March 2011*, vol. 2 (Fredericton: Office of the Comptroller, 2011); data on GDP are from Statistics Canada table 36-10-0222-01, supra note 3.

annual debt-servicing charges declined (from \$925 million in 2007-08 to \$824 million in 2016-17), while New Brunswick's grew (from \$576 million to \$667 million). Over time, such differences add up: from 2007-08 to 2016-17, New Brunswick recorded a cumulative increase in debt-servicing charges<sup>18</sup> of \$715 million, while Nova Scotia saw a decline of \$825 million.

Third, Nova Scotia took on fewer of the kind of liabilities that appear immediately on the government's balance sheet but not on the income statement. An example is money borrowed to fund capital projects such as schools, hospitals, or highways. While the capital borrowed for such projects is immediately added to the debt, it is recognized only gradually on the income statement as an annual amortization expense. In New Brunswick, such liabilities reached a cumulative total of \$3.4 billion over the 2007-08 to 2016-17 period, accounting for just over half of the growth in net debt (figure 1). In Nova Scotia, the total was around \$1 billion lower.

### **THE ROAD AHEAD: IS NEW BRUNSWICK HEADING OVER THE CLIFF?**

The economist Ron Kneebone has examined New Brunswick's fiscal management over the period from 1981-82 to 2016-17.<sup>19</sup> His analysis suggests that New Brunswick's lost decade (2007-08 to 2016-17) stands in sharp contrast to its longer-term track record. Indeed, Kneebone found that from 1981-82 to 2007-08, New Brunswick's governments were the most successful among the maritime provinces in keeping the operating account more or less in fiscal balance. From 2007-08 to 2016-17, however, the province lost its discipline as successive governments incurred a decade-long string of sizable deficits. Kneebone's findings also suggest that New Brunswick's sharp fiscal deterioration was primarily induced by policy decisions rather than cyclical conditions, with the ratio of policy-induced to cyclically induced deterioration estimated at 2:1. The exact meaning of this ratio is debatable, since Kneebone's definition of policy-induced fiscal deterioration encompasses everything that is not related to the business cycle, including circumstances beyond New Brunswick's control, such as much slower growth in federal transfers. What is not debatable, however, is that New Brunswick managed its finances much more poorly than the other maritime provinces over its lost decade because it made different policy choices.

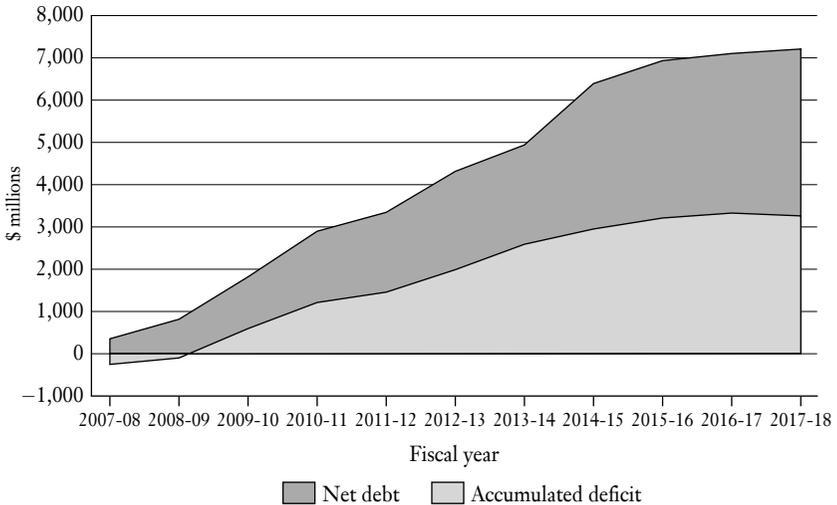
New Brunswick's finances have stopped deteriorating in recent years. Since 2017-18, the province's books have shown small surpluses, and in the 2019 budget, the government projected a small decline in net debt, a first since 2006-07.<sup>20</sup> Three

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18 This refers to the cumulative increase (or decrease) in debt-servicing charges relative to the total amount that would have been paid had charges remained at their 2007-08 levels. Authors' calculations based on data from the *Fiscal Reference Tables 2018*, supra note 3.

19 Ron Kneebone, "Government Finances in New Brunswick" (2019) 1:1 *Atlantic Canada Economic Review* 1-18.

20 New Brunswick, Department of Finance, 2019 Budget, Budget Speech, March 19, 2019, at 6.

**FIGURE 1 Growth in Net Debt and Accumulated Deficit, New Brunswick, 2007-08 to 2017-18**

Note: The accumulated deficit is a subcomponent of net debt.

Sources: Canada, Department of Finance, *Fiscal Reference Tables* (Ottawa: Department of Finance, various years); and New Brunswick, Finance and Treasury Board, *Public Accounts* (Fredericton: Finance and Treasury Board, various years).

main factors drove New Brunswick's return to fiscal balance. First, on July 1, 2016, the provincial portion of the HST was raised to from 8 percent to 10 percent, thus fully occupying the fiscal room vacated by the federal government when it lowered the GST in 2006 and 2008. Second, between 2015 and 2017, the provincial economy benefited from a "sugar high" after oil prices collapsed, the loonie depreciated sharply, and the Bank of Canada lowered interest rates. Finally, federal transfer growth rebounded strongly after years of stagnation during the first half of the decade.

Looking forward, however, the prospects for revenue growth are much bleaker. The economy stalled in 2018 (with growth of only  $-0.1$  percent),<sup>21</sup> and forecasters are pointing to a growth rate in the range of 0.5 percent to 1.0 percent for 2019 and 2020.<sup>22</sup> As for the longer term, the ongoing exit of baby boomers from the labour

21 Statistics Canada table 36-10-0402-01, "Gross Domestic Product (GDP) at Basic Prices, by Industry, Provinces and Territories."

22 See, for instance, TD Economics, "Provincial Economic Forecast: Economic Growth and Job Markets Diverge in 2019," June 17, 2019 (<https://economics.td.com/provincial-economic-forecast>); RBC Economics, "Momentum Shifting Down in Most Provinces," June 7, 2019 ([www.rbc.com/economics/economic-reports/pdf/provincial-forecasts/provfcst-jun2019.pdf](http://www.rbc.com/economics/economic-reports/pdf/provincial-forecasts/provfcst-jun2019.pdf)); and BMO Economics, "Provincial Economic Outlook for August 23, 2019," August 23, 2019.

force should continue to severely constrain New Brunswick's economic growth potential—and thus its own-source revenue growth prospects—for at least another decade. It is not clear that the government has much room to make up for slower own-source revenue growth by raising taxes further or borrowing more. New Brunswick's fiscal burden is already high, particularly in relation to provinces west of the Ottawa River. In 2017, the ratio of provincial taxes to GDP stood at 14.1 percent in New Brunswick, one-third more than Ontario's ratio and twice Alberta's.<sup>23</sup> New Brunswick has high personal tax, provincial sales tax, and property tax rates, and a myriad of other fees and charges. Corporate income tax rates are not out of line with those of other provinces, but only if one ignores the provincial property tax on business, which results in the highest marginal effective tax rates on capital in Canada.<sup>24</sup> As for the debt burden, New Brunswick's net debt as a percentage of GDP stood at 39 percent at the end of 2017-18, more than double the (non-weighted) average of the six provinces to the west (19 percent).<sup>25</sup>

Given the above, barring a dramatic reversal in New Brunswick's economic fortunes or successful efforts to reduce the province's high fiscal burden, the government should not expect own-source revenues to grow much beyond 3 percent annually on average over the next decade. Coincidentally, 3 percent is also a good estimate for what New Brunswick should expect in terms of growth in federal transfer payments under current allocation formulas. Since 2017-18—the year when the new allocation formula for the CHT came into effect—New Brunswick's combined CHT and CST payments have grown by 3.2 percent annually. As for equalization, payments escalated sharply in recent years (up by 6.4 percent 2018-19 and 8.0 percent in 2019-20) as a result of Ontario's gradual exit from the ranks of equalization-receiving provinces.<sup>26</sup> However, now that the room vacated by Ontario has been allocated to the remaining five traditional recipient provinces, from this point forward New Brunswick should expect payment growth that is more in line with nominal Canadian GDP growth.<sup>27</sup>

At issue is whether total revenue growth in the neighbourhood of 3 percent annually will be enough for New Brunswick to address the formidable health-care

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23 Authors' calculations based on data from the *Fiscal Reference Tables 2018*, supra note 3, and Statistics Canada table 36-10-0222-01, supra note 3.

24 Adam Found and Peter Tomlinson, *Business Tax Burdens in Canada's Major Cities: The 2018 Report Card*, C.D. Howe Institute E-Brief (Toronto: C.D. Howe Institute, December 11, 2018).

25 Authors' calculations based on data from the *Fiscal Reference Tables 2018*, supra note 3, and Statistics Canada table 36-10-0222-01, supra note 3.

26 *Fiscal Reference Tables 2018*, supra note 3.

27 Recall that overall growth in equalization payments is capped at nominal GDP growth. New Brunswick's future payment growth will depend on a host of factors, including its population growth and the evolution of fiscal capacity gaps among provinces, particularly among individual recipient provinces, in relation to the national standard.

spending pressures resulting from a fast-aging population. If one looks at the historical record, there is some ground for optimism, but even more for skepticism. The case for optimism is based on New Brunswick's recent success in containing spending. Notwithstanding Kneebone's assessment that New Brunswick's record over much of the past decade was one of "fiscal recklessness,"<sup>28</sup> the province has proved quite adept at tightly managing health-care spending in recent years. In 2018, real per capita spending on health care was essentially the same as in 2010, despite an aging population that fuelled the demand for services.<sup>29</sup>

Paradoxically, New Brunswick's recent success in halting spending growth will likely make future success harder to achieve. That is because many of the low-hanging fruits in terms of efficiency savings have likely been harvested. New Brunswick is now in the bottom rungs of Canadian provinces in terms of health-care spending per capita.<sup>30</sup> There is also evidence that cost containment measures have had a negative impact on services, with New Brunswick showing some of the highest rates of deterioration in wait times for many procedures, such as hip and knee replacement and cataract surgeries.<sup>31</sup> With a voting public that is aging fast—the median voting-age New Brunswicker turned 52 in 2018, up five years over the last decade<sup>32</sup>—it is unclear to what extent further deterioration in health-care services can be allowed without major consequences at the polls.

There are two other major reasons for skepticism. The first is that New Brunswick has barely seen the tip of the iceberg in terms of spending pressures induced by aging. As figure 2 illustrates, health-care spending increases exponentially as seniors grow older, from around \$6,000 per capita for those aged 65–69 to around \$11,000 and \$23,000, respectively, for those aged 75–79 and 85–89.<sup>33</sup> In 2019, the first baby boomers turned 73. The number of seniors aged 75 and over in New Brunswick is projected to more than double over the next two decades, from 65,000 in 2018 to around 145,000 in 2038.<sup>34</sup>

28 Kneebone, *supra* note 19, at 13.

29 Real spending calculated using Canadian Institute for Health Information, *National Health Expenditure Trends, 1975 to 2018* (Ottawa: CIHI, 2019), and Statistics Canada table 18-10-0005-01, "Consumer Price Index, Annual Average, Not Seasonally Adjusted."

30 Canadian Institute for Health Information, "Age-Adjusted Public Spending Per Person" (<https://yourhealthsystem.cihi.ca/hsp/inbrief?lang=en#/indicators/014/age-adjusted-public-spending-per-person;/mapC1;mapLevel2;/>).

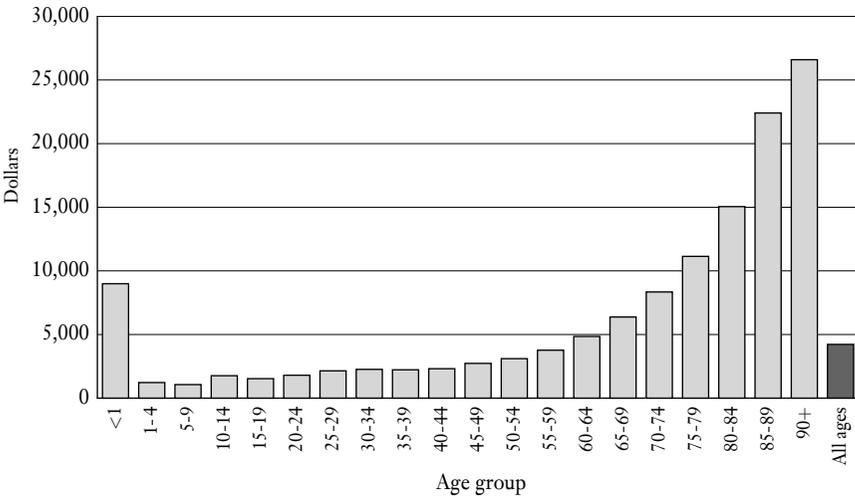
31 Canadian Institute for Health Information, "Benchmarks for Treatment and Wait Time Trending Across Canada" (<http://waittimes.cihi.ca/>).

32 Authors' calculations based on data from Statistics Canada table 17-10-0005-01, "Population Estimates on July 1st, by Age and Sex."

33 CIHI, *supra* note 29.

34 Statistics Canada table 17-10-0005-01, *supra* note 32, and Statistics Canada table 17-10-0057-01, "Projected Population, by Projection Scenario, Age and Sex, as of July 1," scenario M1.

**FIGURE 2 Provincial Health-Care Spending per Capita, New Brunswick, 2016**

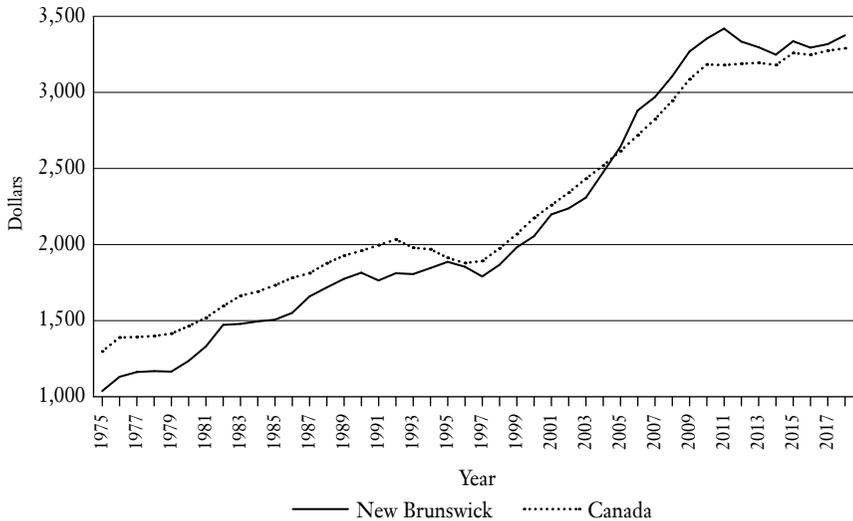


Source: Canadian Institute for Health Information, *National Health Expenditure Trends, 1975 to 2018* (Ottawa: CIHI, 2019).

The second reason for skepticism relates to the dynamics of provincial health-care spending in Canada. As figure 3 illustrates, historically, New Brunswick’s health-care spending has closely tracked the average of Canadian provinces. This reflects, to a large extent, the fact that New Brunswick, like other provinces, must compete with its peers to secure and retain health professionals.<sup>35</sup> Figure 3 also shows that spending grew very fast, but did not follow a straight line: moderation in the 1990s was followed by exuberance in the 2000s and a return to moderation in the 2010s. The big question is whether this recent period of moderation will continue indefinitely or, as in the past, will give way to an escalation in spending. To be sure, it is easier to contain spending growth when all provinces are faced with fiscal difficulties of one form or another, as was the case in the 1990s and much of the 2010s. Conversely, it is not a coincidence that health-care spending exploded in the 2000s just as provincial finances recovered amid strong economic growth and the federal government’s fiscal largesse. In our view, there are strong grounds to suspect that Canada may be on the cusp of a renewed escalation in health-care spending. Already there are budding signs that spending discipline is weakening, with the Canadian Institute for Health Information (CIHI) reporting an average increase of 4 percent in provincial health-care spending per capita in 2017 and 2018.<sup>36</sup> A major driver of this increase was Quebec, where spending increased by

35 See Richard Saillant, *A Tale of Two Countries: How the Great Demographic Imbalance Is Pulling Canada Apart* (Halifax: Nimbus, 2016).

36 CIHI, *supra* note 29 (preliminary data).

**FIGURE 3 Real per Capita Provincial Health-Care Spending, New Brunswick and the Canadian Average (All Provinces), 1975-2017**

Notes: Per capita spending is in 2002 constant dollars. Spending in 2017 is the forecasted amount.

Sources: Canadian Institute for Health Information, *National Health Expenditure Trends, 1975 to 2018* (Ottawa: CIHI, 2019); and Statistics Canada table 18-10-0005-01, “Consumer Price Index, Annual Average, Not Seasonally Adjusted.”

around 5 percent as the government moved to narrow the gap between physician compensation in the province and the national average. Looking forward, competition among provinces for health professionals is likely to intensify as baby boomers continue to age.

Using data from the CIHI on spending by age for 2016<sup>37</sup> and assuming general inflation of 2 percent, we estimate that New Brunswick would need to grow its health-care spending by 3.5 percent to 4.0 percent annually over the next 15 years just to meet the spending pressures induced by general inflation and an aging population. New Brunswick might be able to sustain such a pace of growth, albeit with difficulty and considerable restraint in other spending areas; however, it is likely in no position to grow its health-care spending much beyond that level.

That said, not all provinces share New Brunswick’s bleak fiscal prospects. West of the Ottawa River, provincial governments have more room to increase taxes, benefit from much stronger economies, and receive faster-growing transfers from Ottawa to provide care for their rapidly expanding ranks of seniors. Thus, those provinces are in a much better position than New Brunswick to compete for health professionals and, if history is any guide, fuel escalating compensation growth.

37 CIHI, *supra* note 30.

In a critical way, New Brunswick's fiscal future and the future of its health-care system are no longer in the province's hands, but in the hands of richer provinces with a younger population. This time around, if other provinces trigger a renewed escalation in health-care compensation, New Brunswick will be in no position to follow suit. Under such a scenario, barring further help from Ottawa, New Brunswick could be faced with the unattractive choice of either heading over the fiscal cliff or providing public services that are inconsistent with the idea of a single, common social citizenship in Canada. In other words, New Brunswick may be about to find out that it is not a self-sufficient island and that its hope for a restored fiscal future will depend on the policy choices of other provinces and Ottawa.