

Submission to the Pre-Budget Hearings
From Peter Fenwick
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At Stephenville, February 27, 2015

Newfoundland is suffering from the worst effects of the "Dutch Disease".

The Dutch disease is the effect of a sudden influx of unexpected wealth such as oil or, in the case of the Dutch gas, on its economy. The extra revenue pushes costs and spending by governments up beyond what the normal economy can support and when that income is removed leads to painful retrenchment.

We are now in that painful retrenchment period.

What is more it is unlikely that the days of \$150 a barrel oil will return in time to save our bacon. As oil prices slowly recover from their present low, the huge North American fracking industry will ramp up to supply more oil and depress the price once more.

So what is to be done?

My advice, to paraphrase Machiavelli, is to take all the medicine at one gulp so that the problem is faced squarely and eliminated rather than slowly make adjustments that will take years to implement and will add considerably to the debt we are passing on to our children.

To raise income:

1) Sell non-essential assets.

Sell the liquor commission stores, and have the newly liberated stores continue to bring in the revenue they currently do by taxes.

2) Sell the retail customers of Newfoundland Hydro. Why we have two companies doing retail sales in the province is beyond me.

3) Raise the provincial portion of the HST so that our HST is 15%, the same as Nova Scotia. If you are worried about the impact on low incomes, raise the rebate given to low income residents.

4) Impose a tax on gasoline that increases the tax on gas sales when the price of oil is low and decreases it when it is high. When gas is \$1.00 a litre have the tax at 10 cents, when it is \$1.50, reduce the tax to zero.

B) To lower costs

1) **Eliminate capital works for the coming year.** Except for contracts already in force a one year delay in capital construction of all kinds would give us time to see if any recovery in the price of oil is possible.

2) **Delay the implementation of the capital spending on the waste management strategy** for at least a year. For Municipalities on the West Coast this would actually be a major benefit.

3) **Reduce the salary bill of the public service by between 5 and 10 per cent.** Whether this is a ten per cent reduction in the workforce or a cut in pay is immaterial.

The main point I would like to make is this:

The drop in revenue is not temporary. There has been a fundamental shift in the value of our offshore oil that is not likely to recover. We cannot afford to ignore that change if we are to be fiscally responsible.

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