THE IMPACT OF HIGH WORKER'S COMPENSATION PREMIUMS ON NEWFOUNDLAND & LABRADOR

Economy, Jobs, Communities

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Summary of Key Quotes & Findings:

- As indicated in Figure 1, NFLD has the dubious distinction of having had the highest workers' compensation payroll tax rate compared to all other jurisdictions since 1993, with the exception of the years 2007-2010 when it was slightly eclipsed by the Yukon and Northwest Territories.

- Alberta may be the most comparable jurisdiction given the emphasis on resource extraction and the competition for labour from that province, with the 2.75 rate in NFLD being over twice the rate in Alberta.

- Table 2 and the accompanying figure provide such an "apples-to-apples" comparison for the top 10 industries in descending order of employment in NFLD for rate groups that are common across jurisdictions (except for PEI and Manitoba that often did not have employees in those rate groups). The rates in NFLD are considerably higher than the average rates across *all other jurisdiction* in eight of the ten sectors.

- Excessive regulatory costs have implications not only for *firms* that find it increasingly difficult to absorb the costs given their increased competitive pressures but also for *consumers, employees and communities*.

- *Employers* are increasingly able to locate their plant and investment decisions in jurisdictions that do not impose excessive regulatory costs, and they are under more competitive pressures to do so.

- Even if a substantial portion of the payroll tax initially imposed on employers is *shifted back to workers* in the form of paying lower wages in return for the benefits of the programs, this can still have negative implications for *employers* through various mechanisms: employers are unable to offer wages that are as high as they would otherwise be able to offer in order to attract workers to fill impending labour shortages; while the wage adjustment period is occurring, the payroll tax does increase labour costs to the firm; and some of that cost increase to the firm may be permanent to the extent that it is not all shifted backwards in the form of wage adjustments. These can lead to reductions in employment and output and to increases in unemployment, and evidence indicates that this occurs.

- The loss of investment also means a loss of jobs for potential *employees*, or lower wages if they are trying to offset the excessive regulatory costs of worker's compensation to retain their jobs.

- Payroll taxes are "killers of jobs" or "killers of wages" – pick your poison.

- *Communities* will also suffer from the lost investment opportunities and the jobs associated with those investments as well as the negative image and reputation as being "unfriendly" to business opportunities. Having workers' compensation costs that are out-of-line with those of other jurisdictions may serve as a signal to perspective employers that a province is unable to contain its costs in this area, and if that is so, they may not be able to contain them in other areas. Workers' compensation costs may just be regarded as the tip of the iceberg.

- Even if the higher costs are used to finance *more generous benefits* to workers, this can have adverse feedback effects on employers because both theory and evidence indicates that higher benefits reduce the incentive for persons on workers' compensation to return to work.

- These adverse work incentive effects mean a *reduction in the supply of labour* that is available to employers. This can further foster the labour shortages that can emanate from other sources such as the retirements from an aging population and the exodus to job opportunities in places like Alberta. Such shortages can inhibit taking advantage of unprecedented opportunities in mega projects and resource developments that are occurring in Newfoundland and Labrador.

- Even though *injury rates have fallen* dramatically, costs have not fallen, suggesting that it is very difficult to ratchet-down tax rates once they have been established. Costs may *increase in the future* given the trend towards remaining in the labour force, and the longer-living and aging workforce where disability is more prominent, the incidence and duration of claims are higher, return-to-work is slower, rehabilitation and VR is more difficult, and occupational diseases with a long latency periods have a longer time to appear. Costs may also increase because of the changing nature of claims increasingly associated with syndromes, repetitive strain and musculoskeletal injuries.

- Some of the percentage changes indicated above from Newfoundland and Labrador moving their workers' compensation rate to the national average can be better illustrated by converting them to actual magnitudes (based on figures from Statistics Canada for 2011). For example; a one percent increase in GDP would increase GDP by $330 million from $33,026 million; a 0.822 percent increase in investment would increase investment by $60.6 million from $7,376 million; a 0.843 percent increase in employment would increase employment by 1,900 from 225,400; etc. (*Illustrative only - See page 19 of the study for further explanation on this analysis).*

- Newfoundland/ Labrador is perched on the *opportunity* for a permanent transition from a "have-not" economy to a "have" economy given the new developments that are occurring in that province. Reforming the workers' compensation system will be important in that transition not only in its own right, but also because of the signal it will send to perspective employers and the real rather than artificial job creation associated with that signal. There seems no better time for action in this important area.