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MANITOBA OFFICE

March 22, 2016

Social Balance in Manitoba

In 1958, Ontario born, Harvard University Professor, John Kenneth Galbraith published *The Affluent Society*. Galbraith used the term “social balance” to describe the inter relationship between private wealth and the public infrastructure—like education, transportation, sanitation and communication—on which the private sector depends. According to Galbraith, America in the late 1950s was starving the government of resources, so that crucial public goods were falling into disrepair. In perhaps his most memorable passage, he wrote:

“The family which takes its mauve and cerise, air-conditioned, power-steered and power-braked automobile out for a tour passes through cities that are badly paved, made hideous by litter, blighted buildings, billboards and posts for wires that should long since have been put underground ... They picnic on exquisitely packaged food from a portable icebox by a polluted stream and go on to spend the night at a park which is a menace to public health and morals. Just before dozing off on an air mattress, beneath a nylon tent, amid the stench of decaying refuse, they may reflect vaguely on the curious unevenness of their blessings. Is this, indeed, the American genius?”

Galbraith’s proposed solution to what he felt was the social imbalance of his time was a sales tax to fund much needed public proj-

ects. One can readily imagine what Galbraith would have made of the debate in Manitoba about increasing the sales tax to address a sizeable and growing infrastructure deficit.

When the NDP increased the PST in the 2013, it was widely pilloried in the media. What received curiously little attention was where that money would go. The entire \$277 million that the 1% increase raised was part of \$1.8 billion that the Province promised to spend on infrastructure that year. While few people are individually keen on paying an extra 1% on their purchases, there are some reasons that in a choice between reducing taxes and increasing infrastructure spending, it is the latter that would benefit the provincial economy—and most Manitobans—more than the former.

First, infrastructure spending provides more bang for the spending buck than tax reductions. While it’s true that reducing taxes keeps more money in households’ pockets, the extent to which this stimulates the economy and creates further economic opportunity depends on what households do with that extra cash. Broadly speaking there are three alternatives. People could save the money, spend it on provincially produced goods and services or spend it on goods and services imported from outside the province. If the money is spent on imported goods

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and services, it does nothing to stimulate the provincial economy. If it is saved it will only stimulate the provincial economy if that saving is channelled into investment in the province, which is far from a sure thing. So, money redirected from taxes to individuals is only guaranteed to improve the provincial economy if it is spent on provincially produced goods and services. Economists estimate that only about 23 cents of every additional dollar in a Manitoban's pocket is spent within the provincial economy. Infrastructure spending, on the other hand, does not "leak out" nearly as much since it is almost entirely spent within the province.

In recent years, the International Monetary Fund (IMF), long a bastion of fiscal austerity, has come to declare that the time is right for a global infrastructure push. In 2014, it argued that in the context of weak global demand and low borrowing costs—conditions that still apply to Manitoba—infrastructure spending is a particularly effective method of stimulating the economy in the short term.

Second, when advocates of tax reduction argue that it is better to have individual households spend their money than having government choose spending priorities, this overlooks the crucial role that infrastructure plays in both the current well being of citizens and their future prosperity. Manitobans enjoy a wide range of goods and services that stem from infrastructure spending from local arenas to clean water. Yet these services have been dramatically underfunded by all levels of government for a number of years, resulting in deteriorating infrastructure in the province. The Association of Manitoba Municipalities estimated this "infrastructure deficit" at \$11 billion, or about \$10,000 per Manitoban, even without including the costs of new projects. Of course, if this deficit is left unaddressed, it will only grow as infrastructure continues to age and crumble.

Infrastructure is not only important to our current amenities, but also crucial for the future development of the province. The World Economic Forum (WEF), the organization that hosts the yearly economic gathering of the rich and the powerful in Davos Switzerland, produces an annual Global Competitiveness Report that ranks, as its title suggests, the competitiveness of national economies. One of the main "pillars" of the WEF assessment of competitiveness is the quality of national infrastructure, which it claims is crucial because, "transport, power and communications networks create the conditions under which businesses grow and the wider economy functions effectively." The 2014 IMF report echoed this logic, arguing that infrastructure spending dedicated to productivity-enhancing projects will not only increase demand in the short run but also increase output in the longer term.

While the provincial NDP have been criticized for being too free with government spending, the federal Liberals have now been complimented for their promises to address the infrastructure deficit across the country. Perhaps Manitoba should be given credit for being ahead of the curve on the issue of righting Galbraith's social imbalance.

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UNSPUN is the 2016 provincial election commentary from the Canadian Centre for Policy Alternatives Manitoba

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