Fast FACTS
CANADIAN CENTRE FOR POLICY ALTERNATIVES – MANITOBA

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Manitoba was ahead of curve on modern fiscal policy

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Economists worldwide have undergone a sea change in attitudes in the last five years regarding public deficits and debt. Deficits were once viewed as inherently negative, to be reduced and eliminated as government's first priority. However, in the wake of chronic global stagnation and the destructive after-effects of austerity in Europe (and other regions), most economists have now adopted a very different view. With rock-bottom interest rates and stubborn unemployment, economists in many international agencies now support expanded deficit-financing to inject badly-needed vitality into stagnant economies.

An especially important form of public spending is infrastructure investment. Public capital projects (like transportation, basic utilities, urban transit, and housing) help to offset weak business capital outlays. They generate both short-term and long-lasting benefits: boosting employment and incomes during construction, but also lifting long-run productivity (even in the private sector) thanks to a more efficient economic infrastructure.

Support for expanded public capital spending, funded with public borrowing, now comes from many blue-chip sources – like the International Monetary Fund, the World Bank, former Bank of Canada Governor David Dodge, and many others. And public attitudes toward deficit-financing are also changing, as indicated in the recent federal election. Where many voters once accepted holus-bolus conservatives' disapproval of deficits, the Liberal proposal for modest borrowing to fund infrastructure expansion struck a chord among Canadians, tired of persistent economic underperformance.

It turns out that Manitoba has been ahead of the curve in this important shift in fiscal policy. Like all jurisdictions in Canada, Manitoba slipped into deficit during the 2008-09 financial crisis. But unlike others (including Ottawa) who then rushed to eliminate deficits as the top priority, Manitoba followed a more balanced and cautious approach.

The provincial government boosted spending (focused on infrastructure) in the years after the recession, incurring seven consecutive deficits in the process. Those deficits have been gradually shrinking since 2011, and are now scheduled to disappear completely in 2018-19. Relative to GDP (which has grown steadily in Manitoba), provincial debt grew modestly: to around 30 percent of

there is an alternative.

CCPA-MB
205-765 Main St.
Winnipeg, MB
R2W 3N5

phone
(204) 927-3200
email
ccpamb@policyalternatives.ca
website
www.policyalternatives.ca/manitoba
blog
www.policyfix.ca
twitter
@ccpamb

CAW TCA CANADA Local 567

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GDP, at present (not high by historical comparison). And with real interest rates on bonds barely above zero, the burden of carrying that debt has actually declined.

It turns out that this easy-going fiscal approach is just what the doctor ordered for the provincial economy. And Manitoba's strategy of boosting public capital spending (financed both by new debt and, in part, by a one-point rise in the provincial sales tax) is now exactly the sort of policy supported by international agencies as relief for widespread economic stagnation.

Manitoba's approach, never mind the criticisms of fiscal conservatives, has contributed to a macroeconomic record that's among the best in Canada. Provincial unemployment fell (even as Canada's overall economy entered shallow recession this year); at 5.3 percent, Manitoba's rate is now the lowest of any province. Total employment grew 3 percent over the past two years, second-fastest of any province (next to B.C.). Full-time employment grew even faster: by 4 percent in the same period – rebuffing the trend toward part-time, precarious jobs seen elsewhere. The provincial economy expanded solidly above 2 percent every year since the recession. This year it will grow by twice the national average. Manitoba's diversification (composed of strong agriculture, energy, manufacturing, transportation, and financial sectors) provides a powerful and unique economic base.

Digging beneath the aggregate numbers, one key factor jumps out as an explanation for Manitoba's strong record: robust capital investment. Both private and public capital spending have grown strongly – a refreshing contrast to other provinces where capital spending has disappointed. Capital outlays grew an impressive 25 percent in 2014 (by far the strongest in the country), and preliminary data indicates another 5 percent expansion this year.

Nothing is more important than investment in driving an economy forward, creating jobs and incomes, and laying a strong framework for future productivity. Manitoba's record in this regard is unmatched. And the provincial government's willingness to tolerate modest, manageable deficits has been a crucial ingredient in the province's success.

Jim Stanford is economist for Unifor, Canada's largest private sector union, and a Research Associate with the Canadian Centre for Policy Alternatives. He is speaking on his new book, ***Economics for Everyone,*** *in Winnipeg on Tuesday, November 24, at 7 pm at Neechi Commons.*

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R2W 3N5

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