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Prelude to a budget

The NDP government's strategy of being all things to all people may be coming to the end of the road. Since its election in 1999 it has combined tax breaks, improved funding for health, and to a lesser extent, education, and a hold the line approach to other government spending. This combination of decreasing revenue and increasing spending has forced the NDP to walk a budgetary tightrope: this year they may have fallen off. The third quarter financial report announced that the budget will not balance, blaming a fairly lengthy list of circumstances that have conspired to increase spending over last year's budgetary predictions, from the emergency payments for mad cow disease and forest fires ($75-million) to an increase in health spending ($37-million). To comply with the balanced budget legislation the province is invoking a clause that allows deficits only under conditions of "natural or other disaster that could not have been anticipated".

As in the past, the NDP is balancing the budget by dipping into the money made from the sale of MTS that is sitting in the Fiscal Stabilization Fund (FSF). This year's $143-million dollar draw from the FSF amounts to 60% of the $235-million in the fund as of March 2003. This practice is not unique to the NDP, in their last year in office the Conservatives withdrew $185-million from the FSF to balance their budget. Still it is quite worrying that the province is having difficulty balancing the budget at a time of low unemployment and record labour force participation. The NDP will surely be tagged by its more conservative critics with the "over-spend" label. Is this an accurate reflection of the NDP's record?

Factoring out the effects of inflation, real - rather than nominal - provincial spending has certainly grown faster than revenue. In the four years between 2000/01 and 2003/04 real spending increased by about 8%. This figure would have been even larger except for the fortuitous saving on annual debt payments due to lower interest rates. These payments declined by $93-million between 2001/02 and 2003/04. Real revenue, on the other hand, has remained very flat, only growing by about 1%. In fact, revenue from provincial sources has declined by 2.6% in real terms. The only increases in provincial revenue have come from federal transfer payments.

This is tax and spend?

The increases in government spending, even in real terms, should not be overstated. Relative to the size of the economy, total and program spending have actually decreased. The flat real revenues have translated into provincial government revenue declining as a percent of GDP. Clearly, those wishing to characterize the NDP as tax and spending addicts are dramatically off the mark.

Provincial spending has been increasing, but almost all that increase has gone to health. Between 1999/00 and 2003/04, total provincial program spending increased by $1,120-million. The health-care budget expanded by $732-million, accounting for 65% of the entire increase. There are two points to be made about this. The first is that increasing spending on health care is not necessarily something to be derided. Because the health care system was starved for many years, the NDP has been forced to compensate. Second, it suggests that it is worth carefully examining the health care system itself to determine if there are underlying pressures that can be alleviated.

The NDP insists on letting itself being constrained by the straightjacket of the balanced budget law, which prohibits any yearly deficits and requires major tax increases to be subject to a referendum. The NDP is only managing this commitment thanks to a bit of sleight of hand. This year they are removing the $75-million in "emergency spending" costs and adding $143-million from the FSF in order to run a "surplus". In reality, they are running a $212-million deficit. It should be noted that the NDP have appeared to be in similarly dire financial straits before and have successfully scrounged for creative revenue sources, most famously by making a $150-million dollar draw from Manitoba Hydro. It is possible that the NDP can again pull a rabbit out of a hat, but these kind of one-off payments are only temporary solutions. In the longer term, revenues and spending must be brought in line, a task that will become even more difficult should the economy slip into recession.

In catering to the tax cut lobby, the NDP has accepted the argument that tax cuts are good public policy. Taxes are required to finance important programs, many of which are aimed at those in most need in our society. In fact, the NDP's commitment to spending on health and education has left little room for more targeted spending to assist lower income Manitobans, creating a social deficit that may actually create long term budgetary pressures. There is overwhelming evidence that poverty (and even income inequality) increase the use of the health care system and so programs to combat poverty would actually reduce the amount the province would have to spend on its health care system. However, the very tight provincial budget caused by increased health spending and reduced taxes makes it impossible for the province to spend money in an area which could, in the longer term, actually ease its largest spending pressures.

The Great Revenue Debate

Generating additional revenue through taxation appears to be out of the question for the NDP, which has staked its reputation on offering tax relief that it claims is both modest and targeted. The NDP tax cuts have indeed been more modest than the sizeable cuts in Alberta and BC. Interprovincial tax comparisons shows that a single family of four earning $60,000, for example, does pay more tax in Manitoba.

Manitoba also maintains the most progressive tax system of the western provinces. The difference in total tax burden between Manitoba and the other provinces increases with family income since Manitoba had the top marginal tax rate in 2003, at 17.40%. Lower income families pay less tax; a family earning $40,000 has the second lowest taxes of the four western provinces.

However, not all Manitobans have benefited equally from these tax reductions. A family with an income of $20,000 saw its taxes fall by $150.00 a year from 1999 to 2004, while a family earning $100,000 enjoyed a yearly tax saving of just over $1,700.

The NDP case for tax cuts rests on an assumption that higher taxes will result in an exodus of people, especially those high-income earners who pay the most income tax. However, a closer look at the actual taxes paid by a family earning $60,000 in Manitoba and Alberta shows a tax difference of only $2,500 (and for other provinces it is even smaller). It seems hard to believe that someone would pick up and move to increase their after tax income by so little, particularly since interest payments on mortgages, electrical bills and auto insurance are much cheaper in Manitoba. For a family that earns a $100,000, the income tax difference only amounts to around $5,000. In short, the NDP has more room to maneuver when it comes to generating revenue than it is prepared to acknowledge.

The province is facing a tough task in the upcoming budget. Having exhausted the FSF, the province will now have to choose between tax cuts and maintaining public services. Reduced revenues, and provincial spending increases dominated by health care, have resulted in the province neglecting programs aimed at improving the lives of lower income Manitobans, creating a social deficit that will inevitably place long-term pressures on provincial spending. At the same time, the public service deficits that a continuing tax-cut strategy require will make Manitoba a poorer province to live in. The days of being all-things-to-all-people will soon be over: the choices that the NDP makes in next week's budget will determine the course of the current administration.

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