

CCPA-MB

FAST FACTS



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What's Irresponsible?

Nearing the release of its third budget, Manitoba's NDP government long ago shattered the old myth that New Democrats "couldn't manage a peanut stand." The danger now is not that they have the keys to the economy, but that Today's NDP will become so obsessed with its image that, like a man admiring his new haircut in the rear-view mirror, it fails to notice the hazards on the road ahead.

Under the NDP, economic growth was ahead of the national average in 2001. Unemployment is among the lowest in the country. There was a solid rebound in job creation in the latter part of 2001, and the growth of full-time jobs was at almost twice the national rate.

Ironically, that Manitoba's economy appears generally to be in good hands is despite — not because of — two key decisions the party made as an ostensible display of fiscal responsibility. To distance itself from what polling must have told it was persistent image problem, the NDP pledged to uphold the Filmon government's balanced budget legislation. Then, shortly after

taking power, the government announced its surprising plan to cut taxes in each of the following three years.

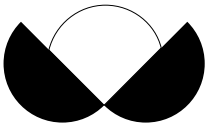
From a narrow tactical standpoint these two moves may have been successful. But as the NDP finds itself face to face with the inevitable consequences, it must not confuse political image with economic reality. The balanced budget legislation, always dishonest and dangerous, should be killed.

Shell Game

Manitoba will run a deficit this year. That is to say, provincial spending will exceed revenues — likely by as much as \$200 million. Yet the budget will still be "balanced" because the shortfall will be covered by a draw on the so-called rainy day fund, which currently sits at just over \$300 million.

This kind of now-you-see-the-deficit-now-you-don't shell game is endemic to balanced budget laws. The Conservatives balanced their budgets largely by selling off MTS in 1996/97, which brought in \$265 million. In 1998/99, \$155 million was drawn out of the rainy-day fund, and in 1999/00 another \$174 million.

Spending cuts on the order of \$70 million would have political consequences far worse for the NDP than walking away from an ill-considered election promise.



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Next year will be crunch time. Using standard growth and revenue projections for 2002/03, we estimate another \$200 million shortfall for 2002/03 — much more than what will be left in the rainy day fund.

Without something like an economic miracle, such as a large unexpected increase in federal transfer payments, the government would be unable even to stay the course. Spending cuts on the order of \$70 million would be required to meet the arbitrary conditions of the balanced budget law.

Program cuts would hurt Manitobans, hurt the provincial economy, and the political consequences would be far worse for the NDP than walking away from an ill-considered election promise.

A Government With a Revenue Problem

Did this year's shortfall occur because the government has a spending problem? Not at all. It has a revenue problem. Provincial revenues have been undermined both by the North American economic slump and by provincial income-tax cuts.

In other words, the NDP is facing a fiscal squeeze partly of its own making. It drastically restricted its own room to move before the election, and then promptly used up most of that room in its first budget. The tax cuts announced two springs ago, when the economy was in a relative boom period, left precious little breathing room when the inevitable slowdown hit.

Consider this: this fiscal year, the government cut net taxes by approximately \$185 million — nearly as much as the expected draw on the rainy-day fund.

Of course, we have absolutely no objection to balanced budgets. Ideally, the government *should* balance its budget — but over the course of the fiscal cycle, not necessarily every year, and not at the expense of all other considerations.

Deficit spending is not a peril to avoid at all costs, nor is it some luxury a government might indulge in during an election year. In an economic slowdown, running a reasonable deficit is usually the responsible thing to do.

Government spending stimulates the economy by putting money into the hands of people who will spend it — and soon — in Manitoba. The government can meet pressing social needs, such as housing, childcare, and social assistance, and in so doing help support employment and consumer spending. The balanced budget legislation ignores both the government's social obligations and economic reality.

The arbitrary nature of the balanced budget law is perhaps most clearly seen in its provision for \$75 million in annual accelerated debt payments. Why \$75 million? No reason. The figure was plucked out of the air back in 1995. Yet the government is locked into spending that amount more than is necessary on debt servicing each year. This is the equivalent of a family deciding to make accelerated mortgage payments — a nice idea, but not if doing so means you can't afford adequate food or winter clothes.

The fragile growth expected in the near future could be choked off if the government reduces spending to conform with the balanced budget law. The legislation, combined with tax cuts, all but forces the government into making the kind of spending cuts that can create an economic contraction.

To do such a thing with the North American economy as weak as it is now could seriously undermine the provincial economy — not to mention the NDP's reputation as responsible fiscal managers.

—*Ian Hudson and Todd Scarth*

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