



FAST FACTS



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The NDP's dwindling budget options

If the goal of the NDP government is to avoid angering voters with any sort of drastic changes, last month's budget was remarkably successful. The difficulty with the NDP's "stay-the-course" approach is that after five budgets, the Manitoba of the NDP has painted itself into a corner. By adhering to Tory's balanced budget legislation and tax cut policies, the NDP been able to do little to help either the poor or the environment.

Revenues

A quick glance at the headlines of the Free Press or the Sun would have you believe that this year's budget was one massive tax grab by the NDP. A more appropriate description is that this budget has continued the NDP's practice of reducing income taxes while increasing other forms of revenue. All told, the combination of taxes announced in this budget and those promised in previous budgets but implemented this year amount to a tax reduction of \$40 million a year. Income taxes, the education support levy (a provincial tax on property), and corporate taxes are this year's big-ticket reductions. Increases to tobacco and liquor taxes and an expansion of the retail sales to tax to previously untouched services such as legal, engineering and accounting make up for some of this lost revenue.

There are two important points to be made about the NDP's tax moves in this budget. The first is that the tax cuts that were previously promised and enacted this year follow a trend of tax reductions by the NDP, which although modest in each year, have a profound cumulative impact on the province's ability to generate revenue.

Just to take one example, this year's personal income tax reduction deprived the province of a fairly modest \$39 million, but the cumulative effects of the personal income tax cuts since 1999 amount to \$220 million dollars fore-

gone each year. Adjusted for inflation, own-source revenue (money raised by the province's own taxes and levies, as opposed to transfers from the federal government) has actually fallen since the NDP came to power.

The second point is that the move away from income tax toward user fees and taxation of specific goods and services reduces the progressivity of the tax system. While taxes on cigarettes and booze seem fairly innocent, in the sense that they are hardly necessities and avoiding the tax is as simple as quitting smoking, any consumption tax will eat up a larger percentage of total income for poorer residents.

Despite the tax reductions this year, the province is relying on a very dramatic increase of 7.3% in own-source revenue to balance the budget. While own-source revenue does fluctuate remarkably (it increased by 9.3% in 2000/01), it is likely that these numbers will prove to be optimistic. The projected 8% increase is in retail sales tax revenue seems very optimistic, even when one takes into account the expansion of the goods and services on which it will be levied. If this optimism is unfounded, the province will be forced to take the same sort of emergency action required this year when its estimates proved overly generous. Faced with a looming deficit it claimed "emergency disasters" were responsible, allowing the province to slip through a loophole in the balanced budget legislation.

Spending

There has been much criticism of the NDP's spending habits. Critics are eager to pin the NDP's inability to balance the budget squarely at the feet of perceived spending increases. Again, this is a critique that does not stand up under careful investigation. In real terms, provincial



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spending has increased, but two-thirds of this increase has occurred in one department, health. In addition, it is important to point out that, as the rest of the economy grows, provincial spending should grow over time. Relative to the size of the rest of the economy, provincial spending has actually fallen from 20.2% in 1999/00 to 18.6% in the 2004/05 budget.

What is far more worrisome than the province's so-called spending profligacy is where the money is (and is not) being spent. The commitment to health and, to a lesser extent, education, coupled with the foregone revenue from corporate and personal tax reductions, has left very little to spend in any other area. All of the departments under the umbrella of Community, Economic and Resource Development are to cut their spending by 7%. The departments of Conservation and Water Stewardship have had their budgets frozen. This is not only a temporary measure, caused by sudden belt tightening, but reflects a consistent pattern of neglect. When the NDP took power in 1999/00 the budget for Conservation was \$149.8 million; after five years the combined budget of the two departments now largely responsible for the environment (Conservation and Water Stewardship) is \$150 million.

The Structural Deficit

Another worrying aspect of this budget is the province's inability to come up with a cure for its structural deficit. In previous budget years, the NDP managed to increase health and education spending while providing tax cuts by dipping into the Fiscal Stabilization Fund (FSF) money provided by the sale of MTS. This allowed the government to maintain the veneer of balanced budgets despite repeated actual deficits. However, that strategy has finally, inevitably, hit the wall. After the \$143 million draw last year, the FSF currently stands at a very tiny \$101 million.

This seriously limits the size of any future draws that the government can make on this fund. As a result the government is now left to its own resources when it comes to meeting its commitment to adhere to the balanced budget legislation. Since the very slim surplus predicted in this year's budget is based on very optimistic spending (health care only increasing by 3.8%) and revenue (increasing by 7.3%) projections, it is likely that the province will once more find itself scrambling for a loophole at the end of the year.

While its commitment to the balanced budget legislation has not actually forced the NDP to balance its budget (since it has been able to use the FSF to cover deficits), it has drastically limited its options should it attempt to do so once the FSF is depleted. The balanced budget legislation requirement that any increase in major tax rates be subject

to a referendum will make it very difficult for the NDP to reinstate the income tax cuts it has made. This limits the province to increasing smaller excise taxes and eliminates its ability to expand the main progressive tax instrument. In addition, the balanced budget legislation stipulates that money must be set aside for advanced debt repayment, to which the NDP dedicated \$21 million this year. Avoiding this payment when the province is having trouble balancing its budget, and is sacrificing crucial programs, would make a great deal of sense. It seems extraordinary that the province should run a deficit so that it can pay off its debt early. Such strict adherence to the balanced budget legislation not only prevents governments from running a deficit, it hinders their ability to balance the budget.

What is to be done?

The NDP's dedication to health and education spending and tax cuts has created a structural deficit that has finally exhausted its rainy day fund (the FSF). In addition, it has resulted in a remarkable neglect of any other social programs for which an NDP government should be responsible. Next year will truly test the NDP. In actually having to balance the budget for the first time, they will have to choose between cutting spending and cutting taxes. It is an indictment of this government that there is so much uncertainty about which one they will choose.

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