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The Myth of Taxpayer Protection in Manitoba

In 1995, a Conservative government intent on shrinking the size of the Manitoba public sector and limiting the capacity of government to respond with tax increacses to serious fiscal and economic problems, passed Bill 2: The Balanced Budget, Debt Repayment and Taxpayer Protection and Consequential Amendments Act.

In Brief, the legislation required that (i) the budget be balanced every year, except in the event of extraordinary events (wars, natural disasters, depressions); (ii) $75 million be paid each year from current revenues into a fund for debt retirement; and (iii) referenda be held to obtain approval for increases in personal income, corporate income, payroll and sales taxes.

The NDP opposition condemned Bill 2 on the grounds that it would undermine the ability of governments to respond to changing economic and social conditions. Of particular concern was the possibility that Bill 2 would pave the way for regressive changes in taxation and expenditures, including increasing reliance on user fees and gambling revenues and a restructuring of public expenditures for the benefit of business and individuals at the top of the income distribution.

The NDP has now been in government since 1999. Yet to date, while the first NDP government did make some modest amendments to the debt repayment provisions of the Act, there have been no initiatives by NDP governments to grapple with the contradictions inherent in the legislation and the potentially serious problems that could result from government's inability to manage the province's finances. It seems that the NDP's criticism of the legislation while in opposition was merely opportunistic as opposed to principled.

While there are a number of problems, the one issue of particular importance that should be on the government's agenda arises from the perverse asymmetry of the taxpayer protection provisions of Bill 2. As already noted, before the Manitoba government can raise personal income, corporate income, sales, and payroll tax rates it must submit the proposed increase (s) to a referendum. This restriction on the capacity of the government to raise taxes was justified on the grounds that it would protect taxpayers against governments with a predisposition to increase public spending and play fast and loose with their resources.

The perverse asymmetry is attributable to the fact that the government can cut these very same tax rates without seeking approval from taxpayers in a referendum. Apparently, the government that established the legislation in 1995 did not accept the idea that taxpayers might also

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need protection from a government intent on cutting expenditures and shrinking the size of the public sector

This asymmetry reflects the divide that exists in our society between the interests of business and individuals and families in the top end of income and wealth distributions, and the majority of citizens who are trying to get by on modest and limited incomes and derive significant net benefits from public sector programs. The Conservative government assumed that any attempt to raise major tax rates through a referendum would be successfully countered by an opposing campaign financed by business owners and the well-off. However, the outcomes of referenda on tax cuts would be more problematic and could frustrate the agenda of governments committed to cutting taxes and cutting public/social expenditures. Therefore, the legislation was designed to protect governments against this possibility.

For the budget year 2006-07, the four taxes subject to the referendum provision generated almost $4 billion, which accounted for 83.3 percent of total revenue from taxation and 46.5 percent of total revenues (inclusive of transfers from the federal government).

In recent years, the government has cut the effective tax rates for personal income and corporate income taxes, and the payroll tax. It has made these cuts, which add up to 100s of millions of dollars in foregone revenues without any consultation with the taxpayers of Manitoba. As well, at no time has the government (or anyone else for that matter) demonstrated that the cuts in taxes have or will generate benefits to Manitobans in excess of the benefits that would result if rates had been maintained and the additional revenues were directed into expenditures on health, social infrastructure and community economic development. Given the significance of such decisions in the context of the 1995 legislation, it would seem appropriate for the government to present the proposed tax cuts to the citizenry and then defend them in a referendum campaign.

So long as we have a robust economy and rising transfers from the federal government, the cuts in revenues inherent in reduced tax rates can be finessed. Conditions will quickly change, however, in the event of a depression or protracted stagnation that would reduce the revenues required to sustain a given level of public sector services. In the absence of the 1995 legislation, government could deal with this situation by running a deficit, raising taxes, cutting expenditures or some combination of these measures. However, under the existing legislation the deficit option disappears (unless the revenue reduction is 5 percent or more and then it must be balance over two years, rather than one). Raising taxes would be problematic because any proposed increases would have to be submitted to a referendum and business interests would almost certainly campaign against them. The only option left would be cuts to expenditures on public sector services – health, education, social welfare, transfers to cities, etc. – which would result in immediate reductions in the welfare of tens of thousands of individuals of modest and/or limited incomes.

—Errol Black

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