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Bill 38: Putting a Safety-Net into the Balancing Act

This week the NDP will be holding a hearing on Bill 38: *The Balanced Budget, Fiscal Management and Taxpayer Accountability Act*. In order to understand the implications of Bill 38, it is necessary to put it within the context of the legislation that, if passed, it will amend: *The Balanced Budget, Debt Repayment and Taxpayer Protection and Consequential Amendments Act*. The CCPA has had serious concerns with this Act since its inception.

The existing Act allows for the shrinking of our public sector and limits the capacity of government to respond, with tax increases, to serious fiscal and economic problems. It also prohibits the government from using rational economic tools - such as running reasonable and occasional deficits – to respond to serious downturns in the economy. Bill 38 introduces legislation that begins to reverse the negative effects of the original Act.

These negative consequences flow from two ill-founded premises: 1) the narrow economic assumption that all government debt is counterproductive and 2) that Manitoba has a particularly grave problem with its provincial debt. Firstly, it is simply not true that all government debt is bad, anymore than it is true that all family debt is bad (if that were true, none of us would have a mortgage). Debt and deficits, responsibly managed, are productive economic tools that can stimulate demand in a depressed economy and ameliorate human suffering when the level of employment contracts. Not to run a deficit in a recession/depression is irresponsible and immoral. It is particularly worrisome that the existing legislation prohibits deficit spending while making it necessary to hold a referendum to increase taxes. These two obstacles mean that the government is hemmed in on both sides: it cannot raise revenues easily and it cannot temporarily spend beyond limited revenues should circumstances take a turn for the worse. It is also worth noting that the government does not have to run a referendum to lower taxes, making this aspect of the existing legislation asymmetric and unfair.

Secondly, Manitoba does not have a debt problem now and it did not have a debt problem when the legislation was enacted in 1995. Our debt/GDP ratio is a very respectable 21.7% and our credit rating is AA. The indicators, although not as strong as today's, were also solid 13 years ago.

Under the guise of protecting tax payers, Manitoba's balanced-budget legislation fails to recognize the social obligations of governments in the budgetary process. There is no mention of

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the need to address problems of unemployment, income inequality and poverty. There is no requirement to provide satisfactory levels of schooling, health care, or social assistance. In order to meet these obligations, the government must be able to control revenues – increasing them through tax increases when the economy is strong (and paying down the debt), and decreasing them when the economy contracts, and running a deficit if needed. We must resist the impulse to decry this kind of rational fiscal policy as only "tax and spend" while ignoring the equally important "reduce and save" side of the equation. A government must be able to do both to respond to the vagaries of our free-market economy. The government needs one tool to deal with economic booms and another to deal with economic busts; to artificially restrict the use of one of those tools is pernicious and irresponsible.

The CCPA supports Bill 38 because it loosens the restrictions imposed by the existing Act. Bill 38 allows the government to work within a 4-year timetable. By averaging the balance over four years, the government will have more latitude to absorb budgetary shortfalls in the short term – say a 1 or 2-year period and rectify them over the longer term (4 years to be exact). As noted above, we do not support deficit spending for frivolous reasons. Deficit spending should be undertaken to cushion the effects of a contracting economy and/or to invest in the social safety- net to reduce the future costs of important social responsibilities such as social assistance and healthcare.

The CCPA is hopeful that Bill 38 will allow this government to invest in areas it has neglected and which are in dire need of upgrading. Investment in fundamentals like social housing and strategies to prepare our growing Aboriginal youth population for tomorrow's jobs is essential. If this government does not want to collect enough taxes for these investments, it may have no choice but to run the occasional deficit to do so.

The ideal solution would be to reverse balanced-budget legislation in its entirety, a move that we encourage the government to undertake. In the interim, we acknowledge the positive, albeit limited, policy move contained in Bill 38.

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