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Canadian Centre for
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State of the Manitoba Economy: Assessing the Real Challenges

As reported in the *Free Press,* Brian Pallister is "fixing the province's finances", with what he calls small, gradual funding cuts. Two questions arise from his claim: do our finances really need fixing, and what happens when these cuts accumulate?

There's no fiscal mess in Manitoba that requires immediate action. Drastic action is required, however if we are to avoid massive future spending to deal with climate change, our infrastructure deficit, income inequality and to help Manitoba's northern communities. To ignore these problems in the name of exaggerated concerns about government debt is irresponsible.

The combination of cuts to the public sector and obsession with debt reduction are hallmarks of an austerity agenda, regardless of how much the premier resents that reference. Take for example, his explanation as to why his government will not share cannabis revenue and why it cutting funding to municipalities: "That billion plus, for the first time, is going to go to happy money lenders in New York and Toronto". The billion he is referring to is the amount the province has to pay to service its debt. Left dangling with no context, $1 billion delivers the shock effect Mr. Pallister is aiming at. But context makes all the difference.

With data from Finance Canada and Manitoba Finance we can compare Manitoba's performance with the rest of the provinces. In the 1990-91 (Conservatives in power), Manitoba's debt servicing charges as a per cent of GDP were 2.1 per cent vs 1.9 per cent for the other provinces. From 2000 to 2011 (NDP in power), charges were below the other provinces, where they have remained until the present day (ranging from 1.5 to 1.3 per cent vs 2.4 to 1.4 per cent for the other provinces). Debt management was, and is, on an even keel.

The Premier also frequently uses bond rating agencies' ratings as proof that there is a crisis at hand. Manitoba's Standard and Poor's (S&P) credit rating was reduced from AA- to A+ in July, 2017.

Governments need to be careful not to be held hostage to these fluctuations because the agencies ignore the long-term value of government investments. Furthermore, the fluctuations don't make a big difference in how much we pay. According to economists Trevor Tombe and Blake Shaffer "on average, each notch on the S&P ratings scale is associated with a 0.04 per cent higher yield on a 25-year bond". Of course, governments must be responsible about deficit financing. The test should be if there is a net gain from the investment of borrowed money.

If a household borrowed money to buy a home and send a family member to university, it would build its assets and the student would have a better chance of getting a job that pays higher earnings over her life time. That strategy works for governments as well.

Take, for example, Manitoba Hydro's investment in Keeyask and Bi Pole III – a sore point the premier is constantly rubbing. But it is perfectly reasonable to spread the debt for this infrastructure over the generations who reap the rewards of the affordable and reliable energy it will provide. Done properly, these investments should compensate Manitoba's First Nations communities, and include agreements that make them active and prosperous partners. This sort of reconcil-

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iation would never be part of a bond rating agency's calculus.

Other benefits of this is sort of infrastructure investment cannot be ignored, especially in light of our urgent need to deal with climate change. It is curious that the premier wants the federal government to acknowledge our investment in Hydro at the same time as he bemoans the cost of the investment.

Furthermore, Manitoba's $11 billion provincial infrastructure deficit will only worsen. Even the business community plainly sees the folly in pulling back infrastructure investment by $230M in order to reduce the PST by 1%, thereby taking a further $300M from provincial revenues.

A smart-investment strategy applies to investments in social infrastructure too. According to economist Iglika Ivanova:

[. . .] if a society fails to make such investments, it risks being much poorer over time. That's why investing in poverty reduction, quality child care and early childhood education, more specialist teachers in the K-12 system, accessible post-secondary education [. . .] makes good public policy. Failing to make these investments [. . .] may make the books look good today, but it sets us on a path of lower productivity, increased social ills and higher total costs over the long run.

Rather than fretting so much over manageable debt and debt-servicing charges, the Premier should be worrying about real problems like the loss of up to 1500 jobs in Manitoba's North. With projected declines in regional economic activity of $300 million and income of $100 million, it's hard to imagine how communities like Thompson and Flin Flon are going to manage, and there's no immediate relief in the new economic growth action plan. Both municipalities could face significant revenue shortages as businesses shrink, and provincial coffers will take a hit as laid off workers quit paying income tax and reduce consumption. This will lead to more business closures, loss of population and falling real estate prices, all culminating in an economic downward spiral.

In fact the province overall could soon see an economic slowdown when these decent paying, unionized jobs losses are combined with others, including the loss of 900 jobs at Manitoba Hydro, reductions at various provincial healthcare agencies and other provincial crown corporations. By eliminating so many public-sector jobs, freezing wages and cutting back on infrastructure spending, the phantom crisis the government keeps referring to may materialize. And with unemployment so low in BC, Alberta, Ontario and Quebec, laid off workers may be lured away from Manitoba.

As Manitobans face all these challenges, hopefully the approximately $299 million increase in federal transfer payments for Manitoba will stem any more job losses from the education and healthcare sectors.

This government needs to recognize the damage it is inflicting by imposing austerity measures on a healthy economy that is facing some serious challenges. If it doesn't adjust its course, we might really have to deal with a financial crisis.

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References available upon request.