



Fast

FACTS

CANADIAN CENTRE FOR POLICY ALTERNATIVES – MANITOBA

there is an alternative.

May 30, 2016

2016 Budget: the waiting game

It will take more than one budget – hastily prepared – to fully appreciate the Conservatives' master plan, but the Throne Speech, a fiscal update and Ministerial mandate letters tell us what we should be keeping our eye on.

Finance Minister Friesen's dire warnings about the size of the deficit (at just over \$1 billion) cause him to blame the NDP for overspending. But the \$366 million difference between the Conservatives' estimate and the NDP's relate to expenditures that appear unavoidable, including flood disaster assistance and environmental liability costs. There's also \$143 million in federal compensation for the 2011 flood that the province has yet to receive, but is forthcoming.

The reason for the larger deficit estimate – and it is just an estimate – matter not for the Conservatives' purposes. What is important is the story they can spin around the figure.

Pallister warned voters that if the fiscal situation was dire, they wouldn't be able to unroll promised tax cuts as quickly as preferred. We know from the Finance Minister's mandate letter that he has been tasked with reducing the PST 1% by 2020, raising the personal income tax exemption to the national average, and indexing tax brackets and the personal exemption by the rate of inflation in their first *full* budget year. The estimated billion dollar deficit will give them the excuse to put off these measures until later in their mandate.

And why would they reduce revenues now? The NDP paid the political price for raising

the PST and the Conservatives can now benefit from the increased revenues until later. They can hold off until closer to the next election to lower the PST and still come across as heroes. Every year they keep the PST at 8%, gives them more than \$250 million. And that's money they're going to need if they make good on their promises to reduce revenues through other tax adjustments, spend \$1 billion/year on infrastructure and flood protection and make definitive moves to balance the budget.

As fiscal realities sink in, the new ministers will soon learn that it is much easier to criticise from the sidelines than it is to govern. This is particularly true with trying to balance the budget. We know that balanced budget legislation is only adhered to – even with conservative governments - when it's convenient, and quickly forgotten when crises occur.

They too will face the dilemma of how to make everyone happy all the time. Although rarely acknowledged, it is a predicament the previous government struggled with when it cut income taxes by a cumulated \$542 million and property taxes (especially for seniors) by \$339 million. These cuts alone (there were substantial business tax cuts as well) would almost cover the deficit, but the Conservatives will continue to blame the NDP for spending too much rather than for depleting revenues through tax reductions.

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At the moment, the Conservatives have two big advantages that will help them stave off difficult decisions for a period. The first one, which they will never acknowledge, is that they have inherited one of the steadiest economies in Canada, with low unemployment, strong capital investment, a reasonable debt/GDP ratio and historically low interest rates. Manitoba continues to have the lowest rates of taxation combined with basic household costs (utilities, car insurance and mortgage payments) in the country. With growth in Manitoba predicted at over 2.4% next year (3rd highest in the country), keeping the debt and spending at a steady or decreasing percentage of GDP becomes a much easier exercise.

The second advantage is the new federal government. With its very different philosophy of using deficits to stimulate the economy, provinces will be seeing relief in several areas. For example, housing advocates are optimistic that the Liberals are going to re-engage in the affordable housing market. But as encouraging as the new federal attitude is, there are still areas that will vex the province – the main one being healthcare.

The feds did not recommit in a significant way to a new Health Accord. Close to half of Manitoba's total spending goes to healthcare, so this government will have to find a lot of 'efficiencies' to rein in spending. With Pallister on record as being willing to consider a two-tier system, healthcare advocates will be watching that budget line closely in this and future budgets

It is unlikely there will be sweeping changes in the 2016 budget, especially because the previous government left them with a strong economy and an easy excuse not to reduce the PST right away. But if they stick to their promise to eventually decrease the PST and bring in other tax adjustments, the loss of revenue, coupled with their commitment to balance the budget, will force their hand.

And that's when things will get really interesting.

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