



CCPA-MB

FAST FACTS



Canadian Centre for Policy Alternatives-Mb • 309-323 Portage Ave. • Winnipeg, MB • Canada R3B 2C1
ph: (204) 927-3200 • fax: (204) 927-3201 • ccpamb@policyalternatives.ca • www.policyalternatives.ca/mb

April 23, 2003

The Manitoba Budget: Selling Uncertainty?

When Greg Selinger rose in the Legislature to deliver the 2003-04 budget yesterday, he immediately touched on a favorite theme. This budget, he said, is coming down in “times of uncertainty.”

In recent years, he has pointed to September 11 and the unresolved federal overpayment as causes of uncertainty. But it is difficult to see how the current year is characterized by any more uncertainty than any other year.

It seems as if the word “uncertainty” was added to the speech by reflex. My theory is that it was a kind of Freudian slip — that the word applies not to the economy, but rather to a government itself is uncertain about where it really wants to take the province.

The premier and finance minister have told Manitobans that they must continue to cut personal and business taxes in order to keep the province strong and “keep young people.” They boast of the cuts they have made to corporate and personal income taxes, now totaling a cumulative \$120 million per year since the NDP took power. Do they really believe this stuff?

That is not a rhetorical question.

Folly

The folly of trying to develop a provincial economy through tax and spending cuts has been amply demonstrated in provinces with ideologically driven governments.

In BC, for example, the government announced a three-year tax cut package totaling \$2.3 billion. How is the province paying for these cuts? Partly, it is not paying for them. BC ran a deficit of \$3.5 billion last year, and projected a \$3 billion shortfall this year.

These cuts were advertised as being such a powerful fiscal stimulus that they would pay for themselves. In other words, the resulting economic growth would more than make up for

the immediate loss in revenues.

Suffice it to say, the results have not delivered on that promise. In fact, they blew a huge hole in the provincial economy, which was immediately plunged into recession. In 2001, BC was the only province in Canada to experi-

The premier and finance minister boast of the cuts they have made to corporate and personal income taxes.

Do they really believe this stuff?



Canadian Centre for Policy Alternatives-MB

ence negative economic growth, which represented a twenty-year low for the province.

In order to fund those tax cuts, BC has cut billions out of public services. The province alone immediately threw 3,000 people out of work, is letting its infrastructure rot, and not investing in education.

These are all the consequence of a government that has all but abandoned responsible stewardship over the province's economy. Do Manitoba's premier and finance minister believe that Manitoba would be a better province in which to live if we had worse schools and universities, worse roads, and threw thousands of people out of a job? Of course they do not.

It is clear for anyone to see that the approach taken in BC does not work. It is equally clear that the importance of relative income tax levels between provinces has been overstated -- very few people choose where to live only after comparing the budget documents for each province.

Yet at some theoretical point in the future, if a province falls far out of step on tax rates, that province will feel the effects. No one knows where this "tipping point" is. And no province wants to be the guinea pig.

So it is understandable that Manitoba would feel pressured to cut income taxes, and not to hide the cuts it does make.

There is also a narrow electoral advantage to be had by the NDP. With the issue of income tax cuts taken out of play, the significant policy differences the Opposition Tories have available to distinguish themselves from the NDP can be counted on one finger. (And that one issue -- more private health care -- is a political loser.)

Similarly, the NDP unnecessarily puts \$75 million each year on the debt. The rationale for this, too, is based more in the NDP's desire to play against stereotype than any semblance of sound fiscal policy.

Yet this government does not say, We cut income taxes because we have to. Instead, the premier and finance minister point to their cuts to personal and corporate taxes with pride.

Eroding Revenues

Nor do they ever mention the many dangers of cutting taxes, most notably the ongoing erosion of the government's ability to pay for program investments. Program spending as proportion of GDP since the NDP took office is more or less flat. But own-source revenues continue to fall steadily. This is simply unsustainable.

Gary Doer could work with the premiers of all other provinces except Alberta and Ontario, pointing out that those two wealthy provinces have absurdly strong influence on tax levels in other provinces. He could raise the alarm about the ongoing race to the bottom triggered by income tax cuts in Alberta.

Greg Selinger could become a national leader in arguing for a better federal equalization program. With federal surpluses so high -- and growing -- and the program set to be renegotiated next year, there is a very real opportunity now. But this case cannot be made with any moral authority if the NDP has spent four years banging the drum for its tax cuts and debt reduction. The federal government will say, we're not going to fund your tax cuts. And it would be right to do so.

As the saying goes, If we had ham, we could have ham and eggs, if we had eggs. In other words, there are a lot of ifs to be met before the NDP could take up any of these opportunities to become a leading voice of reason and balance on fiscal issues. Yesterday's budget did not move it in the right direction.

—Todd Scarth

Todd Scarth is Director of the Canadian Centre for Policy Alternatives-Manitoba.

CCPA-MB FAST FACTS

are produced and distributed electronically on a regular basis.

They can be reproduced as an OpEd or opinion piece without obtaining further permission, provided they are not edited, and credit is given.

If you would like to receive the *FAST FACTS*, please contact the CCPA-MB to begin your free subscription.

Canadian Centre for Policy Alternatives-MB
309-323 Portage Ave.

Winnipeg, MB

Canada R3B 2C1

ph: (204) 927-3200

fax: (204) 927-3201

ccpamb@policyalternatives.ca

www.policyalternatives.ca/mb