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FAST FACTS

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Economic and Fiscal Priorities: We need to get them right

In recent months the Manitoba branch of the Canadian Taxpayers Federation has been calling for immediate action to eliminate provincial budget deficits. In 2010, for example, it demanded action to deal with excess spending and a serious deficit problem, and proposed a five-point plan that included government action to impose a two year wage and benefits freeze for public servants, a halt to discretionary capital projects, an “all-party committee to review all expenditures” and find efficiencies. These ideas now figure prominently in Manitoba Conservative party statements on public finances and in the commentary of editorial writers, and some columnists, who talk about “exploding” and “skyrocketing” debt and condemn the government for its failure to act now to avert a looming financial crisis.

Such statements are ill-considered and irresponsible. This is particularly true when they are made without any reference whatsoever to the underlying economic and fiscal circumstances in Canada and Manitoba.

Background to the Economic Crisis in Canada

Since late 2008 the Canadian economy has been struggling to minimize the adverse consequences of a global economic crisis triggered by the excesses of Wall Street and the widening

gap in the U.S. between the incomes of the rich and everyone else (a phenomenon also evident in Canada, the U.K. and continental Europe). The slump was reflected in rising unemployment and declining incomes in the U.S. and in declining commodity prices at the international level.

Developments in the global economy reduced Canadian exports to the U.S. and other countries, and this in turn resulted in rising unemployment and sharp declines in revenues from the sale of energy resources and potash.

The impact of declining commodity prices on government revenues was especially pronounced in Western Canada where royalties accounted for 20.6% of government revenues in 2008. The percentages for resource-rich Alberta and Saskatchewan were 33% and 24% respectively.

Government responses to the Crisis

The federal government (working with the Bank of Canada) sought to counteract the emerging crisis by cutting interest rates and increasing liquidity in the economy, and launching, with the support of provinces and municipalities, a public works program to improve and expand community infrastructure. These counter-recessionary initiatives had four main effects.

First, they bolstered the level of spending and employment in the economy. This slowed the rate of increase in unemployment (the unemployment



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FAST FACTS continued ...

rate for the country as a whole went from 8.3% in 2009 to 8.0% in 2010) and helped sustain overall spending in the economy.

Second, government spending boosted household and business confidence, stimulating consumer and business spending.

Third, the spending initiatives improved infrastructure across all provinces and thousands of communities, including upgrades to roads, sewer and water systems, post-secondary facilities, etc. These upgrades will help to crowd in private-sector investments as the recovery takes hold.

Fourth, as planned (and as would have happened without any intervention to offset recessionary forces) all governments (with the exception of Saskatchewan) incurred deficits and increases in net debt. Federally, the deficits for 2009-10 and 2010-11 are estimated at \$56 billion and \$45 billion, respectively, while the deficits for Manitoba are estimated at \$555 million and \$545 million for the two years. As a result of these deficits, net debt as a proportion of GDP increased from 32.8% in 2008-09 to 34.9% in 2010-11 for Canada and from 22.5% to 26.4% for Manitoba.

It is, of course, these latter numbers that have agitated the Canadian Taxpayers Federation and similar organizations. But rather than supporting warnings that the sky is falling, these indicators should assure Manitobans that the province has weathered the storm and is now well-placed to face the future.

A Prudent Fiscal Policy for Canada and Manitoba

The latest evidence suggests the Canadian economy is strengthening. However, recovery of the Canadian economy depends on what happens in the U.S. economy. Most indicators for the U.S. suggest that the recovery is fragile. Recent developments in the Middle East — which are causing oil prices to increase — could derail an already fragile recovery. In light of these worrying

trends, the prudent course of action for the federal and Manitoba governments would be to ignore the austerity hawks and maintain government spending, employment and services.

In both there is much we can learn from Ireland and the UK. In both these countries the burden of austerity measures was dropped squarely on the backs of people of modest and straitened circumstances - the same people who bore the burden of the economic crisis. In Ireland, we saw cuts to the minimum wages and cuts to public sector services and public sector employment. The Irish government did, however, take great pains to make sure that middle and senior management in the financial sector got fat bonuses. The actions of the British Conservative-dominated coalition government are similar in kind and similar in impact. They have weakened the British economy and accentuated inequalities.

The last things we should do is repeat what's being done in these countries. The main principles that should guide both Canada's and Manitoba's fiscal and economic policies in the immediate future are; first, to structure a budget that sustains growth through continued prudent investment in physical and social infrastructure and supports key social services, and second, to devise tax measures (more progressive income taxes, for example) that will both increase revenues as the economy gathers momentum and moderate the degree of inequality.

The first principle will help ensure that budgets contribute to growth, stability and improvements in the quality of life. The second principle will introduce greater fairness and efficiency into the distribution of resources that our citizens need to live decent lives. Combined, both principles will provide a foundation and vision for progress in our society.

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