



On Amending the Proposed Balanced Budget Law – Bill 38

Presentation to:

The Standing Committee on Legislative Affairs, Manitoba Legislature

Bill 38 -The Balanced Budget, Fiscal Management and Taxpayer Accountability Act

Testimony of Peter Holle, President of the Frontier Centre for Public Policy June 5, 2008 (From Hansard)

The committee resumed at 8:14 p.m.

Mr. Chairperson: The Standing Committee on Legislative Affairs will please come to order.

How late does the committee wish to sit tonight? I've heard a suggestion of 10 o'clock. Will we reassess that at 10 o'clock? *[Agreed]*

We have a number of presenters registered to speak this evening. Please refer to your presenters' lists.

Order. Before we proceed with presentations, we do have a number of other items and points of information to consider.

For the information of all presenters, while written versions of presentations are not required, if you're going to accompany your presentation with written materials, we ask that you provide 20 copies. If you need help with photocopying, please speak with our staff.

As well, I would like to inform presenters that, in accordance with our rules, a time limit of 10 minutes has been allotted for presentations, with another five minutes allowed for questions from committee members. Also, in accordance with our rules, if a presenter is not in attendance when their name is called, they will be dropped to the bottom of the list. If the presenter is not in attendance when their name is called a second time, they will be removed from the presenters' list.

Bill 38–The Balanced Budget, Fiscal Management and Taxpayer Accountability Act

Mr. Chairperson: Peter Holle, president, Frontier Centre for Public Policy. Mr. Holle.

Do you have a written presentation, Mr. Holle?

Mr. Peter Holle (Frontier Centre for Public Policy): No, I don't.

Mr. Chairperson: That's fine. Please proceed when you're ready.

Mr. Holle: Thank you very much for allowing me to comment this evening. It's a complicated piece of important legislation.

A little background for you: the Frontier Centre for Public Policy is a Winnipeg-based public policy think tank. We now have offices in Saskatchewan and in Alberta. The think tank focusses on high performance public policy. We are a growing organization. Our budget's about one and a half million dollars a year now. We do not accept any government funding, so we really have no incentives to talk about ideas that expand government spending, management, and control of our economy.

This legislation has some special relevance to me because I was involved in the design of the original balanced budget law back in the early '90s. I was the director of the Manitoba Taxpayers' Association, and the model legislation that was developed at the Taxpayers' Association was largely adopted in the 1995 legislation.

A little bit of history: the balanced budget law that was passed in 1995 was and has been generally recognized as the best and most vigorous legislation of its kind in Canada. I do recall the Canada West Foundation doing analysis of this. It was ranked by far the best in Canada at the time. I don't think that has changed much.

The balanced budget law was a centrepiece issue of the 1995 Manitoba election. The party that promoted it won the election. I do recall that the present government achieved power in 1999 by promising to maintain the balanced budget law intact. I believe the amendments proposed in Bill 38 break that promise.

I want to talk a little bit about Manitoba's situation. The ultimate value of the balanced budget law is to shift the focus of policymakers from resource reform to structural reform. When I talk about resource reform, it's about simply pouring more money into old public policy models, which has been the practice in Manitoba. Ideally, you want to go to a structural reform form of public policy where you are looking at new models, where you are trying to break monopolies, increase value for money, bring more transparency into public policy.

Unfortunately, we have had a federal policy on transfers which, frankly, in my opinion, has been quite naive. Talking about something called the fiscal imbalance and the rapid increase in federal transfers over the last several years has largely short-circuited any pressure to rethink and modernize public policy in Manitoba. Federal transfers have increased from 32 percent of total spending in 1999 to about 37 percent this year. If we look at Manitoba provincial spending as a percent of the economy, it is the highest in western Canada.

We have among the most expensive public services, until recently, the most expensive health system, the most expensive education system. By various public policy measures, they are generally low performing. I don't mean it in a bad way, but mediocre in many ways. If you will, we use the term "the Bulgarian post office model on steroids."

If the Manitoba government at all levels had to staff its public sector at proportionate Ontario levels we would see very dramatic reductions in the size of the public sector. Taxes are the highest in western Canada, particularly on high-value segments of the economy. The highest personal income taxes in western Canada are here in Manitoba.

Correspondingly, we don't have a lot of private investment here. According to Stats Canada, a year ago, we had the lowest levels of private capital investment per capita in Canada. It used to be New Brunswick and Prince Edward Island. Manitoba now has the lowest amount of private capital investment per capita.

The most pressing public policy issue in Manitoba today is disproportionately high government spending relative to the size of the Manitoba economy and also to the service levels provided. Despite what you might hear, Manitoba, and particularly the provincial government, is in a shaky position. I like to talk about the perfect storm. We have \$130 oil. We have Ontario moving aggressively to curtail federal transfer payments. It is confronting high energy prices, severe competitive pressures from the rising dollar, et cetera.

I also think that the present federal government is philosophically more inclined to less federal interference, and that, as we move forward, the chances of seeing transfer payments start to decline substantially is very high. The federal government at some point will understand that there are votes

in Ontario from reforming the transfers. Of course, the collateral damage will be Manitoba, as things stand now.

There is a strong case for a balanced budget law, however I don't want to give you a lesson in public choice in economics, which is really the economics of politics. It's about the rational ignorance of the taxpayer who is operating in a system where there are concentrated benefits and diffuse costs. It's rational for a taxpayer not to get upset about some policy that might cost \$5 or \$10. On the other side of that equation, you have highly organized interest groups who will spend a lot of money and lobby for policies that raise government spending, create and protect monopolies. There are lots of examples of that here in Manitoba but we don't have time to talk about it.

There is a historical pattern in many societies where rising spending levels eventually create a fiscal crisis, and then there's an economic collapse. This, again, is the issue of this force of concentrated benefits, diffused costs and something called the iron triangle where interest groups work with politicians to raise spending.

I look at the balanced budget law as something which simplifies life for the elected officials, for the folks on this side (government committee members) of the room. It is a mechanism for letting groups know that raising spending is out of their hands. I think that's the case for a rigorous balanced budget law.

The problem I have with the amendments, is that not balancing every year allows unnecessary slippage. Individuals' households have to balance their financial affairs every year and so should governments.

By adding Crown corporations into the calculation, by combining the two budgets, we are opening the Bulgarian post office model on steroids to a potential new cornucopia of funding. The Crowns are commercial enterprises that, in theory, are separate from core government operations. However, they do exist in a political twilight zone of very low transparency, relatively low accountability. For that reason they are generally low-performing organizations.

Again, I'm not trying to insult Crown corporations, but they operate in an environment where there's not much measurement and there is a lot of politics. They receive hidden subsidies like tax exemptions, taxpayer-subsidized capital.

If you look at MPIC, it's cross-subsidizing bad drivers with higher premiums on good drivers, and it has low payouts relative to private insurance operators in other provinces. Generally, taxpayers are subsidizing MPIC.

* (20:50)

Manitoba Hydro, however, is a very different story. It is stuck with a dustbowl era power-at-cost policy model. Ignoring the hidden government subsidies it receives, it has the potential to sell its electricity domestically at much higher rates worth potentially between \$1 billion and \$1.4 billion in extra revenue, which we say should go into tax reduction.

The risk with combining the operating and summary budgets is that the substantial new revenues from moving hydro to a smart-green pricing model will be wasted on maintaining Manitoba's Bulgarian-post-office-on-steroids model. In other words, smart-green revenues will postpone and delay inevitable and straightforward policy reforms on the operating side of government.

For the most part these are complex amendments. I've scanned the legislation. A lot of work has been put into this draft piece of legislation. GAAP accounting is important, and it is a key move in moving Manitoba to a higher performing public policy framework. It's to the advantage of the government and its political leadership to maintain a more rigorous balanced budget law by balancing

the operating budget every year. Again, I think this side of the room is going to be under enormous pressure shortly when the perfect storm really starts to hit.

Combining the operating and summary budget opens the lid on some intriguing policy issues around Crown corporations which we have been reluctant to address. In the name of high performance public policy we should be operating these assets in a less political manner. They should pay proper costs of capital and not receive tax and other hidden subsidies. They should lose their monopoly so that there is pressure on them to be more efficient and customer focused.

It's common for people outside Manitoba to buy car insurance from competing providers on the Internet. At some point that will happen here. In Hydro's case, we would see an explosion of green-power industries if we removed the strange dustbowl era power subsidies that we are providing in the domestic market.

There is a huge risk that Hydro's expanded power revenues will be wasted again on these old public policy models which are only being sustained by lots of money and lots of transfers. Ultimately, the problem of mixing volatile revenue streams from commercial enterprises that are not inherently governmental in nature can be fixed by operating them on a completely commercial basis. In this situation there is no public policy reason to continue government ownership, and, logically, where it goes is that they should be privatized.

Let me conclude with this. A future reform that would guarantee the most robust and high-quality policy model for Manitoba would be to complement the circuit breaker on the taxing side, which is referendums on tax increases, with a circuit breaker on the spending side, that would be referendums on spending increases beyond a very reasonable benchmark of economic growth plus population growth. Again, this is the ultimate protection against the iron triangle and the low performing public policy models they thrive on.

With that point, I'm open to a few questions.

Mr. Borotsik: Thank you, Mr. Holle. You certainly bring a different perspective to the table. There's no question about that. I do appreciate it. It's a position that makes people think. I do appreciate that.

I'd just like you to expand a little bit on your last comment about, the percentage increases of any budget spending should be held to CPI plus population growth. Have you done the calculation? What would that have meant in spending increase for the last fiscal year and this fiscal year?

Mr. Holle: I don't have a specific number for you, but the record over the last several years has been that spending is increasing faster than the economy, faster than population growth.

There is a very well developed theory around the optimum size of government. It simply says that if the government is too small you don't have a lot of growth; if it's too big you also don't have a lot of growth. There is a sweet spot in there where you have basically the best economic growth, the fastest growth of living standards, the ability to generate wealth to pay for public services. We are far above that optimum size in Manitoba. That's why, relatively speaking, we're condemned to being in a have-not twilight zone in perpetuity, really.

Mr. Borotsik: On the summary budget, as a matter of fact, the numbers that I have in front of me right now, in the '07-08 forecast, because we don't have the financials done yet, obviously, the net income of government business enterprises, which includes MPI and includes Manitoba Hydro and includes MLCC and the rest of them, the number for that in the past fiscal year was \$858 million. Yet the summary net revenue—okay, listen very carefully to the numbers. The net income of government business enterprise was \$858 million, yet the summary net revenue was \$329 million.

What does that say to you?

Mr. Holle: Well, it—[*interjection*]

Mr. Chairperson: Please ignore the bells. The House is being summoned, but we don't have to leave.

Mr. Holle: There's a good saying around government accounting, a lot of it is sort of black magic and hocus pocus. I can't really address that, Rick.

Mr. Borotsik: Thank you, Mr. Holle. I just thought the number—well, I've had the numbers before but there was a correction, and basically the expenditures were \$11.8 billion with revenues of \$12.1 billion. There was \$858 million of that revenue that came out of the government business enterprises, so there was about a \$500-million shortfall there, and we have to find out where that was. So I'm sorry I put you on the spot. Those are numbers that you should have in front of you.

A summary budget such as this, which they're asking for, a summary budget on a four-year rolling average, that you have to balance on a four-year rolling average, in your opinion—and you've talked about the bureaucracy and about civil servants—what kind of a message does that send when you don't have to balance an operating budget on an annual basis but you do have this four-year rolling average? Does it send a specific message, in your opinion, to the departments and the bureaucracy?

Mr. Holle: Well, again, I have nothing against the bureaucracy in government. I think that the system is structured so that the incentives clearly are there to simply pour more money into old models. The advantage of having a tighter restriction on government through a tighter balanced budget law is that there are very straightforward reforms that could be done throughout the public sector which would increase efficiency quite dramatically. Our health system, you know, up till last year was about the most expensive in Canada, and yet we still have terrible waiting lists and so on.

Just as an example, copying Tony Blair in England you could bring in a purchaser-provider split, bring in competition, have the government buying from competing public and private suppliers, and you'll see very dramatic efficiencies.

So the advantage to the government, especially on this side, is to say, look, our hands are tied. We have to live within this legislation. We're going to have to try moving away from the Bulgarian post office model on steroids. That's the missed opportunity here. I fear that there will be slippage, of course, and you're going to have clearly what is an archaic obsolete public policy model here, run for interest groups, run for provider groups, not run for the consumer, that they're just going to continue getting lots of funding.

Much of it has come out of transfer payments. I suspect the transfers are going to start to be cut back quite dramatically, and I don't think the government here is at all aware of what's coming.

Mr. Chairperson: Last questions from Mr. Gerrard.

Hon. Jon Gerrard (River Heights): I just would ask you to expand a little bit on the comment that you feel that the present federal government is likely to cut back or change equalizations and that Manitoba will have the effect of the collateral damage from this.

Mr. Holle: If you look at the Ontario economy, Mr. Chair, it is getting hammered. They're closing auto-manufacturing facilities there. They are paying high energy prices.

I know from some very good contacts there at the highest levels that Mr. McGuinty is looking to see dramatic change. If you follow some of the writing in the press, he's actually mused that we're all have-provinces now and it's time to get rid of equalization.

* (21:00)

I look at the political weight of Ontario versus Manitoba and I've, frankly, advised them that getting rid of equalization in the long term would be a good thing for Manitoba because, again, it's propping up all these mediocre public policy models, and I don't mean that in a bad way. I think this is a very big risk for Manitoba and people are not aware of it. What's going to happen by loosening up on the balanced budget law, you're going to move into deficit and then you're just going to postpone it. A year down the road you're going to have to start, as an election comes, to make some tough choices.

So we should just make the tough choices now. I think those tough choices can be made in a positive way that benefits everybody. We'll have better services, we'll have more efficient government and, frankly, I think it's a winning thing for any political party that runs on better government. We're still stuck way back in the 1970s. You know, go out copy Tony Blair, copy Sweden, copy all the socialist governments in Europe that are bringing new thinking into the public sector. We have a public sector here that is living on transfer payments. Those transfer payments are going to start to fall and, you know, it doesn't matter what you do with the balanced budget law, you're still going to have to confront the fact that the world is really changing quickly.

Hon. Greg Selinger (Minister of Finance): I was going to propose leave for an additional question for the Member for Tuxedo (Mrs. Stefanson), who had her hand up earlier.

Mr. Chairperson: Is there leave for Mrs. Stefanson to ask a short question? *[Agreed]*

Mrs. Stefanson, with a short question.

Mrs. Heather Stefanson (Tuxedo): Well, I'd like to thank the Minister of Finance for giving me leave, and from members opposite, that's great.

Thank you very much, Mr. Holle, for your presentation this evening.

One thing that struck me that I was not aware of, in fact, that back in 1995 you were consulted at the time, I guess, as part of the taxpayers' federation of Manitoba on the balanced budget legislation. You brought forward various ideas with respect to the legislation, the model that was done at the time. I know we have had several presenters at committee over the past several evenings on this bill who have played an integral role at drafting that piece of legislation and that law.

I'm wondering if you could indicate to us, were you at all consulted, you know, based on your past experience with having been involved before, were you at all consulted in your organization, asked for input into these proposed amendments?

Mr. Holle: No, we weren't. To be fair, we don't make a practice of consulting with governments. I did meet with the Auditor General, and I do understand some of the issue here probably better than a lot of people related to GAAP accounting, and we're big promoters of GAAP accounting. I think the legislation the way it is has a lot of good stuff in it. Again, I think it's to the advantage of both sides here to simply have the operating side balanced on a yearly basis. You know, a lot of work's been put into this, and I read the report from Deloitte & Touche, or whoever it was.

So, you know, I don't think it's the complete disaster that a lot of people think. I think it can be tweaked in a way that is to the benefit of Manitoba, period. I think Manitoba has to move on. Again, the original thinking behind the balanced budget law was that it would create a pressure for new thinking, and that was short-circuited by a huge increase in transfer payments which simply went into old models. Here we are, rather than reforming and rethinking how the government operates, we're another 16 years down the road and we're still operating with a 1970s public policy model.

Mr. Chairperson: Thank you for your presentation.

Mr. Leonard Derkach (Russell): May I have leave for a question, please?

Mr. Chairperson: Mr. Derkach has asked for leave for one question. Is there leave of the committee?

An Honourable Member: That is really pushing the envelope. One more time.

Mr. Chairperson: Is there leave of the committee? *[Agreed]*

Mr. Derkach, for one short question.

Mr. Derkach: Thank you very much to the committee.

Mr. Holle, after reviewing the amendments to this legislation, you said there were some good things in the amendments. What advice would you have for the minister in terms of the bad things that should be taken out of the amendments to make this truly a better amendment to follow GAAP to begin with, and, secondly, to allow Manitoba to move ahead?

Mr. Holle: I would just continue the requirement that the operating side be balanced on an annual basis. I think it's to the advantage of the government again to have a tough piece of legislation. They have to make some hard decisions, and having this in your back pocket is something I think would help them in confronting some of the hard choices that have to be made.

We've written at great length at Frontier Centre on how to reform government and how to get much higher value from existing spending. Manitoba has a huge opportunity to have better services at less cost, particularly in health care, and what is stopping it is that the system is now biased towards the status quo and to pouring more money into old models.

If you look at the history of reform in other places like England or New Zealand or whatever, what has always happened is there's been a fiscal crisis and there's been a very large re-think of government and generally those things have been very positive. I think Manitoba is overdue for that.

Mr. Chairperson: Thank you for your presentation.