

## OPINION

# Broad Consensus Pans Pallister's Plan

By: *Scott Forbes*

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Put 10 economists in a room, and you'll get 11 opinions. This old joke among economists is funny because it has a ring of truth to it. Examples of consensus are sufficiently scarce that, like the sighting of a rare bird, they are worthy of note when they occur.

In recent days, a broad, surprising consensus has emerged about Premier Brian Pallister's approach to the economic fallout from the pandemic. The consensus is this: Pallister's policy of austerity is economically unsound.

The expert consensus includes prominent leaders of the business community, Sandy Riley, Barb Gamey and Bob Silver; economists Robert Chernomas, Jesse Hajer, Ian Hudson from the University of Manitoba department of economics; CIBC economist Maria Berlettano; professor of finance at the Asper Business School Shiu-Yik Au; Lynne Fernandez, the Errol Black Chair in labour issues at the Canadian Centre for Policy Alternatives; *Free Press* columnists Dan Lett and Tom Brodbeck; and the editorial boards of the *Winnipeg Free Press* and *Globe and Mail*.

What is remarkable about this group is that it spans the political spectrum, from members of the Manitoba Progressive Conservative Party on one side to members of the NDP/CCPA on the other. Consensus among economists and professors of finance is rare; among people at opposite ends of the political spectrum, it's rarer still.

And the premier is out of step with every other province in Canada, the federal government and, indeed, nearly every government in the western world. He is turning off the fiscal taps to the local economy, especially by laying off workers, during a time of crisis.

The risk/reward ratio of this strategy is badly skewed. The reward is small: the premier admits that cutting the public sector will shave just pennies from each dollar of deficit borrowing. And the risk is large: Pallister gambles he won't stall the local economy, plunging Manitoba into a deep recession (best case) or depression (worst case). That is economic negligence.

Nevertheless, Pallister remains focused on deficit reduction. That was to be his crowning legacy, and until February of this year he was close to achieving that goal. All that changed in two short months, but while the world around him changed, he did not.

The problem is this: the most commonly used metric to measure debt burden is the debt-to-GDP ratio. Manitoba currently sits in the middle of the pack of debt-to-GDP

ratio in Canada. Debt (the numerator) grows with additional deficits; but Pallister has forgotten about the denominator: the GDP, or Gross Domestic Product. GDP is a rough measure of our capacity to meet our debt burden.

Austerity will reduce the numerator (debt), but it will reduce the denominator (GDP) even more. Austerity kills jobs. By killing jobs, spending in the local economy withers. Businesses die. Bankrupt businesses and more unemployed workers cannot pay taxes, necessitating further expenditure cuts. A death spiral results.

To prevent economic collapse, the central government spends in the local economy during down times: the deficits grow the level of debt. Like a colonoscopy, deficits and debt are not pleasant. But like colonoscopies, they sometimes prove to be necessary and life-saving.

In the wake of the 2008 global financial crisis, nearly all governments across the western world engaged in unprecedented levels of deficit spending. And it worked. The economy avoided a near-miss with a depression and enjoyed sustained economic growth as a consequence. Until now.

During the global financial crisis of 2009-11, Pallister's former boss, Stephen Harper, ran up deficits of more than \$100 billion. According to Pallisternomics, this level of debt should have plunged the country into permanent penury. It did not. By 2015, the budget was back in surplus.

When someone on the political right recognizes the necessity of deep but temporary deficits to protect people, business and the local economy during a fiscal crisis, one wonders why the premier so doggedly pursues policies that economists, experts in labour and finance, and business leaders agree will fail.

Every once in a while, a person thought to be a crank calls out the experts and turns out to be right. But that is rare — as rare as the expert consensus that has emerged against Pallister's policies.

Most of the time, the person thought to be a crank is just that.

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