



Fast

FACTS

CANADIAN CENTRE FOR POLICY ALTERNATIVES – MANITOBA

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Manitoba Conservatives open the door to privatization

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Social service schemes announced this week by the Manitoba Progressive Conservatives to encourage private childcare and introduce Social Impact Bonds soften the ground towards privatization. The assumption is that the private sector knows best how to fund and deliver public services. This is false – publicly delivered services are more efficient, accountable and in the long-term public interest.

In “Tories say they would boost private daycare”, Conservative family services critic and MLA Ian Wishart says “We’d like to leave the money with the parents and perhaps provide more opportunities for licensed privates” (WFP June 5, 2015). Manitoba has 12,000 children on the wait list for childcare spaces. In order to create enough spaces to meet the demand, capital grants are needed to build or expand centres and operating grants are needed to make them affordable to parents. New or expanded child care centres need qualified staff trained at publicly funded institutions. Investments of this magnitude are not going to come from the private sector.

Furthermore, to turn the development of the childcare sector over to private market would result in higher parent fees to finance capital expansion and operations for those operators who would not be able to realize economies of scale. Operators pass these costs on to consumers. A focus

on developing more spaces through the private market would create childcare for those parents who are able to afford higher costs, leaving middle class and moderate-income parents to scramble over remaining non-profit spaces with regulated fees.

Child care is an engine of economic development, and investment must take place at the government level to be effective. After two decades of Quebec’s low cost child care system, economists find that for every dollar invested, \$1.05 is recouped provincially while Ottawa receives 44 cents of increased income taxes from wages of parents who previously couldn’t go to work due to lack of child care. Both levels of governments earn more money in increased consumption, corporate and business taxes. Plus Québec’s child poverty rate was nearly halved and is among the lowest in the country. Conservative governments typically turn to the private sector to solve complex social problems. The latest international trend is Social Impact Bonds (SIBs), which the provincial Conservatives want to bring to Manitoba despite a lack of evidence that they actually work (“Pallister offers private bonds to non-profits”, WFP June 9, 2015). The Conservatives would create an intermediary to raise private investments, which would then contract

there is an alternative.

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with the non-profit or private sector to deliver specific outputs – a complex and bureaucratic process with high legal and accounting costs. If the project succeeds, or even in some cases if it does not deliver, governments are contractually obliged to repay investors along with a high rate of return. These additional costs are avoided when governments directly fund service providers and ensure tax dollars are used for public social programs rather than investor profits.

First used in the United Kingdom to finance social sector agencies to reduce recidivism, SIBs remove responsibility from governments to fund social services. University of Manitoba economist Dr. John Loxley has studied SIBs and finds that “financiers will tend to be risk averse, taking on only the easiest of challenges and forgoing both risk and innovation, contrary to claims made by SIBs proponents.” Cherry-picking programs with the most profitable return on investment is not the way to improve the outcomes of front line social services. Creating a profit motive to attract investment is also morally questionable when dealing with the delivery of social services to vulnerable people. The Alberta College of Social Workers is opposed to SIBs because they “allow financial institutions to turn human suffering and conditions into commodities”. It is more responsible and efficient to adequately resource social services directly through government programs.

Notably both announcements, private childcare and Social Impact Bonds, relate to social service provision, “softer” issues, rather than large-scale privatization of public crown corporations like Manitoba Hydro or Manitoba Liquor and Lotteries. But any talk of private markets providing for the public good is the thin edge of the wedge, and opens up dialogue towards privatizing public assets. Manitobans may need to be reminded we’ve been here before.

Recently released data from economist Toby Sanger offers hard-learned lessons from Manitoba’s experiences of privatization, compared to our neighbor to the West. Sanger compares costs and returns from Manitoba Telecom Services (MTS), privatized in 1997 under the provincial Conservative government, to SaskTel, Saskatchewan’s publicly-owned telecommunications crown. Two decades later, the cost of a basic phone with SaskTel is \$8 less per month than from MTS, and SaskTel paid \$497 million in corporate income taxes to the citizens of Saskatchewan – SaskTel’s shareholders - over the past five years, compared to \$1.2 million paid by MTS over the same time period. In 2014, the CEO of SaskTel earned \$499,492 compared to \$7.8 million paid to the CEO of MTS for managing a very similar sized operation.

The citizens of Saskatchewan, as owners of SaskTel, directly benefit from public ownership of this asset, whereas this benefit is lost to Manitobans, who pay more for service and receive fewer benefits in the form of taxes returned to the public purse. And the politician who made the decision to privatize MTS continues to benefit. Sanger finds that after Gary Filmon left his position as Premier, he was appointed to the Board of MTS and earned \$1.4 million in director fees and compensation over ten years, along with hundreds of thousands of dollars worth in shares.

The Conservatives have never abandoned their mandate to turn public assets over to the private sector and are now introducing concepts of privatization through social service provision. Let us not forget where this conversation can take us, and what is at stake if it is acted upon.

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