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Manitoba should act on Affordability, Public Services, Poverty and Climate: Budget Submission

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Manitoba Budget 2023/24*

Summary:

Manitoba is receiving large increases in revenue due to inflation and federal transfers. The surplus being generated is largely due to Manitoba government austerity. Low spending on public sector wages and services has not kept pace to inflation over the past six years. Budget 2023/24 is not a time for tax cuts, but to target spending to address the affordability crisis, adequately fund public services, address poverty and act on climate change.

HONOURABLE MINISTER OF Finance, fellow presenters and attendees, I am pleased to provide this budget submission on behalf of the Canadian Centre for Policy Alternatives – Manitoba office.

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Help with Affordability and Climate Crisis

The affordability crisis due to the rise in inflation is hitting low, moderate and middle income households especially hard. It is important to correctly diagnose the source of inflation, which has been global in nature. The International Monetary Fund identified energy and food prices as the main drivers of inflation world-wide.¹ Statistics Canada data shows that food and fuel costs are the largest contributors to CPI increases in Canada, though price increases for these goods have slowed in recent months.² In response, the Manitoba government should take action on affordability while building resilience to volatile external oil and gas price hikes by transitioning to electrification of vehicles and ground source heating for buildings.³

Moderate income earners, those at or below the poverty line are suffering more due to inflation

The top quintile of Canadian income earners (\$133, 459 before tax and up) spend 30% of their income on basics (food, shelter, clothing). To adjust to inflationary pressures, these households cut back on discretionary spending. The lowest quintile earning \$35,808 or less spend 50% income on basics, having little to no discretionary spending to cut when prices rise. Therefore a progressive approach that provides support to the lowest income households is needed.

How to help Manitobans during the affordability crisis

We suggest a combination of income-targeted methods that help people with the rising costs of the basics: food, shelter, transportation, and for families child care and school costs.

- Reverse cuts to municipal public transit funding, increase transfers to reduce bus fares by 50%, improve bus service, and subsidize an interprovincial transportation system to help rural people access medical appointments and other services.
- Direct the Residential Tenancy' Branch to stop above guideline rent increases that are driving increases in the cost of shelter.
- Enhance seniors benefits: Manitoba 55 plus program is an income-tested program for seniors. It could be greatly enhanced to help more low and moderate income seniors.
- Immediately implement the \$10/day child care program; eliminate the \$2/day fee still levied on low income families.

- Adequately fund school nutrition and mental health programs; eliminate school fees so parents do not pay any fees for participation.
- Increase free mental health counseling and community-based harm reduction programs for low and moderate income people.

The Manitoba Budget 2023/ 2024 must also act on poverty

The lowest income Manitobans are struggling. Harvest Manitoba reports that food bank use has doubled since 2019. Extensive research shows that poverty is costly to society and taxpayers, and governments must do more to help our society's most vulnerable. A forthcoming CCPA MB study by Charles Leplant of the University of Saskatchewan finds that poverty costs the Manitoba economy approximately \$2.5 billion per year, or 3.5% of the Manitoba GDP. This is because living in poverty impacts physical and mental health, resulting in increased health care spending by the province. Living in poverty creates vulnerabilities that place people at risk of being criminalized or victims of crime. Poverty is a trap, with high barriers for those who wish to escape. The intergenerational nature of poverty severely limits opportunities for children living in poverty. This is particularly an issue for Indigenous people struggling with the impacts of intergenerational trauma and colonialism, as witnessed by the persistently high rates of child and family poverty in Indigenous communities in Manitoba. Therefore the Manitoba government should:

- Revise the Manitoba poverty reduction strategy and commit to bold targets and timeline, to reduce the rate of poverty substantially.
- Increase social assistance payments substantially to deal with the rising cost of food and transition Employment and Income Assistance (EIA) to a Liveable Basic Needs Benefit set to the official Market Basket Measure of Poverty.
- Build 300 more social housing units and draw federal National Housing Strategy dollars to Manitoba; stop the sale of public housing; restore funding to Manitoba Housing to enable the upkeep of public housing stock.
- Increase the minimum wage to a living wage and support education and training for well-paying jobs for those on social assistance.

Electrification to build resiliency in Manitoba in the face of rising oil and gas prices

The Canadian Centre for Policy Alternatives, Manitoba is proud to be a member of the Climate Action Team Manitoba. Supported by sector experts, researchers, and stakeholders, we are producing the “Road to Resilience,” a series of evidence-based technical, policy, and economic reports that detail for the first time how Manitoba can reduce its GHG emissions in line with climate science timelines, while also creating positive financial and employment outcomes for its citizens, businesses, and government.

The responsibility to reduce emissions cannot be left up to individuals – especially when so many are also struggling under the volatile prices that come from relying on imported fossil gas and gasoline. Importing fossil fuels also has huge costs to the provincial economy. Our research shows how investing in building out local renewable energy and increasing energy efficiency can help reduce emissions, lessen vulnerability to global market swings, and generate savings for government and households alike. This should be done in the areas of sustainable homes and buildings; public transit and electric vehicles. Further, the Province must ensure that level three building codes are adopted and implement Property Assessed Clean Energy loans to prepare our building sector for a low-carbon future while helping Manitobans save on home energy costs.⁴ A transition off of fossil fuels can be done by Manitoba adopting a carbon pricing regime for all GHG emissions, and using carbon pricing revenue to finance the transition to electrification, while keeping rebates in place for low and moderate income households. For more details please see the Climate Action Team Manitoba’s forthcoming budget submission.

Reverse cuts to the civil service

Due to staffing cuts, currently the civil service cannot provide public services at adequate levels. From 2016–2021, 2,644 positions have been eliminated from the Manitoba civil service – a cut of nearly 18 percent.⁵ Instead of halting cuts to the public civil service, Manitoba opted to contract out to the private sector for the delivery of services during the pandemic (forthcoming Harder and McCracken).

These cuts are affecting delivery of public services. The Auditor General of Manitoba this past December released a report to the legislative assembly that found “an increasing number of control deficiencies and errors” in provincial financial reporting. The auditor found that government employees cited job vacancies, turnover rates and a lack of accounting expertise in some departments among the reasons for some of the issues.

Stop privatization, bring private services back in house

“Hard Infrastructure, Hard Times: Workers Perspectives on Privatization and Contracting out of Manitoba Infrastructure” by Jennifer Keith, Jesse Hajer and Michael Conway found the contracting out of Manitoba Infrastructure is resulting in short staffing, which is jeopardizing public safety and leading to burnout, lower quality services, reduced value for money. The privatization agenda of the Manitoba government is starving the public sector of needed resources to provide adequate services without due attention paid to the impact of these changes. The contracting out of services is onerously expensive and sends tax dollars to out of private corporations. Cuts to provincial staffing are reducing incomes for Manitobans while diminishing the quality of critical public services.

The Manitoba government should stop privatization and increase staffing in the civil service to provide adequate public services to Manitobans.

Revenue

Decline in Manitoba Government Revenue Due to Austerity and Tax Cuts

Tax cuts come at a cost of lost revenue on a program or service, or increase the deficit. The Manitoba government has cut own-source revenue, despite demands for health and education spending. One measure of this is the percentage of Manitoba government own-source revenue, as a percentage of the GDP. This has fallen from 18% in 2006, to 16% in 2020, representing a significant decline in revenues.

Stop the education property tax rebate cheques

A major initiative of this government is the education property tax rebate cheques. The Education Property Tax Reduction Act was passed in 2021. Since that time, the provincial government cut \$992 million dollars of revenue via the provincial rebate cheques. The rebate cheques have been funded largely through deficit financing. Property tax rebates are regressive in nature, as they give the largest rebates to wealthy families and corporate property owners, giving away public funds that should be used to fund public services that help low and middle income families cope with cost of living increases.

Last month, our office released a Probe poll that found the majority of Manitobans want the provincial government to keep the money earmarked for the Education Property Tax Rebate and spend it on public services instead. From 2016/17 to 2020/21, provincial funding for K–12 education has declined 6.1 in real (inflation adjusted) dollars on a compounded basis. The audited provincial education spending from 2021/22 is not yet available on the

provincial website. The province should stop the education property tax rebate cheques and retain this revenue to fund education and the affordability measures described above.

Stop Carbon Tax Rebate cheques

The Manitoba Carbon Tax Relief Fund announced on January 26th, 2023 is a blunt tool for addressing affordability which once again gives away public revenues to high-income families who already have discretionary income. This money would be better spent on renewable energy expansion that would support Manitoba's energy sovereignty and address one of the root causes of current CPI increases, volatile oil and gas prices. The carbon tax paid by Manitobans is already returned to us by the federal government. A majority (74%) of Canadians agree they would be more supportive of a carbon tax if they knew the money collected was going directly to initiatives to combat climate change, according to an Isos Reid Poll.

The Manitoba government should work in partnership with the federal government to adequately fund quality, affordable, clean public transit in all Manitoba cities and towns and improve inter-provincial transportation. Manitoba and Canada should end subsidies to fossil fuel industries and introduce windfall taxation to crack-down on corporate profiteering and ensure a just recovery from Covid-19.

Manitoba should wisely spend the federal transfers, but also build own-source revenue

Federal transfers are up in 2023/24 by \$744 million above 2023/23 levels. Manitoba is now receiving \$3.5 billion in equalization payments. The per capita allocation of total federal dollars has gone from \$2,627 in 2014/15 per Manitoban to \$4,135 in 2023/24 per Manitoban. Over the past ten years, equalization payments to Manitoba have increased from \$1.75 billion to \$3.51 billion, due to booms in the oil and gas markets of "have" provinces that are channeled via the equalization formula to "have not" provinces like Manitoba.

Manitoba should not become over reliant on fluctuating equalization payments. However, equalization payment increases present an historic opportunity to invest in public services and infrastructure. As oil and gas in Canada becomes "stranded assets" with the transition off of fossil fuels, equalization payments will decline again, and Manitoba will need to find its own source revenues to fund provincial programs.

TABLE 1 Federal Support to Manitoba*

In 2023–24, the Government of Manitoba will receive \$5.9 billion through major transfers.

Major Transfers	2014–15	2015–16	2016–17	2017–18	2018–19	2019–20	2020–21	2021–22	2022–23	2023–24
Canada Health Transfer ⁱ	1,156	1,229	1,310	1,357	1,410	1,471	1,520	1,571	1,638	1,780
Canada Social Transfer	453	468	485	502	518	531	545	564	577	591
Equalization	1,750	1,738	1,736	1,820	2,037	2,255	2,510	2,719	2,933	3,510
Total – Federal Support	3,359	3,436	3,531	3,680	3,964	4,257	4,576	4,853	5,148	5,881
<i>Per Capita Allocation (dollars)</i>	<i>2,627</i>	<i>2,655</i>	<i>2,684</i>	<i>2,760</i>	<i>2,932</i>	<i>3,114</i>	<i>3,314</i>	<i>3,488</i>	<i>3,660</i>	<i>4,135</i>

* Millions of dollars

ⁱ Canada Health Transfer excludes one-time top-ups to the CHT of \$18.2 million in 2019–20, \$145.2 million in 2020–21 and \$72.4 million in 2021–22 to Manitoba.

Source: <https://www.canada.ca/en/department-finance/programs/federal-transfers/major-federal-transfers.html>

How should Manitoba use windfall Federal equalization payments?

Equalization payments are meant to ensure that services in Manitoba are equal to other provinces and therefore should be targeted to health care and child poverty. For example we were the only province that had to transfer acute patients out of province during the 2021 COVID spring wave. Manitoba also has persistently had one of the highest rates of child poverty.

Manitoba should wisely spend the equalization payments to improve our healthcare system, increase staffing and deal with health care wait times. Notably the Canada Health Transfer will increase 9.3 percent from 2022, this must be dedicated to health care. Manitoba is currently coping with a healthcare staffing crisis stemming from chronic underfunding of healthcare diminishing working conditions. Additional staff must be hired in the public system and wages, benefits, and hours must be improved to address retention and recruitment across health and social care. According to the Canadian Institute for Health Care Information, Manitoba’s health care spending per person was down 1% in 2022 and the third lowest in Canada at \$8,417; this is less than the Canadian average of \$8,463 per person.⁶

Increase corporate tax rate by one percent

In Manitoba, corporate income tax generates a significant amount of tax revenue for Manitoba. In 2021, revenue from corporate income tax was \$542 million dollars, comprising 3.3 percent of total provincial revenues. We propose a one percent increase to corporate income tax, while keeping the tax exemption on small businesses. This measure generates Manitoba an additional \$42 million dollars of revenue.

Increase Personal Income Taxes on Higher Income Earners

The addition of one or more high-income tax brackets would improve tax fairness while also generating Manitoba a significant amount of revenue. Manitoba has seen no change in the top marginal tax rate over the past 15 years, and given the current economic context, now is the perfect time to deepen this instrument. First, we propose that Manitoba introduce a tax rate on income between \$70,610 and \$90,000 of 18 percent (up 1 percent). Second, a new, higher tax rate of 20 percent on incomes earned between \$90,000 and \$100,000. Third, a new higher tax rate of 21% on incomes over \$100,000. It is expected that these changes will add a quarter of a million dollars to provincial revenues.

Restore PST to eight percent and introduce PST rebate for low income Manitobans

In 2021, the Manitoba PST generated roughly \$2.2 billion dollars at a rate of 7 percent. We propose a 1 percent increase to this rate up to 8 percent, expecting to generate an additional \$250-350 million of revenue for the province. In order to rebate low-income households for the cost of the PST, we propose the creation of a PST rebate in Manitoba, similar to the GST rebate. The effect of an increase in the PST should be watched closely to ensure the incidence of the tax doesn't make low-income households worse off. In doing so, structuring a rebate check for the PST could be useful to ensure efficiency in the PST.

Thank you for your attention. Please email molly@policyalternatives.ca for further discussion or questions.

Endnotes

¹ <https://www.imf.org/en/Blogs/Articles/2022/09/09/cotw-how-food-and-energy-are-driving-the-global-inflation-surge> Corporate profits have risen dramatically during the pandemic, to the highest share of GDP in history. These corporate profits are concentrated in the same industries that lead inflation: petroleum, real estate, building materials, car dealers and supermarkets. A recent report by David Macdonald of CCPA National found 25% of every dollar Canadians are spending is going to corporate profits in oil, gas and mining.#

² Statistics Canada, The Daily - Consumer Price Index, December 2022. <https://www150.statcan.gc.ca/n1/daily-quotidien/230117/dq230117a-eng.htm>

³ As per the Climate Action Team Road to Resilience <https://climateactionmb.ca/road2resilience/>

⁴ Pembina Institute, Property Assessed Clean Energy in Canada, 2020. <https://www.pembina.org/pub/pace-financing-canada>

⁵ Sanders, Carol. 2021 "Manitoba civil service shrinkage decried". Winnipeg Free Press, June 22, 2021. <https://www.winnipegfreepress.com/breakingnews/2021/06/22/manitoba-civil-service-shrinkage-decried>

⁶ <https://www.cihl.ca/en/how-do-the-provinces-and-territories-compare>



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