CCPA-MB

FAST FACTS

Canadian Centre for Policy Alternatives-Mb • 309-323 Portage Ave. • Winnipeg, MB • Canada R3B 2C1
ph: (204) 927-3200 • fax: (204) 927-3201 • ccpamb@policyalternatives.ca • www.policyalternatives.ca/mb

March 3, 2004

Fairness and the New Deal

This past fall, Winnipeg Mayor Glen Murray proposed a New Deal for Winnipeg, a complex set of changes in investment and taxation. CCPA-Manitoba has just released Riding off in all directions: An examination of Winnipeg's New Deal, *a study written by economist Hugh Mackenzie and Todd Scarth, executive director of CCPA-Manitoba. This FastFax summarizes their findings.*

The debate over Winnipeg mayor Glen Murray's proposed New Deal for Winnipeg is central to the City's future. His assertion that the services gap that Winnipeg currently faces is not sustainable, and his conclusion that Winnipeg has run out of status quo options are widely accepted, and indeed have been virtually unchallenged.

The New Deal would result in a substantial shift in the City's revenue sources from higher-income families and businesses to lower-income families.

But while we support many of the overall goals of the New Deal, particularly its commitment to increase investment in public services, there is no getting around the fact that the overall impact of the New Deal would be regressive. It would impose increased costs on the lowest-income residents of the City while reducing taxes more than proportionally as household income increases from middle- to upper-income households.

The New Deal actually called for four major policy changes rolled into one:

- a $70-million increase in the City's investment in public services
- a $161-million reduction in property taxes and an elimination of the business tax
- a $9-million shift in revenue sources for city services away from general taxes towards user fees
- a transfer of $149 million in revenue sources from the federal and provincial governments to the City.

There is a serious need for significant reinvestment in Winnipeg's public services. According to the City the difference between what it is investing in infrastructure and what it should be investing is $150 million a year. The New Deal would reduce that deficit to $80 million a year. There is also no doubt that this deficit cannot be reduced without increasing the City's revenue.

The fairest taxes are those that are levied on income and wealth since they reflect ability to pay. However, municipal governments have no constitutional right to levy such taxes. Traditionally they have drawn their revenue from property taxes, which are seen as less fair since they can place a heavy burden on taxpayers who are house-rich and income-poor, particularly young families or senior citizens. That said, there clearly is at least some correlation between wealth and property value. Indeed, compared to the other forms of taxes that municipal governments can levy it is the most progressive tax on offer.

The business community argues that the business tax discourages investment in the City. The real beneficiaries of

the $62-million tax cut, however, would be those businesses already operating in the City.

To offset these tax reductions, the New Deal proposed a significant increase in user fees and consumption taxes, including a one per cent city sales tax, a share of the provincial sales tax, a fuel tax, a tax on natural gas and electricity, a garbage fee, and liquor and hotel taxes. Many of these are being presented as green taxes since they might have the effect of encouraging people to use energy more efficiently and to generate less waste.

Unfortunately for the New Deal, all the arguments that can be mounted against property taxes—namely that they do not respect ability to pay—are even more applicable to consumption taxes and user fees. In fact, low-income people may tend to spend less money in ways that would be captured by consumption taxes, but they spend a *higher proportion* of their income this way. In contrast, higher income earners are more likely to save, invest, travel, or import goods, actions not covered under the consumption taxes included in the New Deal. A sales tax is regressive, even if there were exemptions made for basic necessities or low-income rebates.

Finally, the City cannot impose many of these new taxes without the support of either the provincial or federal governments. Indeed the provincial government is being asked to take steps that would increases the taxes that Winnipeggers pay by $150 million a year. Winnipeg is the economic, social, and political centre of Manitoba – no other city in the county is as powerful a presence within its province. However the City's case is undercut by the fact that Manitoba is the only province that transfers a portion of income tax revenue to municipalities and by the City of Winnipeg's decision to cut property tax by eight per cent over the last decade.

So who wins and who loses? Calculations that we have done, based on the calculator posted by the City of Winnipeg at http://www.winnipeg.ca/interhom/mayors_office/newdeal/help.stm suggest that the New Deal would result in a substantial shift in the City's revenue sources from higher-income families and businesses to lower-income families.

The Mayor and his advisers are currently preparing a successor New Deal. For this he is to be applauded. There is, as we noted at the outset, a need for the City to have increased sources of revenue to make needed public investments. As with the New Deal, the key test that the latest proposal will have to meet is its ability to ensure that society's burden as well as its benefits are fairly shared.

Key elements of a revised New Deal plan should be:

1. A fiscal capacity increase target sufficient to address both infrastructure funding needs and deficits in other local services;
2. An agreement with the Provincial Government to phase out its indirect use of the local property tax base for education funding;
3. Provincial authority for local motor vehicle fuel taxes dedicated to funding of public transit and road construction and maintenance, either combined with a reduction in provincial and federal motor vehicle fuel taxes or as a stand-alone measure;
4. A policy on user charges for environmental services that protects low-income households through the use of preferential rates on basic levels of consumption;
5. Reduction of user charges to nominal levels for local community and recreational services.
6. Increased funding for public transit sufficient to reduce the fare box share to less than 50%, to be accomplished by using increased funding from senior levels of government for improved service.
7. Targeted increases in provincial and federal grants for services of general public benefit such as housing and social services.
8. Property tax rate increases at the rate of inflation.

A New Deal for Winnipeg should be build from strength – the public's support for improved services, and its willingness to pay for those services, providing the revenues are raised in ways that are seen to be fair.

–Hugh Mackenzie and Todd Scarth

Hugh Mackenzie is a Toronto economist and served as was the Executive Director of the Ontario Fair Tax Commission from 1991 to 1994. Todd Scarth is the Director of CCPA-Manitoba.

CCPA-MB *FAST* FACTS

are produced and distributed electronically on a regular basis.

They can be reproduced as an OpEd or opinion piece without obtaining further permission, provided they are not edited, and credit is given.

If you would like to receive the *FAST* FACTS, please contact the CCPA-MB to begin your free subscription.

Canadian Centre for Policy Alternatives-Mb
309-323 Portage Ave.
Winnipeg, MB
Canada R3B 2C1
ph: (204) 927-3200
fax: (204) 927-3201
ccpamb@policyalternatives.ca
www.policyalternatives.ca/mb

CAW 567 OTTAWA