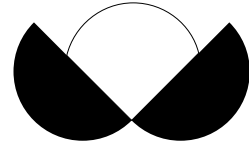


Canadian Centre for Policy Alternatives-Manitoba

Alternative Provincial Budget 2003-04



Since being elected in 1999, the NDP's fiscal approach has been characterized by extreme caution. What some may call prudent financial management could just as easily be described as timidity.

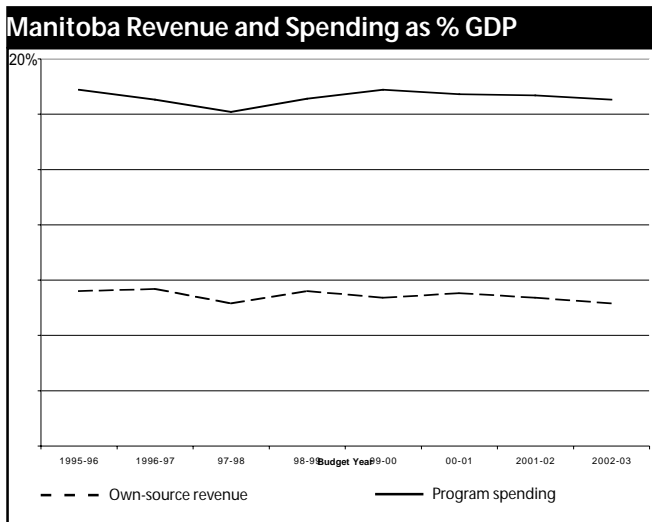
While the government's conservative critics have made rote attempts to portray the Doer government as big spenders, these charges are so off the mark that they never stick. When the NDP took office, program spending as a share of GDP was at 18.8%. It has actually fallen slightly since then, to a budgeted 18.4% in 2002-03.

The NDP's first budget was for 2000-01. In terms of program spending, the NDP have hardly been profligate. Indeed, the NDP have left the size of the public sector virtually unchanged relative to the rest of the economy after it had increased noticeably in the final year of the Conservative administration.

On the revenue side the NDP have been even more conservative. Own source revenue – made up of taxes and

fees — has actually declined since the NDP took power.

The table below shows the trends in program spending and own-source revenues. If you covered up the years along the horizontal axis, it would be hard to guess at what point the Conservative government fell and the NDP took over.



The decline in own-source revenues is in part due to an economy that has slipped from the boom of the late 1990s to the point where it is merely limping along in the early part of this decade. However, it is also due in part to tax cuts. Whether these were implemented because the NDP genuinely believes that Manitoba must attempt to compete with lower tax havens such as Alberta and Ontario, or because, as it has proven repeatedly, the government is willing to bend over backwards to appease its critics in the business community is, of course, impossible to say. Whatever their rationale, the tax cuts have had a real impact on the province's finances. In the budget year of 2001 alone the province implemented tax

cuts that cost the province \$97 million dollars in foregone revenue. In 2002, a further \$56 million dollars in tax cuts were implemented (Budget 2002, D11). From 2000 - 2003, the NDP cut personal income taxes by a cumulative annual total of \$181 million. Since these were not simply one-year tax vacations, but permanent changes to Manitoba's tax legislation, this revenue is lost forever.

As with most income tax cuts, the benefits fall mainly to those who were originally the most "burdened" by taxation — those with high incomes. The table below shows the tax savings in 2003 from the cumulative impact of the tax changes implemented since 2000. The savings for the family earning \$100,000 is around three and a half times that of the family earning \$30,000.

Manitoba Tax Savings 2003 Family of Four - Two Income Earners	
\$30,000	\$326
\$100,000	\$1,189

Having said this, it is important to acknowledge that the Manitoba government has not followed down the highly regressive road taken by British Columbia and Alberta. Both of these provinces use health premium charges, of \$1,296 and \$1,056 respectively, that do not vary with income. As a result, those with lower incomes pay a much higher percentage of their income to cover this tax. In general, provincial taxes in Manitoba are much more progressive than those in both British Columbia and Alberta. In Alberta, a family earning \$75,000 only pays an additional \$2,362 in provincial tax compared to a family earning \$50,000. In Manitoba that figure is \$3,676. It is also worth noting that, despite some claims about Mani-

That the province is in violation of one of the principles of the Balanced Budget Legislation and no one seems to have noticed suggests that the legislation is not particularly worth adhering to.

Total Provincial Taxes 2003 Family of Four		
	\$50,000	\$75,000
Manitoba	\$3,309	\$6,985
Alberta	\$2,913	\$5,275
British Columbia	\$4,199	\$6,385

toba being a particularly high tax environment, there is very little difference between the provincial taxes for families earning \$50,000. The family in Manitoba pays \$396 more than they would in Alberta and \$890 less than they would in British Columbia.

Room to Move?

The very precarious financial position of the province detailed in last year's alternative provincial budget has been temporarily alleviated by several factors. Most obviously, the provincial government drew \$150 million from Hydro last year and anticipates an estimated \$50 million this year, a policy long recommended by past alternative provincial budgets. Second, the federal government has continued to increase provincial transfers, most recently with a fairly sizeable increase in the transfers for health care. While the province is correct in claiming that these recent increases do not make up for the past parsimony of the Liberal regime in Ottawa, it is also true that this new largesse comes at a time in which the province was facing a tricky fiscal situation. Federal

transfers rose from 31% of provincial revenue in 2000/01 to 33% in 2002/03 and this is estimated to increase considerably with this year's federal health care spending increase. Finally, the province has benefited considerably from the low interest rate environment created by the Bank of Canada as public debt costs have dropped by \$177 million between 2000/01 and 2002/03. Therefore, this year the province has the considerable fortune to have some room to manoeuvre.

Balanced Budget Legislation: This Is the Shell Game that Never Ends

The alternative provincial budget has continuously argued against the unnecessary constraints imposed upon the province by its own balanced budget legislation. While appearing to adhere to the legislation, the province has made some important changes that illustrate what a hollow and useless piece of public policy it really is. For example, one of the requirements of the balanced budget legislation is that province makes every attempt to ensure

Federal Transfers and Debt Servicing		
(Millions of dollars)	2000/01	2002/03
Federal Transfers	2,091	2,329
Public Debt Costs	511	334

When we add the unnecessary debt repayments to the unnecessary income tax cuts, the total comes to one quarter of a billion dollars each year that the NDP has chosen not to invest in public services

that the fiscal stabilization fund (FSF) remains at 5% of provincial expenditures. According to the province's third quarter estimate, the FSF for 2002/03 will stand at 254 million, about 3.6% of the \$6,967 million forecast for provincial spending. Although this condition of the legislation is more of a general guideline than a rule, the fact that the province is in violation of one of the principles, and no one seems to have noticed, would seem to indicate that the legislation is not particularly worth adhering to.

The balanced budget legislation commitment to advanced debt repayment also, it is quickly becoming apparent, was a less crucial priority than the government had previously led us to believe. The balanced budget legislation stipulates that \$75 million be set aside each year to pay down the debt ahead of schedule. On top of this, when the NDP took power it committed to eliminate its pension liability by setting aside a further \$21 million a year for a total of \$96 million. The pension liability — representing the future pension obligations to people currently working in the provincial civil service — was built up over 40 years, and certainly needs to be paid down.

However, that \$96 million can be divided in any manner determined by the Debt Retirement Fund Committee, who have correctly ruled that the benefits of accelerating the pension payoff are greater than that of paying off the debt. Therefore, in 2001/02 they decided to allocate \$75 million to the pension liability fund and only \$21 million to the debt retirement fund. There are two important points to draw from this. The first is that, as the alternative provincial budget has been arguing for many years, there is absolutely nothing inherently beneficial in setting aside \$75 million for advanced debt repayment, a point the province now seems to have implicitly realized. Under the balanced budget legislation, the

province puts \$96 million annually against the General Purpose Debt and Pension Liability combined. If the NDP had killed the balanced budget legislation, in the four years since taking power it could have had an additional \$300m to spend, while still paying down the Pension Liability by \$21 million annually. The benefits of paying down the debt early must be weighed against the costs of not using that \$75 million for other purposes.

The province's total General Purpose Debt is budgeted to stand at 17.6% of GDP at the end of the current budget year. If the province had simply serviced the general purpose debt, and not paid into the Debt Repayment Fund, the General Purpose Debt would be at 18.2% of GDP — hardly a major difference, especially during a period of low interest rates. As these numbers show, even if the debt is never paid down at all, the cost of servicing it will continue to fall in relation to GDP, as the economy "grows around" the debt.

The second point to be made is that the new figure of \$96 million divided between debt and pension is equally arbitrary. While the province does have to pay down its pension liability, the original plan of setting aside \$21 million per year would have eliminated the pension liability by 2035. The new, more rapid payment plan, announced in 2002, would eliminate the liability by 2030, a five-year payment holiday twenty-seven years in the future. Again, this very long-term benefit must be weighed against the cost of not putting the money to immediate use. The balanced budget legislation is an extremely narrow and unnecessarily constraining piece of legislation and should be abolished. Our budget redirects the \$75 million that the province currently puts toward paying down the debt toward much-needed programs.

Where the Conservatives benefited wealthy Manitobans and businesses, the NDP has favoured average-income families. The most vulnerable Manitobans have been largely forgotten.

The Alternative Provincial Budget: Meeting Needs Responsibly

After the deep program cuts of the 1990s under the Filmon government, the current government's hold-the-line approach is not enough to rebuild public services.

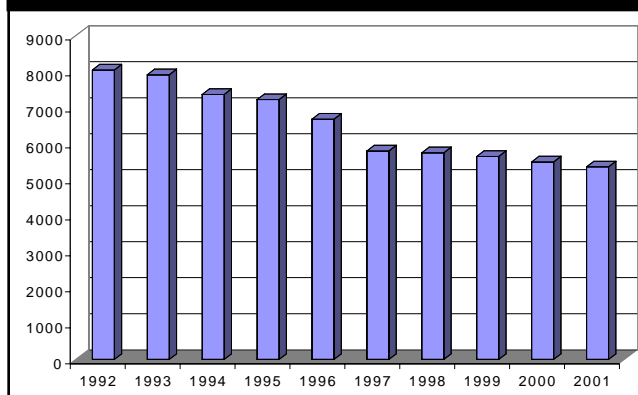
That is not to say that the current government has done nothing in the way of improving public services. But it has been very selective in the way that it has done so. In short, where the Conservatives benefited wealthy Manitobans and businesses, the NDP, through both its major program initiatives (such as spending on child care and the post-secondary tuition freeze) and its taxation policies, has favoured average-income families. For a decade and a half, the most vulnerable Manitobans have been largely forgotten. For example, if adjusted for inflation, provincial social assistance rates have actually *fallen* under the NDP.

Why have successive governments not addressed issues such as poverty, inequality, and inner-city decay with all the resources necessary? Is it because the money is not there? Of course not. When we add the unnecessary debt repayments to the unnecessary income tax cuts, the total comes to \$256 million per year. That is one quarter of a billion dollars that the NDP has chosen to put towards income tax cuts and debt reduction rather than spend on public services.

The Coming Aboriginal Province

In Manitoba as a whole and in Winnipeg in particular the demographic trends are dramatic. The Aboriginal share of our population is growing at a pace that far outstrips that of the non-Aboriginal population. Data from the 2001 Census of Canada show that between

Provincial welfare rates, single person, constant dollars 1992 - 2001, Manitoba



1996 and 2001, the province of Manitoba grew by 5690 people — a 0.5% increase over those 5 years. However, if we break those numbers down into Aboriginal and non-Aboriginal components, we find that while the Aboriginal population grew by 16.6%, or 21,360 people, the non-Aboriginal population actually declined by 1.6%, or 15,670 people. In other words, if it were not for the growth of the Aboriginal population, the provincial population would have seen a *drop* over the five year period of 15,670 people. These trends are virtually certain to continue, given that the non-Aboriginal population under 15 years of age declined by 26.0% over the five-year period, while the Aboriginal population under the age of 15 years grew by 38.8%. The implications for Winnipeg's and Manitoba's labour force over the next 10-15 years are obvious. A recent federal-provincial study estimated that by 2015, at least 1 in 5 and perhaps as many as 1 in 3 Manitobans reaching working age will be Aboriginal.

The response to these demographic realities has been, to date, completely inadequate. Some small measures have been taken that respond to these realities, but they are not sufficient to seize the many opportuni-

If it were not for the growth of the Aboriginal population, the provincial population would have seen a drop over the five year period of 15,670 people.

ties that these trends are creating.

It is essential, to begin with, that we see these demographic trends as opportunities, and not as problems. Here in Winnipeg, our children and grandchildren will live in a different kind of city, a city with a strong and tangible Aboriginal presence. What will that city look like? The possibility exists to move now to build on the many strengths of Aboriginal culture in such a way as to make Winnipeg a city that is literally unique in the world. This city and this province could be a showcase for the benefits of a conscious process of the melding of cultures. This would require that conscious action be taken now to move in that direction. The groundwork could and should be laid over the next four or five year term of the provincial government, and it should be reflected in this the last budget of the current provincial government.

Our educational system is an example of where action needs to be taken. At the moment the proportion of Aboriginal students in the school system is high, and it is growing, and the demographics reveal that the proportion will continue to grow into the foreseeable future. Yet the number and proportion of teachers in Winnipeg who are Aboriginal is very small. According to a recent study, Winnipeg School Division No. 1 would need an additional 400 Aboriginal teachers to make the proportion of teachers who are Aboriginal equivalent to the proportion of students in Winnipeg No. 1 who are Aboriginal. Yet the Faculties of Education have not been taking the steps that are necessary to produce the dramatically increased numbers of Aboriginal teachers that are needed. Public expenditure and deliberate planning in this area are desperately needed. A major initiative to produce many more Aboriginal teachers, and especially Aboriginal teachers who are thoroughly conversant with Aboriginal culture, would be likely to have a

significant impact on success rates of Aboriginal students, and would also constitute an important job creation strategy for Aboriginal people.

Health care is another area where similar steps ought to be taken. Aboriginal people are disproportionate users of our health care system— not surprisingly given the strong correlation between poverty and poor health— and yet Aboriginal people are dramatically under-represented among health care workers. We know that there are steps that can be taken to rectify this imbalance. Winnipeg's Urban Circle Training Centre, for example, has had remarkable success in preparing Aboriginal adults to work in hospitals as Health Care Aides and Health Care Unit Clerks, at wages sufficient to move entire families off social assistance. Part of the secret of Urban Circle's success is that the program is designed by Aboriginal people with a strong Aboriginal cultural component and with the supports in place that are needed for people who have not previously had experience in the paid labour force. A significant and sustained investment in such programs with a proven track record would produce dramatic results over time.

Such steps are now being taken in child and family services, where control is being turned over to the Aboriginal community, and very significant numbers of Aboriginal people are being trained as social workers.

At the community level, organizations are emerging that are run by and for Aboriginal people, and that not only deliver important services for people in need and work to develop community strengths, but also have a capacity-building character to them. That happens when people are in charge of their own affairs.

These are measures that make sense, and that should be pursued much more ag-

Aboriginal and Non-Aboriginal Population Change by Age Structure, Manitoba, 1996-2001

	Manitoba 1996	Manitoba 2001	% Change 1996-2001
<i>Total - Population</i>	1,113,895	1,119,585	0.5%
0-4	80,720	70,675	-12.4%
5-9	82,870	80,345	-3.0%
10-14	81,025	82,695	2.1%
15-19	77,670	80,425	3.5%
20-24	76,110	72,855	-4.3%
25-34	164,575	143,170	-13.0%
35-44	175,255	177,135	1.1%
45-54	132,725	155,715	17.3%
55-64	90,780	100,155	10.3%
65 +	152,160	156,415	2.8%
	Aboriginal population 1996 - Manitoba	Aboriginal population 2001 - Manitoba	% Change 1996-2001
<i>Total - Age</i>	128,680	150,040	16.6%
0-4	17,945	18,000	0.3%
5-9	16,225	18,985	17.0%
10-14	14,065	17,085	21.5%
15-19	12,370	14,400	16.4%
20-24	11,390	11,615	2.0%
25-34	21,090	22,890	8.5%
35-44	15,985	20,820	30.2%
45-54	9,740	13,305	36.6%
55-64	5,525	7,410	34.1%
65 +	4,345	5,540	27.5%
	Non - Aboriginal 1996 - Manitoba	Non - Aboriginal 2001 - Manitoba	% Change 1996-2001
<i>Total - Age</i>	985,215	969,545	-1.6%
0-4	62,775	52,675	-16.1%
5-9	66,645	61,360	-7.9%
10-14	66,960	65,610	-2.0%
15-19	65,300	66,025	1.1%
20-24	64,720	61,240	-5.4%
25-34	143,485	120,280	-16.2%
35-44	159,270	156,315	-1.9%
45-54	122,985	142,410	15.8%
55-64	85,255	92,745	8.8%
65 +	147,815	150,875	2.1%

Source: 1996 & 2001 Census of Canada. Calculations performed by Social Planning Council of Winnipeg - April 2003.

gressively. Large numbers of Aboriginal people ought to be trained to deliver services to other Aboriginal people— in education, health care, child and family services, youth work and other social services. The benefits would be multi-faceted: the creation of well-paid jobs for large numbers of Aboriginal people; the provision of important services to Aboriginal people by other Aboriginal people; the creation of public institutions that begin to reflect — in their appearance and in their ways of operating— the communities they serve. In this way our communities would begin to look and feel

Aboriginal, and Aboriginal people would begin to feel that they are not outsiders, but fully a part of the community, and their representation in penal institutions and youth detention centres and group homes would begin to decline, just as their representation in educational and health and social service institutions would begin to grow. And the growing sense of confidence of the Aboriginal community would find expression in the cultural and political institutions of our cities and province. And what would be created if we were to begin to pursue this path in an aggressive and sus-

tained way is a city and province that would be unique in the most positive way, with our Aboriginal heritage visibly manifest everywhere.

We are taking some positive steps in this direction already. The province's Neighbourhoods Alive! program is beginning to promote real change at the community level; the Adult Learning Centres that have emerged in recent years are proving capable of moving adults, including significant numbers of Aboriginal adults, from dependence to independence; the proposed new tri-level urban development agreement looks as if it will have a strong Aboriginal and inner city component. These are positive initiatives. They demonstrate what is possible. But much, much more is needed if we are to meet the challenges that the province's demographic realities have posed for us.

Those challenges require strong public investment in a holistic strategy aimed at empowering Aboriginal people. We set out such a strategy below. The results of investing in such a strategy would include the creation of a new and vibrant culture in Winnipeg and in Manitoba, a culture that would be unmistakably Aboriginal and that would be unique in the most positive way.

Fiscal Framework

The overall fiscal framework for the Alternative Provincial Budget presents both a baseline government budget — in other words, what the provincial budget would look like if the government continued to stay the course — and our alternative budget changes to revenues and expenditures. The 2002/03 column is estimated based on the province's own forecasts in their third quarter estimates. The 2003/04 fiscal results are estimated from several sources:

Federal transfers are estimates from the

Major Federal Transfers to Provinces and Territories (Feb03). They do not account for minor transfers, which in the past have represented at least an additional \$100 million. In addition, the federal government has allocated \$91 million in the CHST supplement from which the province can draw over several years. Our estimates of federal transfers have the Manitoba government only drawing \$36 million in the 2003/04, but conceivably the province could draw the entire amount, increasing the federal contribution to the budget by an additional \$55 million dollars.

Own source revenue and expenses estimate future earnings and spending in the following manner. The growth in provincial own source revenue and expenses between 2002/03 and 2003/04 is taken from the province's medium term fiscal framework in the 2002 budget. The anticipated growth is then added on to the latest estimates (third quarter report) of revenue and expenses for the 2002/03 year.

These revenues and expenses for the 2003/04 year provide a baseline that estimates the province's fiscal situation if it made no changes to its current policies for the coming year.

Alternative Budget Taxation and Expenditures

We begin with the same estimates found in the government's baseline column. Assumptions about GDP and federal transfers are identical. We then adjust spending and revenues according to the priorities set out in our budget.

Taxation

Rather than cutting provincial spending in crucial areas, The APB would introduce several

new taxes or tax increases, both to generate revenue to funding crucial public services, and to help channel spending away from activities that are socially and environmentally harmful. Our changes are equitable and would encourage a more environmentally and socially responsible pattern of consumption.

Environmental Protection \$127 million

Energy conservation strategy \$32 million
All energy utilities in Manitoba will be assessed a 2.5 % conservation assessment to create an incentive to conserve scarce energy resources. A portion of this revenue will be used to fund a major program to retrofit housing in Winnipeg's inner city.

Fuel Efficiency Fees \$10 million
Registered passenger vehicles in the province whose fuel efficiency is below a minimum benchmark will be assessed an additional levy as an incentive to purchase smaller, more fuel efficient cars.

Transportation Levy \$60 million
An additional 3 cents/litre will be levied on gasoline and motive fuels in the province. Even after this increase, Manitoba would have lower gasoline taxes than neighbouring provinces.

Tax on Pesticides and Fertilizers \$10 million
This will be combined with a strategy to encourage the expansion of organic farming.

Clean Water Act \$13 million
A 10 cents per metre cubed tax on water above a certain threshold for heavy users to encourage conservation.

Irrigation - 25 million metres cubed = \$2.5 million

Intensive Livestock Industry - 10 million metres cubed = \$1 million

Industrial - 100 million metres cubed = \$10 million

Commuter Tax \$10 million

The APB would commit to investigating the option of giving the city of Winnipeg the power to levy a tax on gasoline, in order to help eliminate the growing problem of flight to exurban communities. In the meantime, we would implement a \$500 commuter tax per person (a \$2 charge per round trip in and out of the city) on those who live outside the City of Winnipeg and work within the city limits.

Housing Subdivision Tax \$17 million

As a means of reducing urban sprawl we would levy a tax of \$10,000 on new housing construction, which would not apply to replacement or alteration of existing structures.

High Income Surtax \$23 million

A tax of 2.5% will be applied on those Manitobans with an income of over \$200,000. This tax would affect approximately 5,000 taxpayers.

Total Revenue Increase \$175 million

Program Spending

At the centre of this year's APB is a three-pronged strategy to alleviate poverty and promote equality that focuses on the following interrelated factors:
a healthy labour market, with good jobs,

wages, and working conditions; quality social services that include affordable housing and child care; and, strong income security programs.

Accordingly, the APB initiates a **\$200 million integrated equality package**, one that includes spending in childcare, social assistance, and housing. The clawback of the Child Tax Benefit would be ended immediately, and non-budgetary measures, such as a stronger minimum wage, would be included in this approach. Budgets for Healthy Child Manitoba and Neighbourhoods Alive! would be increased by 20% immediately.

Child Care

- Immediately eliminate charges levied on low-income subsidized parents.
- Re-index the subsidy eligibility rate to allow thousands more families to have access to subsidized spaces.

Education

Post Secondary Education

Maintain and fully fund tuition freeze
Operating grants increase \$25 million
Capital spending increase \$25 million

K-12 Education

Operating grants increase \$27 million
Capital spending increase \$7 million

Inner City Development and Housing Fund

This fund would be overseen by a decision-making body with meaningful representation from the community. Established inner city organizations with a track record of successful evaluations would be funded and evaluated on a more holistic and more long-term basis. There would be a shift in emphasis from project

funding to longer-term, core funding.

Social Assistance

The Alternative Budget would increase spending on Social Assistance by \$50 million. Social Assistance rates have fallen in real terms in Manitoba from the levels of a decade ago (see table on page 5). The Alternative Budget would take the following measures to redress these issues:

- An immediate 20% increase in social assistance rates, and a commitment to review rates to bring them in line with an Acceptable Living Level;
- Recipients of social assistance would be allowed to retain the first \$200 and 25% thereafter of earnings from paid employment, until their earnings reach the level of social assistance;
- Low wage earners would qualify for social assistance using the same formula. Combined with a strong increase in the minimum wage, employers could not use it simply to subsidize their labour costs.

Conservation

The budget for this department actually fell last year. The APB would increase it by 15% each year for the next two years.

Alternative Provincial Budget 2003-04 Macroeconomic and Fiscal Parameters

(\$ MILLION)	2001/02 Actual	2002/03 Est.	2003/04 Proj.	2003/04 APB
EXPENDITURE	6,737	6,967	7,099	7,349
of which are debt costs	414	334	334	334
TRANSFERS Govt of Canada	2,206	2,329	2,505	2,505
TAXES AND FEES Own source	4,540	4,588	4,671	4,846
Extraordinary Rev (Hydro)		150	50	50
FROM FISCAL STAB. FUND	150	4	0	0
TOTAL REVENUE	6,896	7,067	7,226	7,401
DEBT/PENSION REDUCTION	96	96	96	21
SURPLUS	63	4	31	0
FISCAL STABILISATION FUND BALANCE (incl. interest)	247	254	293	258
GDP NOMINAL \$m	34,914	35,886	37,788	37,788
GDP GROWTH % p.a.	1.60%	3.53%	5.30%	5.30%
GDP GROWTH (REAL)% p.a.	3.30%	3.1%	3.2%	3.2%
SURPLUS AS % GDP	0.18%	0.01%	0.08%	0.0%
TAXES AND FEES AS % GDP	13.00%	12.78%	12.36%	12.82%
TOTAL EXPENDITURE AS % GDP	19.30%	19.41%	18.79%	19.45%
PROGRAM EXPENDITURE AS % GDP	18.11%	18.48%	17.90%	18.56%
Public Debt Costs AS % GDP	414	334	334	334
	1.19%	0.93%	0.88%	0.88%
Public Debt Costs AS % EXPENDITURE	6.15%	4.79%	4.70%	4.54%