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THE 2005 PROVINCIAL BUDGET: PROGRESSIVE OR CONSERVATIVE?

by Lynne Fernandez and Ian Hudson

Going into this year's budget, it appeared that the province would benefit considerably from the newly discovered generosity of the federal Liberals. In the end, the extent of the fed's largesse exceeded even the Province's hopes. For the 2004/05 budget year just ended, federal transfers to Manitoba are an amazing $471 million dollars (20%) over what the Province budgeted for. This cash windfall has alleviated what appeared to be a precarious budgetary position at the end of last year, when the Fiscal Stabilization Fund (FSF) had been drawn down by $171 million, to a meagre $79 million, and the predicted budgetary surplus required by the Balanced Budget Legislation was only possible with some very optimistic assumptions about controlling expenditure and expanding revenue. Instead of this financial bind, the Province found itself with a $314 million dollar surplus at the end of this last fiscal year. In a move that belies the media's caricature of the NDP as financially irresponsible, the NDP used this surplus to restore the FSF, so that it now stands at a much healthier $395 million.

However, the future is not all bright for the NDP. After this year's massive surplus, the 2005/06 budget is again finely balanced, with only a razor thin surplus of $3 million dollars predicted.

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What happened to the surplus?

So, what changes are in this year's budget that will cause a $314 million dollar surplus to shrink to $3 million? Most importantly, provincial revenue is predicted to decline next year, for two very different reasons.

First, federal transfers are expected to decline by 4.2% next year, although this number could change significantly once a new Equalization formula is reached this year.

Second, the Province has again limited its revenue collection powers with a tax decrease affected by increasing the basic personal exemption while cutting the middle income tax bracket, the education support levy and the corporate income tax rate. Tax reductions in this budget total $137 million in lost revenue, contributing to a predicted increase in own source tax revenue of only 1.9%, which will not even keep pace with inflation.

As pointed out in previous Alternative Budget documents, tax reduction has become a hallmark of this NDP government. While their tax cuts in any one year have not been as dramatic as in some other provinces, the NDP's cuts since 1999 are now costing $500 million in tax revenue per year. Since 2000/01 provincial own source revenue as a percentage of GDP has fallen from 13.9% to 12.9%. As we have stressed earlier, the Province has been able to reduce its own sources of revenue due to its successful pressuring of Ottawa to loosen the purse strings. Federal transfers to Manitoba increased from 30% of revenue in 2000/01 to 34.4% in 2005/06.

Who is benefiting from these tax changes? Corporate taxes will decline as a percentage of total provincial revenue from 4.9% to 4.5%; personal income tax will increase from 22.3% to 23%. Over the longer period both income and corporate taxes have dwindled as a source of provincial revenue since 2000/01 when corporation income tax contributed 5.2% of total revenue and personal income tax made up 26.3%.

As has been pointed out repeatedly in past Alternative Budgets, income tax cuts, even those to middle tax brackets, disproportionately favour the rich.

Savings on Tax Changes 1999-2005 Single Earner, Family of Four	
Income	Yearly Tax Saving
$ 20,000a	$ 150.00
$ 60,000b	$1,594.00
$100,000c	$1,720.00

Source: calculated using the Province of Manitoba web site http://www.gov.mb.ca/finance/estimator/calc04.html

a - paying rent of $600/month
b - paying property taxes of $3,000/year
c - paying property taxes of $3,500/year

What are the long-term consequences of these tax cuts?

The Manitoba economy is now enjoying a relative period of prosperity, with respectable economic growth, low unemployment and population inflow. The real pinch of the tax cuts is likely to be felt when the province suffers its next recession, and the same tax rates yield less revenue, tilting the budget into deficit. While the NDP has replenished the FSF for exactly this eventuality, the funds are not sufficient to weather a recession that lasts more than a couple of years. Given their commitment to the Balanced Budget Legislation, the NDP can neither run a deficit nor increase major taxes without a referendum. The only option left would be to cut spending at precisely the time when people most need those services.

Spending Spree?

The day after the Budget, the Winnipeg Sun declared that the NDP had gone on a "spending spree". It is true that total spending will increase by 3.5% if the NDP can stick to its projections (with the exception of health, the estimates do seem more realistic than last year when we correctly pointed out that the Province would not be able to stick to its outrageously low spending estimates and the Province spent 3% more than it had budgeted), but the only big ticket spending announcements were on using a portion of the gasoline taxes for urban infrastructure and a strategy to reduce hip and knee-joint waiting lists. The other large budgetary increases were for agriculture in both insurance programs and development initiatives.

The Province's spending priorities are proclaimed in this year's budget. The NDP government boasts that it has the second lowest per capita spending among provinces in Canada, yet manages to rank 4th in per capita spending on health care. This means that the province is not dedicating as much money as the other provinces to other areas.

Post secondary education is an example. Although the Province should again be credited for continuing its tuition freezes to ensure access to higher education, they have not compensated universities for lost tuition revenue. Spending for advanced education and training is actually budgeted to fall in nominal terms from $557 million to $556 million.

In addition, Manitoba's NDP government has taken a surprising and disturbing approach to poverty in this year's budget.

The NDP's Policy on Poverty: Progressive or Conservative?

This year's budget contains an entire section dedicated to highlighting the NDP's record at combating poverty. The NDP has made some worthwhile moves. It has rightly distanced itself from the previous government's most harmful measures such as workfare and the welfare fraud line. They have eliminated the National Child Benefit Supplement clawback, and introduced several commendable initiatives. Neighbourhoods Alive! - although insufficiently funded - has proven to be an effective program. The Northern and Southern Nursing Programs, Urban Circle Training Centre, University College of the North and employment and training agreements with First Nations, if properly funded and implemented, could provide much needed help to Manitoba's Aboriginal communities. According to government plans, long-awaited funding for childcare will finally be delivered. There have been small changes in Employment and Income Assistance rates, but they are nowhere near sufficient to keep pace with increasing costs.

There is a decidedly conservative undercurrent to much of the Budget paper. The government's position on low-income cutoff measures (LICO)[1], for example, is dubious. The province notes that 12% of two-adult families with children have incomes less than the LICO, that 52% of single-parent families fall below the LICO, and that 22% of Manitoba's children are from families with incomes less than the LICO. All these percentages are the second highest for their category in the country. In an attempt to diminish the severity of the problem in Manitoba, the paper highlights the LICO's weaknesses while ignoring its strengths. As the budget correctly points out, one weakness of the LICO is that it does not capture interprovincial differences in taxes and transfer payments so that Manitoba's relatively more progressive income system is not acknowledged.

But the LICO is an effective indicator of inequality, or relative poverty, and it should not be easily dismissed. Poverty must be considered within the context of a particular society, and most Canadian families surviving at or below the LICO are impoverished compared with the regional average-income family. Nobel-prize winning economist, Amartya Sen, defined poverty as the lack of capacity to function in one's society. If a single mother living below the LICO level cannot afford a bus pass or child care, for example, her capacity to function in Canadian society is compromised; it is this sense of impoverishment that the LICO captures. The NDP should address the conditions underlying LICO statistics rather than trying to define poverty away. Alarmingly, this is exactly the approach taken by institutions like the Fraser Institute.

In its budget press releases, the NDP also touted its income and property tax reductions as measures to help alleviate poverty with the following statement:

> "The budget recognizes that maintaining affordability is one way to address poverty. Low childcare, auto insurance and hydroelectricity rates have helped ensure Manitoba has the lowest cost of living in Canada. Budget 2005 includes a number of measures aimed at supporting Manitobans:"[2]

Two of the three measures listed are tax reductions. To claim that the property-tax credit is a measure to help the poor will come as some surprise to those low-income Manitobans who cannot afford to buy a home. We have already seen that even the NDP's relatively targeted tax decreases benefit the rich more than the poor, while cutting $500 million per year from spending that really could, if well-targeted, benefit the poor. Further, the working poor continue to be hurt by Manitoba's far too low minimum wage. The NDP is proud of Manitoba's $7.00/hour minimum wage (the third highest of the provinces), claiming that it goes a long way to help the poor. But $7.00/hour does not provide a living wage. A person working full time at minimum wage earns just $12,000.00 a year, far below any reasonable poverty line.

Conclusion

The budgetary process is a statement of political priorities, not an accounting exercise. What does this latest budget says about the NDP's priorities? The government has certainly maintained its traditional commitment to fiscal responsibility, tax cuts and health care. But other areas of provincial funding have not fared as well, and the NDP's new stance on poverty alleviation is worrisome. Its attempts to appease fiscal conservatives are diluting useful programs, putting future spending at risk, and doing almost nothing for the poor. Whose priorities are these?

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Notes

1. Any family that spends at least 20% more than the average family spends on food, clothing and housing is considered to be living on a low income. According to recent estimates, the average family spends 44% of its gross income on these necessities, therefore the LICO is set where a family would spend 64% or more of its gross income on the basics.

2. ***Budget 2005: Putting People First as the Economy Grows***

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