

# The Growing Instability in Manitoba: The Selinger Majority, Budgetary Reductions, and Increasing Taxes

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K A R I N E   L E V A S S E U R \*

## I. INTRODUCTION

This year's edition of the *Manitoba Law Journal: Underneath the Golden Boy* is the result of a collaborative effort between the Manitoba Institute for Policy Research (MIPR), the Faculty of Law and the Department of Political Studies at the University of Manitoba. Recognizing a need for more public policy research at the provincial level, the partners worked diligently to create a new section of the journal that would be exclusively dedicated to the examination of public policy issues in Manitoba. Drawing inspiration from the national book, *How Ottawa Spends*,<sup>1</sup> this section casts a critical eye on provincial politics, economics and public policy priorities. A special 'thank you' goes to these partners, and to the authors and peer-reviewers who have supported this endeavour.

For the inaugural edition, three exemplary articles have been selected that explore post-secondary education policy, poverty policy, and justice policy. However, understanding developments related to a particular public policy issue requires an understanding of the broader political and economic landscape. As the Editor of this new public policy section of the *Manitoba Law Journal*, I turn my attention to this

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<sup>1</sup> G Bruce Doern & Christopher Stoney, eds, *How Ottawa Spends 2012-2013*, vol 33 (Montreal: McGill-Queen's University Press, 2012).

daunting task and closely examine Budget 2013 for an understanding of the landscape against which public policy is made. The policy environment in Manitoba is characterized by two annual public policy statements: the Budget and the Throne Speech. Released in the fall, the Throne Speech outlines the symbolic intentions of the government in terms of legislative developments over the course of a single legislative session. Released in the spring, the budget is more concrete and more firmly signals where a government intends to invest resources into public policy priorities. Comparatively, the Throne Speech involves more rhetoric. As a result, this analysis relies on the budget as a means to discern the public policy priorities of the Selinger government than the Throne Speech. I argue the veneer of economic and political stability, which has long characterized the keystone province, is showing signs of wear and tear. This, in turn, means that the fiscal challenge is the top priority facing the Selinger government and this period of restraint will undoubtedly have implications for all public policy fields.

## II. SETTING THE CONTEXT...

The economic recession of 2008 hit many jurisdictions hard, but Manitoba weathered the early years relatively well and some would suggest even with a bit of ‘fanfare’. Dubbed the “Manitoba Miracle” in the early years of the recession,<sup>2</sup> Manitoba’s GDP actually increased by 2% in 2008 and remained at 0% in 2009 whereas other jurisdictions experienced a noticeable decline.<sup>3</sup> The diversity in the Manitoba economy from agriculture, forestry, fishing, manufacturing, aerospace, financial services, mining, oil and gas, and transportation is credited for weatherproofing the province from the recessionary storm. Indeed Paul Ferley, Assistant Chief Economist for the Royal Bank of Canada labeled Manitoba as the “most diverse [economy] of all the provinces”.<sup>4</sup> This diversity means Manitoba is not prone to boom-and-

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<sup>2</sup> Jason Kirby, “The Manitoba miracle: How an economic laggard became a leader in the recovery”, *Macleans* (December 2010) online: <http://www2.macleans.ca/2010/12/06/the-manitoba-miracle/>.

<sup>3</sup> Fletcher Baragar, “*Report on the Manitoba Economy*” (2011) Canadian Centre for Policy Alternatives – Manitoba 1 at 1.

<sup>4</sup> Kirby, *supra* note 2.

bust cycles associated with other economies, such as Alberta as Baragar notes,

Diversity is often lauded as a desirable strategy to protect against risk. Manitoba's economy is relatively diversified, and that should, in general, help protect the economy against sudden untoward economic developments at home and abroad. Diversification tends not to be an extremely high growth and high return strategy, but insulation from the frenetic boom is also insulation from the precipitous busts.<sup>5</sup>

Besides this diversity, a number of large-scale construction projects, which include the Canadian Museum for Human Rights, a new airport, a new football stadium for the CFL Winnipeg Blue Bombers, and a new building for Manitoba Hydro contributed to an expansion of the Manitoba economy. Further, there was a boost in confidence about the economy with the return of the beloved NHL franchise, the Winnipeg Jets, and announcement that IKEA would build in the south-west part of Winnipeg.

Manitoba has thus enjoyed a degree of economic stability, but it has also enjoyed political stability. Manitoba will have had 16 years of NDP rule by the next election set for 2015.<sup>6</sup> First elected in 1999, the NDP has provided policy continuity first under the leadership of Gary Doer, who served as Manitoba's longest-serving premier, and now under Greg Selinger since 2009. Wiseman reminds us that "by the time of Manitoba's next election, the party will have governed in 33 years, or 59 percent, of the 46 years since its initial ascension to office in 1969."<sup>7</sup> This record leads Wiseman to conclude that the NDP is Manitoba's natural governing party.

There has also been stability in terms of government spending as Baragar indicates: "[a]s a share of GDP, government expenditures had stayed remarkably constant over a period stretching back to 1997".<sup>8</sup>

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<sup>5</sup> Baragar, *supra* note 3 at 59.

<sup>6</sup> The next provincial election is scheduled for October 6, 2015. If there is a federal election called during that same time period however, the provincial election will occur on April 19, 2016. The NDP won an unprecedented fourth term in office on October 4, 2011.

<sup>7</sup> Nelson Wiseman, "Is the NDP Manitoba's Natural Governing Party?" (Paper delivered at the Annual Meeting of the Canadian Political Science Association in Edmonton, 2012) at 1.

<sup>8</sup> Baragar, *supra* note 3 at 9.

This is not surprising given the balanced budget legislation passed by the Conservative government led by then Premier Gary Filmon in 1995.<sup>9</sup> Titled the *Balanced Budget, Debt Repayment and Taxpayer Protection Act*, this legislation required four things: first, balanced budgets (both operational and capital budgets); second, extinguishment of debt within 30 years; third, no increases to key taxes (i.e. retail sales tax) without a successful referendum unless there was a major exogenous shock to the system such as war, disaster or a sudden decline in government revenues more than 5%; fourth, penalties for non-compliance with this legislation would be levied on Minister's salaries between 20-40% depending on the degree of non-compliance.<sup>10</sup> Despite its criticism over this legislation, the NDP opted to maintain the balanced budget legislation once it gained a majority in the legislature in 1999. Until 2008, the NDP retained this law relatively intact.<sup>11</sup> In 2008, at the outset of the looming recession, the NDP passed new balanced budget legislation titled *Balanced Budgets, Fiscal Management and the Taxpayer Protection Act* "which relaxed certain provisions of the earlier legislation".<sup>12</sup> This amended legislation recognized it was unfair to balance the budget every year particularly when the economy was depressed. As a result of this legislative change, budgets must be balanced over a four-year cycle. This fiscal stability is perhaps not surprising given that it may be reflective of the broader political culture according to Wesley. His research into the political culture of Manitoba leads him to conclude that it is a province marked by "modesty and temperance".<sup>13</sup>

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<sup>9</sup> Bill 2- *The Balanced Budget, Debt Repayment and Taxpayer Protection and Consequential Amendments Act*, 1<sup>st</sup> Sess, 36<sup>th</sup> Leg, Manitoba, 1995 (received royal assent 3 November 1995, SM 1995 c 7).

<sup>10</sup> Wayne Simpson & Jared Wesley, "Effective Tool or Effectively Hollow? Balanced Budget Legislation in Western Canada" (2012) 38 *3 Canadian Public Policy* 291 at 296.

<sup>11</sup> Paul Thomas & Curtis Brown, "Introduction: Manitoba in the Middle" in Paul Thomas & Curtis Brown, eds, *Manitoba Politics and Government: Issues, Institutions, Traditions* (Winnipeg: University of Manitoba Press, 2010) at 10.

<sup>12</sup> Simpson & Wesley, *supra* note 10 at 297.

<sup>13</sup> Jared Wesley, *Code Politics: Campaigns and Cultures on the Canadian Prairies* (Vancouver: UBC Press, 2011) at 23.

Of course, this economic and political performance has not gone without criticism. From the Right, claims are made that economic growth has largely been the result of government spending, including the previously mentioned large-scale construction projects. Peter Holle, President, Frontier Centre for Public Policy argues Manitoba is a 'zombie economy' with its "old-style policy model based on heavy regulatory burdens, high taxes and, most critically, big, sprawling government spending".<sup>14</sup> From the Left, claims are made that too many Manitobans are excluded from this economic stability, notably Aboriginal People and children. Indeed, the Social Planning Council of Winnipeg<sup>15</sup> concludes that one-third (32.6%) of all children in Manitoba live in poverty. This child poverty rate is 10% higher than the national average.

Despite these important criticisms, the relative stability of the economic and political landscape has persisted over the years. This stability, however, is deteriorating. In 2009, two significant events occurred that pushed the capacity of the system to its limits. The first event, not entirely unpredictable given that much of Manitoba is a flood plain, included the annual spring flood. This event proved to be a challenge and required significant government expenditure to save homes, businesses, infrastructure, and towns alike. The 2009 spring flood was one of the worst floods on record with 2,800 individuals evacuated from their homes and approximately 250 homes damaged.<sup>16</sup> Total flood fighting costs were nearly \$100 million.<sup>17</sup> Fast-forward to 2011 when another major flood occurred which further stretched the capacity of the system to respond. Indeed, the flood of 2011 is

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<sup>14</sup> Peter Holle, "Getting Past Manitoba's Zombie Economy", *Winnipeg Free Press* (16 January 2011) online: [Winnipeg Free Press <http://www.winnipegfreepress.com/opinion/westview/getting-past-manitobas-zombie-economy-81861992.html?device=mobile>](http://www.winnipegfreepress.com/opinion/westview/getting-past-manitobas-zombie-economy-81861992.html?device=mobile).

<sup>15</sup> Social Planning Council of Winnipeg, "Child and Family Poverty Report Card" (2011) online: [http://www.spcw.mb.ca/files/3213/3960/6292/Poverty\\_Report\\_Card-Sep2011.pdf](http://www.spcw.mb.ca/files/3213/3960/6292/Poverty_Report_Card-Sep2011.pdf) at 11.

<sup>16</sup> Manitoba, Conservation and Water Stewardship, "An Overview of the 2009 Spring Flooding in Manitoba" (2009) online: [http://www.gov.mb.ca/waterstewardship/reports/floods/spring\\_flood\\_2009\\_overview.pdf](http://www.gov.mb.ca/waterstewardship/reports/floods/spring_flood_2009_overview.pdf).

<sup>17</sup> Manitoba, Finance, "The 2013 Manitoba Budget Address" (2013) online: <http://www.gov.mb.ca/finance/budget13/speech13.pdf> at 1 [Budget Address].

reported to be the most expensive flood on record with significant human costs given that 7,100 citizens were evacuated from their homes, most from First Nations communities.<sup>18</sup> Costs related to flood preparation, flood fighting, infrastructure damage and disaster payments totaled \$1.2 billion,<sup>19</sup> however a portion of this is paid by the federal government. Given these steep human and financial costs, the Selinger government announced the creation of a Task Force in February 2012 to examine the 2011 flood. Its report, which was tabled just prior to the release of the 2013 budget, made 126 recommendations to improve infrastructure and thus protect the most vulnerable areas of the province. The Selinger government accepted these recommendations that are estimated to total more than \$1 billion.<sup>20</sup>

The second event to challenge the province's stability was the H1N1 crisis. The H1N1 pandemic further necessitated government expenditures to prevent the spread of the virus through vaccination and treatment of infected patients. In June 2009, the "World Health Organization...declared the novel H1N1 influenza virus a pandemic flu and went to phase six, the highest possible pandemic influenza alert level".<sup>21</sup> Manitoba's efforts did not go without criticism given that the pandemic hit Aboriginal communities quite hard,<sup>22</sup> but in the end, it was the only province to experience a lower hospitalization rate

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<sup>18</sup> Manitoba, "Manitoba 2011 Flood Review Task Force Report" (April 2013) online: <[http://www.gov.mb.ca/asset\\_library/en/2011flood/flood\\_review\\_task\\_force\\_report.pdf](http://www.gov.mb.ca/asset_library/en/2011flood/flood_review_task_force_report.pdf)> at 1. Many of these evacuees are still displaced to this day.

<sup>19</sup> *Ibid.*

<sup>20</sup> *Ibid.*

<sup>21</sup> Manitoba, Health, H1N1 Flu in Manitoba: Manitoba's Response: Lessons Learned, (2010) online: <<http://www.gov.mb.ca/health/documents/h1n1.pdf>>.

<sup>22</sup> Geoff Kirbyson, "H1N1 crisis deepens: Chiefs hope declaration will prompt more action to deal with pandemic," Winnipeg Free Press (25 June 2009) online: Winnipeg Free Press <<http://www.winnipegfreepress.com/local/h1n1-crisis-deepens-49080766.html>>.

in the second wave of the pandemic.<sup>23</sup> The total cost to the province was \$83 million according to Manitoba Health.<sup>24</sup>

On top of these events, Manitoba's infrastructure has aged over the years. In 2008, a Statistics Canada report on the state of infrastructure across the provinces was released. This report concluded that of the five main infrastructure assets – highways and roads, bridges and overpasses, water supply systems, wastewater treatment facilities and sanitary and storm sewers – Manitoba's infrastructure was estimated at \$10.2 billion and that of all the provinces, Manitoba had the second oldest infrastructure.<sup>25</sup> The Association for Manitoba Municipalities (AMM) has long lobbied the Province citing "[i]nsufficient investment in Manitoba's deteriorating infrastructure has created a major burden for municipalities in the form of a severe infrastructure deficit".<sup>26</sup> In April 2009, the AMM lobbied MLAs to argue for a new mechanism to fund municipal infrastructure needs. Specifically, it called for "the Province of Manitoba to share one percent of the Provincial Sales Tax with municipalities for infrastructure. This will provide municipalities with an excess of \$200 million a year".<sup>27</sup> The message from advocates was clearly framed; Manitoba's infrastructure is an urgent policy priority in need of significant resources.

The unbudgeted expenditures associated with fighting floods and responding to pandemics, coupled with the increasing pressure to respond to Manitoba's aging infrastructure needs, and declining

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<sup>23</sup> Canada, Public Health Agency of Canada Lessons Learned Review: Public Health Agency of Canada and Health Canada Response to the 2009 H1N1 Pandemic, (2010) online: <[http://www.phac-aspc.gc.ca/about\\_apropos/evaluation/report-s-rapports/2010-2011/h1n1/context-contexte-eng.php](http://www.phac-aspc.gc.ca/about_apropos/evaluation/report-s-rapports/2010-2011/h1n1/context-contexte-eng.php)>.

<sup>24</sup> Manitoba Health, *supra* note 21 at 1.

<sup>25</sup> Canada, Statistics Canada, Age of Public Infrastructure: A Provincial Perspective, (2008) online: <<http://www.statcan.gc.ca/pub/11-621-m/11-621-m2008067-eng.htm#t9>>.

<sup>26</sup> Association for Manitoba Municipalities, Meeting with The Honourable Ron Lemieux Minister of Infrastructure & Transportation, (18 June 2008) online: <<http://www.amm.mb.ca/PDF/MinisterMeetings/2008/Lemieux-Jun%2018-08.pdf>> at 3.

<sup>27</sup> Association for Manitoba Municipalities, AMM Lobby Days (2009) online: <<http://www.amm.mb.ca/PDF/MinisterMeetings/2009/Lobby%20Days.pdf>> at 3.

federal transfer payments,<sup>28</sup> have strained the government's financial management strategy. To be sure, critics would highlight another aspect – spending. These critics suggest that the growing instability has less to do with unexpected expenditures related to flooding and pandemics, and more to do with the increased spending associated with the NDP government.<sup>29</sup> Indeed, Dr. Bryan Schwartz argues that Manitoba's economy is “propped up by federal transfers” such that the growth in the provincial government largely crowds out business, charities, and others from growing and playing a larger role in the governance project.<sup>30</sup>

Governing appears to be at cross-roads: the government needs more revenue either because of unexpected pressures or because of increased spending, or both. This crossroad is the heart of the public policy process. The Selinger government could reduce spending in key areas to generate funds to pay for unexpected events and repairs to an aging infrastructure system or it could raise taxes. As we will see shortly, the social democratic roots of the Selinger government have come through with its public policy decision to raise taxes and forego significant spending cuts.

Readers will recall that the province is unable to generate more revenue in large part because of the balanced budget legislation. This legislation effectively handcuffs governments when making policy decisions. Section 10(1) of *The Balanced Budget, Fiscal Management and Taxpayer Accountability Act* requires a referendum before net income taxes (personal and corporate), payroll taxes and the retail sales tax can be increased. As a result, provincial revenues have been crawling along at best. Taxes – personal, corporate and other taxes such as the retail sales tax – make up 52% of provincial revenues (see Figure 1 in

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<sup>28</sup> Budget 2013 states, “With total transfer protection, combined transfers to Manitoba have remained virtually flat since 2009/10. In fact, during this time they have actually declined by 11% when adjusted for population growth and inflation” Manitoba, Finance, *Update on Fiscal Arrangements* (Budget Papers) at D1 online: Manitoba Finance <<http://www.gov.mb.ca/finance/budget13/papers.html>> [Update on Fiscal Arrangements].

<sup>29</sup> The Frontier Centre for Public Policy, Manitoba Government Spending Rising Rapidly, online: The Frontier Centre for Public Policy <<http://www.fcpp.org/publication.php/4579>>.

<sup>30</sup> Bryan Schwartz, *Suppliant Society to Diversity and Dynamism: Revitalizing Manitoba* (Winnipeg, MB: Frontier Centre for Public Policy, 2011) at 20.



Appendix B). To be sure, there are other taxes, such as the fuel tax and tobacco tax that can be increased without a referendum, but the reality is that tobacco taxes are not increasing given the successful efforts of anti-smoking networks in Manitoba to change societal attitudes towards smoking and fuel taxes have little growth.

This poses a dilemma: what is a government to do when it is effectively handcuffed from raising taxes in light of increasing expenditures?<sup>31</sup> One option is to significantly reduce government spending through direct cuts to the operating budgets of departments. Another option is to follow through with a referendum and, if successful, raise taxes. Another option is to expand the tax base of the retail sales tax. In Budget 2012, the application of the retail sales tax – more commonly known as the Provincial Sales Tax (PST) – was broadened to apply to beauty treatments over \$50 including spa treatments (i.e. manicures, pedicures, facials), hairstyling services (i.e. haircuts, hair removal), tattooing, and piercings. In addition, the PST was broadened to apply to insurance premiums (i.e. property insurance, group life insurance). Expanding the base of the PST does not require a referendum, but it constitutes tinkering at the margins since this change will only generate approximately \$106 million annually.<sup>32</sup> In short, this tinkering does not bring in necessary revenues.

The ratio of debt to GDP is an indicator of a government's fiscal stability. As a percentage of economic output, the ratio of debt to GDP has risen consistently in the past five years. In 2013-2014, the debt to GDP ratio is 28.70% compared to a low of 21.70% in 2008-2009 (see Table 2 in Appendix B). The net debt for 2013-2014 is nearly \$18 billion from a low of \$11 billion in 2008-2009 for a cumulative change of 62%. These consecutive increases are a growing problem according to some,<sup>33</sup> whereas others might counter argue that

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<sup>31</sup> There is debate on this point as to whether balanced budget legislation effectively handcuffs governments in their ability to raise revenues. See Simpson and Wesley, *supra* note 10 for their analysis of balanced budget legislation in the four Western Canadian provinces and their conclusion that this type of legislation did not restrain spending.

<sup>32</sup> Manitoba, Finance, *Taxation Adjustments* (Budget Papers) at C6 online: Manitoba Finance <<http://www.gov.mb.ca/finance/budget12/papers/taxation.pdf>>.

<sup>33</sup> See Tom Broadbeck, "NDP debt growing faster than economy", *The Winnipeg*

some debt is necessary and the debt accumulated to date has not triggered a review of the provinces credit rating. The bigger concern might be stagnant revenues – or overspending according to critics of the Selinger government – coupled with unexpected budgetary expenditures than the size of the current debt *per se*.

There are also other signs of instability. Manitoba has long played an important role in intergovernmental relations despite not having the economic power base like Alberta or Ontario or the cultural importance like Quebec. As Thomas notes, Manitoba's role in negotiations with other governments is reflective of its make-up:

Among provincial societies and provincial governments, Manitoba is neither poor nor rich, more like lower-middle class. It is the only province in western Canada currently eligible for equalization payments from the government of Canada.<sup>34</sup>

In short, Manitoba is a small player – historically, economically and socially – on the national scene. Despite this, Manitoba has carved out an important role in intergovernmental relations such that this little province often punched above its weight class according to scholar Paul Thomas. In his estimation, Thomas credits this to the conciliatory nature of former Premier Gary Doer whose approach to working with other governments was “pragmatic, problem-specific, cautious and driven by the political dynamic of the issue under consideration rather by some overarching theory of federalism.”<sup>35</sup>

While Manitoba has enjoyed good relationships with other governments, its relationship with the federal government is now deteriorating. With the election of the Harper government in 2006, the promise of ‘open federalism’ was made. Open federalism “is a stricter, ‘respectful’ approach to federal-provincial relations which will clarify the roles of each level of government, respect the areas of provincial jurisdiction, [and] place limits on the use of the federal

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*Sun* (2012) online: The Winnipeg Sun <<http://blogs.canoe.ca/raisinghell/general/ndp-debt-growing-faster-than-economy/>>.

<sup>34</sup> Paul Thomas, “Leading from the Middle: Manitoba’s Role in Intergovernmental and Transnational Areas” in Paul Thomas & Curtis Brown, eds, *Manitoba Politics and Government: Issues, Institutions, Traditions* (Winnipeg: University of Manitoba Press, 2010) at 276.

<sup>35</sup> Thomas, *supra* note 34 at 280.

spending power”.<sup>36</sup> Officials working on the federal-provincial relations file found their federal counterparts to be “tightly controlled, secretive and unresponsive, especially compared with their most recent dealings with the short-lived [Martin government]”.<sup>37</sup> To be sure, Manitoba is not the only province dealing with a federal government that is largely indifferent to the needs of the provinces and territories. What makes Manitoba unique in its relationship with the Harper government is ideology. In October 2009, the NDP leadership convention elected Greg Selinger to replace Gary Doer, after Doer had been named by Stephen Harper as the next Ambassador to the United States. Selinger is more left of centre than Doer according to Paul Thomas.<sup>38</sup> Joan Grace agrees. In her estimation, Gary Doer has “[never] been wedded to traditional social democratic values and ideas.”<sup>39</sup> Selinger, in short, is more interventionist than his pragmatic, middle-of-the-road counterpart. Indeed, given the policy choices of the Selinger government, particularly related to the increase in the retail sales tax discussed below, politics in Manitoba may be at a ‘turning point’. That is to say, provincial politics may be becoming polarized and departing from the path of pragmatism. It is perhaps no surprise then that there may be a growing ideological divide with the federal government and its conservative ideals.<sup>40</sup> The result of this divide is clear: Manitoba is now the last jurisdiction the federal government speaks with on certain files such as labour market policy and Aboriginal policy. Given there are a number of important shared policy fields between the provinces and the federal government (i.e. labour market policy, environment policy) a deteriorating relationship could be problematic for Manitoba moving forward.

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<sup>36</sup> *Ibid* at 284.

<sup>37</sup> *Ibid* at 285.

<sup>38</sup> *Ibid* at 289.

<sup>39</sup> Jordan Timm, “The Gary Doer phenomenon: Hot off a third straight election win, is Manitoba’s premier the most significant New Democrat since Tommy Douglas”, *Macleans* (24 May 2007) online: *Macleans* < [http://www.macleans.ca/article.jsp?content=20070524\\_111541\\_5896](http://www.macleans.ca/article.jsp?content=20070524_111541_5896)>.

<sup>40</sup> To be sure, there are other factors that must be considered when examining federal-provincial relations such as personalities and leadership style.

In sum, Manitoba has displayed stability, but there are signs of instability. This does not imply that Manitoba is necessarily unstable. Indeed, given that many provinces are also experiencing difficulties stemming from the 2008 recession, Manitoba is experiencing some instability, but it remains more stable than many other jurisdictions. How the Selinger government wrestles with this uncertainty is an important research question.

### **A. The Selinger Budget: Setting an agenda...**

The Selinger budget of 2013 emphasized the uncertainty that Manitoba faces both economically and in terms of flooding. This emphasis sets the stage for budgetary efforts to respond to these uncertainties; however, the budget also references the need to simultaneously protect Manitoba families. An exhaustive list of all budgetary changes is not possible here, but below is a list of the more significant changes:

- Minimum wage increases by \$.20 to \$10.45 an hour.
- Seniors will no longer be subject to pay the education portion of their property tax bill.
- The Provincial Sales Tax (PST) will be increased from 7% to 8% effective July 1, 2013 for a period of ten years.
- Exemptions to PST were expanded for such items as diapers, strollers, and children's car seats.
- Cigarettes taxes will increase by \$1 per pack.
- Personal income tax exemption increased to \$250.
- A \$240 annual increase to RentAid for Manitobans in receipt of Employment and Income Assistance (social assistance).
- Development of more social housing units plus introduction of a new tax credit to stimulate the construction of more rental housing.
- \$1.8 million increase to the STARS emergency helicopter service so it may operate 24 hours a day instead of the current 12 hours per day.

The most significant budgetary change involves the increase of the PST from 7% to 8% effective July 1, 2013 to raise \$277 million annually. This boost in revenue is intended to fund infrastructure projects from hospitals, personal care homes, hockey rinks to flood protection projects across the province. Readers will recall that the balanced budget legislation requires a referendum on increases to the PST. However, the Selinger government announced it will introduce

legislation to waive the referendum requirement and thus allow it to raise the PST effective July 1, 2013.

Premier Greg Selinger and Finance Minister Stan Struthers framed this change as essential and cited there were no other options available given the start of another flood season coupled with the need to raise funds in order to access the federal infrastructure fund. Just prior to the release of the Manitoba budget, the federal government announced that the Building Canada Plan would be renewed for a ten-year period worth \$53 billion. However, in order for provinces to access this funding, matching provincial contributions are required. The budget clearly articulated the Selinger government approach and reflected its social democratic ideological roots: infrastructure needs would not be paid for by reductions to core services. Critics suggest that using flood expenditures as a means to justify the tax increase is a “red herring” and that the real problem relates to a lack of spending discipline on the part of the Selinger government.<sup>41</sup> Progressive Conservative Leader Brian Pallister frames this tax increase without a referendum as “the height of arrogance”.<sup>42</sup>

A public opinion poll conducted by Probe Research reveals support for the NDP eroded after the 2013 Budget.<sup>43</sup> This survey concludes that support for the NDP within the City of Winnipeg, which is “the” main battleground in elections, declined from 50% in December 2012 to 37% after the budget. Comparatively, support for the Progressive Conservative Party increased from 31% to 37% in the same time period. However, the NDP is still early in its mandate so it is difficult to know how this tax increase will influence voting trends in the next scheduled election.

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<sup>41</sup> Bruce Owen, “Manitoba is Canada’s Greece: Tory”, *The Winnipeg Free Press* (18 April 2013) A4.

<sup>42</sup> Bruce Owen & Larry Kusch, “Sales-tax hike to boost flood protection, but province first has to rewrite balanced-budget law”, *The Winnipeg Free Press* (17 April 2013) online: *Winnipeg Free Press* <<http://www.winnipegfreepress.com/special/budget/taxing-solution-203344361.html>>.

<sup>43</sup> Probe Research, “Manitoba Party Standings - NDP Support Erodes” (2013) online: <<http://news.probe-research.com/2013/04/april-2013-manitoba-party-standings-ndp.html>>.

## B. Assessing the 2013 Budget...

The degree of equity or fairness associated with this budget is questionable in two aspects.<sup>44</sup> The first relates to the PST. Budget 2013 states, “The PST is the fairest way to reach these goals, because the cost will be shared by everyone”.<sup>45</sup> It is important to note that the PST is a regressive tax such that Manitobans with lower incomes may be more negatively impacted by the 1% increase. A family with an annual income of \$25,000 will pay the same PST as another family with an income of \$225,000. Moreover, families with lower incomes generally have a limited ability to save. As a result, the PST may apply to a larger percentage of their income as compared to families with higher incomes that may have more ability to save. To be sure, the Selinger government slightly expanded the number of items that are PST exempt to protect families with babies and young children (i.e. diapers, strollers and children’s car seats). Furthermore, it could be argued that the PST is a less regressive tax than other consumption taxes given that there are a number of necessities that are exempted from this tax such as food.<sup>46</sup> Despite this, the impact that this tax may have on lower-income individuals and families will be a concern moving forward according to anti-poverty advocate Kirstin Bernas who suggests “Manitoba’s most vulnerable are on Employment and Income Assistance [...] they are struggling to secure housing and put food on the table. Budget 2013’s small increase of \$20 per month to help EIA recipients pay for rent will be more than offset by the increase in the PST.”<sup>47</sup>

The second relates to the announcement that seniors will no longer pay for the education portion of their property tax bill as of

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<sup>44</sup> Sid Frankel, “NDP tables ‘inequality and poverty budget’” *The Winnipeg Free Press* (18 April 2013) online: Winnipeg Free Press <<http://www.winnipegfreepress.com/opinion/analysis/ndp-tables-inequality-and-poverty-budget-203543831.html>>.

<sup>45</sup> Budget Address, *supra* note 17 at 6.

<sup>46</sup> See GC Ruggieri, “On the Incidence of Canadian Provincial Taxes” (1978) 6:4 *Public Finance Rev* 473 for his assessment that provincial sales taxes, because of the number of exemptions, are not a major contributing factor to the regressivity of the overall tax system in Canada.

<sup>47</sup> As cited in Jim Bender, “Poor will pay the PST price”, *The Winnipeg Sun* (18 April 2013) at 8.

2015, which amounts to a tax cut. *Prima facie*, reducing the taxes of seniors could be good policy, but this tax cut fails to target seniors in greatest need of tax relief. Expressed another way, higher income seniors will experience the same tax reduction as lower income seniors. Further, this could contribute to intergenerational conflict as evidenced by the comments of one Manitoban: “If seniors don’t pay for education, I shouldn’t pay for their healthcare”.<sup>48</sup>

While increasing revenue is part of Selinger’s solution to the growing instability, so is policy realignment. On January 13, 2012, the Selinger government signaled an important policy change through the creation of a new Cabinet Committee and a Cabinet shuffle. A new Cabinet Committee was formed to focus exclusively on economic development, employment and social service delivery.<sup>49</sup> A new department – Children and Youth Opportunities – was also formed and Conservation and Water Stewardship merged into one department. The former Department of Labour and Immigration was divided. Labour merged with the new Department of Family Services and Labour, whereas Immigration merged with the new Department of Immigration and Multiculturalism. Perhaps the single most revealing change relates to recipients of Employment and Income Assistance. These recipients were transferred out of Family Services and transferred into the Department of Entrepreneurship, Training and Trade specifically into its labour market skills program. The policy signal could not have been clearer; labour market attachment is the means to self-sufficiency vis-à-vis training. Since March 31, 2010, the

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<sup>48</sup> Comment made by an anonymous user on Bruce Owen & Larry Kusch, “Education taxes being axed for seniors” *Winnipeg Free Press* (16 April 2013) online: *Winnipeg Free Press* <<http://www.winnipegfreepress.com/local/education-taxes-being-axed-for-seniors-203147311.html>>.

<sup>49</sup> The creation of a Cabinet Committee allows room for members to focus attention on specific policy issues and thus provide more freedom to Cabinet to focus on big picture policy decisions. The concern with the creation of Cabinet Committees, however, is that they may inadvertently usurp the deliberative role of Cabinet. This newly formed Cabinet Committee consists of: Finance Minister Stan Struthers; Health Minister Theresa Oswald; Family Services and Labour Minister Jennifer Howard; Conservation and Water Stewardship Minister Gord Mackintosh; Innovation, Energy and Mines Minister Dave Chomiak; Aboriginal and Northern Affairs Minister Eric Robinson; and, an additional member of government caucus.

number of individuals receiving social assistance has increased 5.9% so this increase may explain the policy realignment.<sup>50</sup> With this move, EIA recipients will be trained for greater self-sufficiency thus in theory reduce the rates of individuals in need of social assistance, while also simultaneously contributing to the supply of skilled labour for employers which the lack of a talented pool of labour has long been a concern of employers. Behind this statistic is an important reality though: a portion of EIA recipients face multiple barriers meaning training and other supports must be tailored to meet specific needs because simplistic ‘one-size-fits-all’ responses will not likely be successful. To do so is resource intensive and as a result, this drive to produce more skilled labour will compete with other policy priorities such as health in a policy environment characterized by fiscal restraint.

In addition to raising revenue and realigning policy, the Selinger government is containing the civil service. In Budget 2012, the Selinger government sought to reduce operating costs and streamline operations by:

- amalgamating the number of regional health authorities from eleven to five saving a reported \$11 million in the first year;<sup>51</sup>
- merging two crown corporations for greater efficiency (Manitoba Lotteries Corporation and Manitoba Liquor Control Commission);
- reducing government spending by \$128 million that effectively froze or reduced the budgets of ten departments;
- Reducing the number of agencies, boards and commissions by 20%.

The Speech from the Throne later that year on November 19, 2012 affirmed these restraints and announced that 600 civil service jobs would be eliminated. While these are identified as savings, it is important to put these saving into context. The overall budget in 2012 was \$14 billion and as such these savings appear to be rather limited and this approach is quite differentiated from the austerity cuts leveled by the former Progressive Conservative Premier Gary Filmon in the 1990s.

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<sup>50</sup> Manitoba, Entrepreneurship, Training and Trade, *Annual Report* (2012) online: <[http://www.gov.mb.ca/ctt/pdfs/11\\_12\\_ett\\_ar.pdf](http://www.gov.mb.ca/ctt/pdfs/11_12_ett_ar.pdf)> at 50.

<sup>51</sup> Larry Kusch, “Healthy Restraint”, *The Winnipeg Free Press* (17 April 2013) B3.



Budget 2013 further restrains the civil service by relying more on LEAN management techniques,<sup>52</sup> limiting overall spending by departments by 2.1% and conducting efficiency reviews of key programs. Despite the limit of 2.1% increase in overall departmental spending, twelve of twenty departments will experience a reduction in their budgets for the 2013-2014 fiscal year (see Table 1) with a range of 1.7% to 56.9%.

Immigration and Multiculturalism will experience the most significant reduction as a result of Budget 2013, but there is an important exogenous factor at play here. In a highly publicized battle between the Selinger government and former federal Citizenship and Immigration Minister Jason Kenny, Ottawa unilaterally centralized immigrant settlement services. As a result, federal funding to Manitoba to support settlement services fell from \$36 million to \$9 million for 2013-2014<sup>53</sup> and this helps account for the reduction to the provincial department. Comparatively, Local Government and Justice will see increases to their operating budgets of 9.6% and 9.5% respectively. For Local Government, this increase will support municipalities and their infrastructure needs through the Manitoba Building Fund.<sup>54</sup> For Justice, budget increases will be used to hire more Crown attorneys, RCMP officers and police officers in both Winnipeg and Brandon.<sup>55</sup>

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<sup>52</sup> LEAN management techniques are defined as "a client-focused approach to evaluating service delivery in a workplace to improve processes and procedures" Saskatchewan, News Release, "Government Expands LEAN Initiative to improve Services" (22 June 2010) online: <<http://www.gov.sk.ca/news?newsId=692212b2-d7eb-47dd-a754-70bedc60f899>>.

<sup>53</sup> Update on Fiscal Arrangements, *supra* note 28.

<sup>54</sup> Overall financial assistance to municipalities will increase from \$313,425,000 in 2012-2013 to \$347,876,000 in 2013-2014 Manitoba, Finance, *2013 Manitoba Estimates of Expenditure and Revenue* (2013) at 151 online: <[http://www.gov.mb.ca/finance/budget13/papers/r\\_and\\_e.pdf](http://www.gov.mb.ca/finance/budget13/papers/r_and_e.pdf)>.

<sup>55</sup> Kevin Rollason, "Key Spending: Law and Order", *The Winnipeg Free Press* (17 April 2013) online: Winnipeg Free Press <[www.winnipegfreepress.com/local/key-spending-203344201.html](http://www.winnipegfreepress.com/local/key-spending-203344201.html)>.

*Table 1: Estimates in Expenditure by Department*<sup>56</sup>

Department	Change from 2012/13 to 2013-2014 (%)
Aboriginal and Northern Affairs	-3.8
Advanced Education and Literacy	2.8
Agriculture, Food and Rural Initiatives	-5.4
Children and Youth Opportunities	-2
Civil Service Commission	-2.9
Conservation and Water Stewardship	-6.2
Culture, Heritage and Tourism	-1.7
Education Education	1.7
Entrepreneurship, Training and Trade	0.8
Family Services and Labour	6.5
Finance	-7.5
Health	2.7
Healthy Living, Seniors and Consumer Affairs	-4.1
Housing and Community Development	2.8
Immigration and Multiculturalism	-56.9
Infrastructure and Transportation	-2.2
Innovation, Energy and Mines	-3.4
Justice	9.5
Local Government	9.6
Sport	-1.7

In summary, public policy development in Manitoba is set against a backdrop of fiscal restraint and has been for the past several years. The stability that prevailed is under increasing pressure and as a result, public policy must be developed with limited financial and human

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<sup>56</sup> Manitoba, Finance, *2013 Manitoba Estimates of Expenditure and Revenue* (2013) at 21 online: <[http://www.gov.mb.ca/finance/budget13/papers/r\\_and\\_e.pdf](http://www.gov.mb.ca/finance/budget13/papers/r_and_e.pdf)>.

resources. This will have significant impacts on individual policy fields. Take health for instance Manitoba Health (acute care) and Manitoba Healthy Living, Seniors and Consumer Affairs (preventative care), account for 41% of all departmental expenditures (see Figure 2 in Appendix B). Given these constraints, further coupled by the restraints imposed by the federal government that health care costs will now be tied to inflation, advancing health policy will be challenging. There are increasing demands placed on the health care system, notably related to changing demographics and an aging baby boomer cohort, which will pressure the system to somehow respond to these changing demands while simultaneously saving money in the system. It is against this backdrop of fiscal restraint that we now turn our attention to the three articles that explore specific policy issues in the keystone province.

