

Manitoba's Road to Recovery

2010-11 Pre-budget Submission



Colin Craig
Prairie Director - Canadian Taxpayers Federation

About the Canadian Taxpayers Federation

The Canadian Taxpayers Federation (CTF) is a federally incorporated, non-profit, non-partisan, advocacy organization dedicated to lower taxes, less waste and accountable government. The CTF was founded in Saskatchewan in 1990 when the Association of Saskatchewan Taxpayers and the Resolution One Association of Alberta joined forces to create a national taxpayers organization.

Today, the CTF has over 60,000 supporters nationwide. The CTF maintains a federal office in Ottawa and offices in the five provinces of British Columbia, Alberta, Saskatchewan, Manitoba and Ontario. Provincial offices conduct research and advocacy activities specific to their provinces in addition to acting as regional organizers of Canada-wide initiatives.

CTF offices field hundreds of media interviews each month, hold press conferences and issue regular news releases, commentaries and publications to advocate the common interest of taxpayers. The CTF's flagship publication, *The Taxpayer* magazine, is published four times a year. An issues and action update called TaxAction is produced regularly. CTF offices also send out weekly *Let's Talk Taxes* commentaries to more than 800 media outlets and personalities nationally.

CTF representatives speak at functions, make presentations to government, meet with politicians, and organize petition drives, events and campaigns to mobilize citizens to effect public policy change.

All CTF staff and board directors are prohibited from holding a membership in any political party. The CTF is independent of any institutional affiliations. Contributions to the CTF are not tax deductible.

The CTF's Manitoba office is located at:

#212-428 Portage Avenue
Winnipeg, Manitoba R3C 0E2
Telephone: 1-800-722-9955
Fax: 1-204-982-2154
E-mail: mb.director@taxpayer.com
Web Site: www.taxpayer.com

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Part I: Executive Summary

As the Manitoba economy recovers from the global economic slowdown, tabling a balanced budget is the CTF's top recommendation for budget 2010.

Just as families have tightened their belts over the past year, governments should do the same. After all, deficits are nothing short of intergenerational taxpayer abuse which unfairly forces future taxpayers to pay for today's services.

While the CTF is not calling for significant tax relief this year, we are recommending the indexation of our province's income tax system to the rate of provincial inflation. By doing so, the province would eliminate "bracket creep," a stealth form of taxation which has been addressed by all provincial governments in Canada, with the exception of Manitoba, Nova Scotia and Prince Edward Island.

However, moving forward, the CTF is calling for a sober, all-party review of spending and a signal by government to address high areas of taxation in the future.

In summary, the CTF's ten recommendations for budget 2010 include:

- 1) Balance the budget (core and summary operations)*
- 2) Index the income tax system for inflation*
- 3) Introduce a two-year wage freeze for all public servants – just as New Brunswick has*
- 4) Establish an all-party committee to review spending*
- 5) Immediately scrap plans for a west side Bipole 3 line*
- 6) Create opportunities for the private sector/improve consumer choice*
- 7) Develop long term targets for eliminating school taxes and pursue fundamental reform*
- 8) Develop long term targets for eliminating the payroll tax*
- 9) Develop long term targets for reducing personal income taxes*
- 10) Develop a long term target of becoming a "have" province- just as New Brunswick has*

Manitoba's "road to recovery" will require spending restraint, tax relief and long term thinking. Freezing public sector salaries and saying "no" to special interest groups and bureaucrats won't be easy, but the benefits are long overdue for Manitoba taxpayers.

Part II: Introduction

The Manitoba office of the Canadian Taxpayers Federation (CTF) is pleased to present its recommendations for the 2010 Manitoba budget.

To begin, the CTF would like to commend the government for its recent reduction to the business tax rate. Along with the phase-out of the small business tax rate and corporate capital tax in 2010, the tax changes will help businesses in Manitoba recover from the global economic slowdown and compete with other jurisdictions.

However, the CTF is disappointed that the government cancelled its modest multi-year plan for personal income tax relief last year. Most disappointing was the fact the change was not communicated in any of the government's five news releases on budget day. Governments have a duty to communicate personal income tax changes in a clear, transparent manner as they impact almost all Manitobans.

Moving forward, the CTF recognizes that major tax relief is not likely feasible for this year's budget.

However, that does not preclude the government from ending bracket creep this year - a relatively minor, but important tax change - and establishing a long-term time table for phasing out school taxes, bringing our high income tax rates in-line with other jurisdictions and eliminating the job-killing payroll tax.

Bringing Manitoba's tax environment in-line with lower taxed jurisdictions will help stem the flow of citizens to such provinces. It is no coincidence that Manitoba saw a net loss of over 25,000 citizens to British Columbia, Saskatchewan, Alberta and Ontario from 2001-2009. Taxpayers in those provinces enjoy lower personal income tax rates, and in some cases lower school tax and payroll tax rates.

Providing tax relief in the long term will require a sober look at spending. During the past decade, provincial spending has been on a torrid pace – increasing at more than double the combined rate of population and inflation growth.

The province's rate of spending is simply not sustainable. The fact that Manitoba is more dependent on equalization and federal transfers than it was ten years ago is of great concern.

To address spending in the long term, the CTF is once again recommending the creation of an all-party committee to review all provincial spending and determine ways of spending existing dollars in a more efficient manner.

In the short term, the CTF is calling for greater scrutiny over all government expenditures. It is imperative that the budget be balanced on a core and summary basis.

Beyond tax relief and spending measures, there are a number of initiatives that the government could initiate to unleash private sector growth in the province. For example, by allowing the private sector to build hydro dams in Manitoba, our province could see a significant investment of private sector capital, job creation and an expansion of our tax base. This document includes similar examples for unleashing private sector growth.

By proceeding with the recommendations in "Manitoba's Road to Recovery," rebounding from the global economic slowdown will be a smooth one for taxpayers. This plan will result in individual taxpayers keeping more of their hard earned income and more opportunities for private sector growth.

Most importantly, this plan will help transform Manitoba from a "have-not" to a "have" province.

Part III: Recommendations

Recommendation 1: Balance the Budget

Balancing the budget on a core and summary basis is the CTF's top recommendation for budget 2010-11.

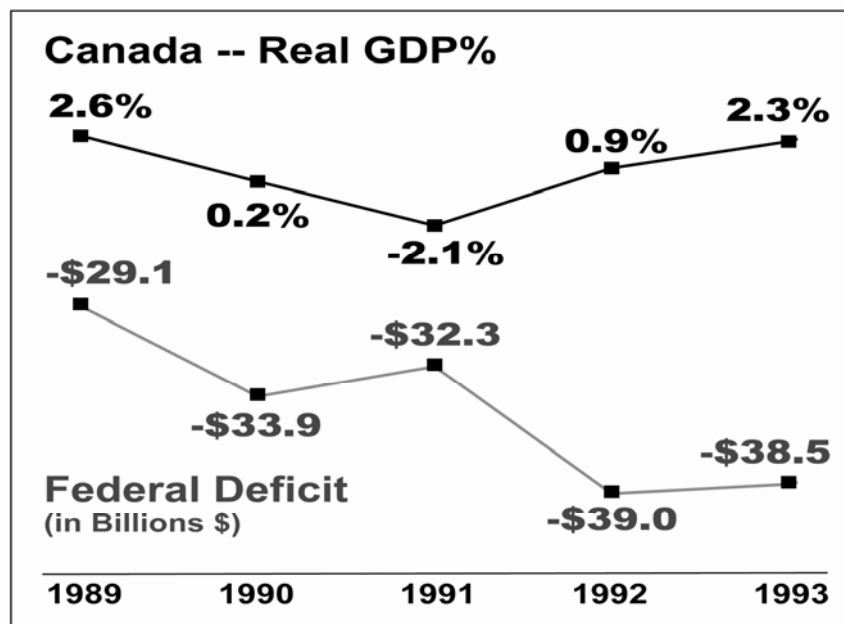
After all, when governments run deficits they are essentially passing the bills off to future generations through the form of higher taxes.

Manitoba is not at war and is not in the middle of a severe natural disaster. Therefore, the budget should be balanced for 2010-11.

While it is true that the global economy has slowed, deficits, contrary to what some spending advocates suggest, do not guarantee growth.

Consider deficits run by the federal government between 1989 and 1993, and the nation's corresponding growth rate during that period:

Chart 1: Federal government annual deficits vs. Real GDP growth (1989-93)



In December 2009, upon learning of the \$602 million core government deficit, the CTF released a "Five-Point Action Plan" to address the deficit.

The CTF urges the provincial government to act on the recommendations in the five-point plan. They include:

Two-Year Wage Freeze for Public Servants – We urge the government to follow in the footsteps of New Brunswick and implement a two-year wage freeze for all provincial government employees – from the Premier down to all teachers, nurses, bureaucrats – all government employees in the province. Everyone should do their part.

(see page 9 for further details)

Halt Discretionary Projects – The CTF urges the provincial government to immediately place discretionary capital projects on ice. Upper Fort Gary, Rapid Transit and the new polar bear exhibit are just a few examples of projects that should either be delayed or cancelled outright.

Greater scrutiny over expenditures – A number of questionable expenditures proceeded this year despite assertions by the government that it had “tightened its belt.” For example:

1. *\$175,000 was spent on the new canopy at the Legislature. No one would question the need to protect people who use the ramp on their way into our capital building, but the price was astronomical. Certainly the tender could have been reissued or adjusted to find a cheaper alternative.*
2. *\$15,151 was spent by the Anishinaabe Child and Family Services agency to send five staff on a trip to Nevada and \$35,000 was spent sending several officials to Copenhagen. Fewer staff could be sent to such meetings and told to make notes for sharing once they return.*
3. *Several agencies and departments are still buying promo t-shirts, mugs and other giveaway merchandise.*
4. *The CTF uncovered that some agencies were handing out [“show up for work bonuses.”](#)*

All-party committee to review all expenditures, determine efficiencies – As recommended by the CTF in our [2009 pre-budget submission](#), an all-party committee should be struck to carefully review all areas of government spending and determine better ways of delivering government services.

Most promising about this option is that behind closed doors last year, all three parties expressed a willingness to work together and review provincial spending.

(see page 10 for further details)

Introduce a fraud and waste hotline – The [City of Toronto](#) and other jurisdictions have introduced fraud and waste hotlines which have helped identify and prevent government waste.

Recommendation 2: End Bracket Creep

Indexing our personal income tax system to the rate of inflation is the CTF's number two priority for the 2010 budget.

The cumulative effect on taxpayers of our non-indexed system is staggering. Had our system been indexed in 1999, the CTF estimates Manitobans would have saved over \$66 million in income taxes annually as of 2009. Below is a table that depicts how Manitoba's tax brackets have not kept up with inflation.

Table 1: Tax Thresholds: Adjusted for Inflation

	Inflation	Basic Personal Exemption	Lower Bracket	Upper Bracket
1999	2	\$6,794	\$29,590	\$59,180
2000	2.5	\$6,930	\$30,182	\$60,364
2001	2.7	\$7,103	\$30,936	\$61,873
2002	1.5	\$7,295	\$31,772	\$63,543
2003	1.8	\$7,404	\$32,248	\$64,496
2004	2	\$7,538	\$32,829	\$65,657
2005	2.7	\$7,688	\$33,485	\$66,970
2006	2	\$7,896	\$34,389	\$68,779
2007	2	\$8,054	\$35,077	\$70,154
2008	2.1	\$8,215	\$35,779	\$71,557
2009	-	\$8,387	\$36,530	\$73,060
Actual Levels		\$8,134	\$31,000	\$67,000
Difference		\$253	\$5,530	\$6,060

Table 2: The Effect of Bracket Creep – Taxes Paid At Various Income Levels

Income	2009	2009 (Indexed)	Difference
\$10,000	\$129.38	\$102.06	\$27.32
\$40,000	\$3,328.45	\$3,193.29	\$135.16
\$75,000	\$8,143.69	\$7,726.74	\$416.95

Dollars that should stay in the pockets of Manitobans to help them cope with inflation are unfairly taken by the government each year. As "bracket creep" is one of the most stealth and dishonest forms of taxation, the CTF has fought for years to end it across the country.

The federal government and most other provinces have listened, and have adjusted their tax systems accordingly. The CTF strongly recommends Manitoba follow suit in 2010.

Recommendation 3: Introduce a Wage Freeze for Public Servants

The CTF applauds the government for introducing a wage freeze on salaries allotted to cabinet ministers. It is important that elected officials lead by example and show that they are willing to feel the economic pinch – the same one that private sector employees have felt.

The next step is for the government to extend the wage freeze to the salaries earned by all MLAs as well as those earned by all other provincial public sector employees.

The government of New Brunswick introduced a similar measure in their 2009 budget. They implemented a two-year wage freeze for all provincial employees – from the Premier down to the person who cleans his desk and teaches his children.

Due to labour contracts, each union did not necessarily begin the freeze at the same time, but each would see year a two-year wage freeze once its current contract expired.

Considering public employees enjoy lucrative pensions, unparalleled job security, higher levels of pay than comparable positions in the private sector and have enjoyed a decade of generous pay increases, a two-year wage freeze is a reasonable measure.

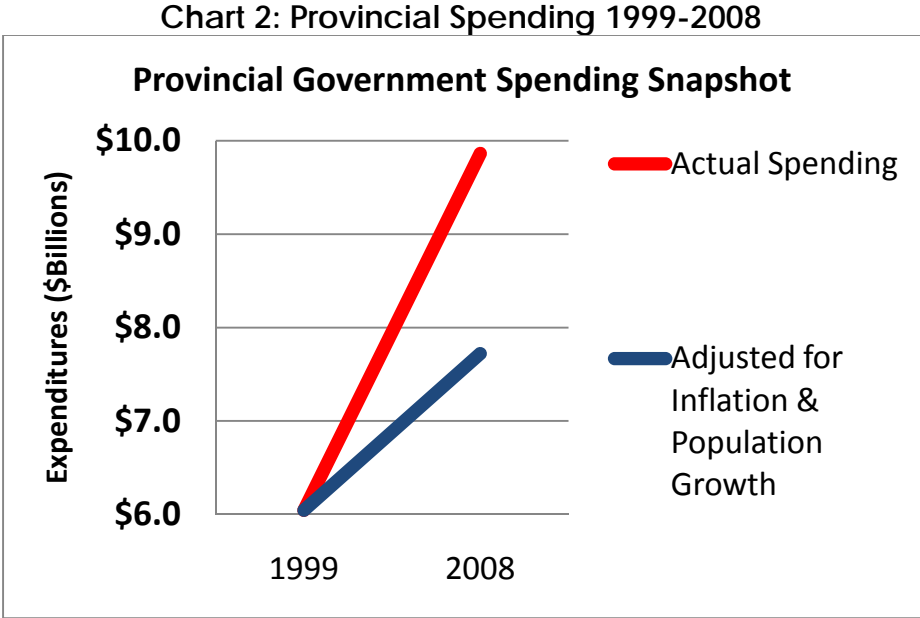
Recommendation 4: Establish an All-Party Committee to Review Spending

Since 1999, government spending has increased at a torrid pace – more than double the rate of inflation and population growth. In addition, our province has become more dependent on federal handouts and Manitobans have paid for the high spending levels through some of the highest income tax rates in Canada.

It’s time to establish an all-party committee to work together and conduct a sober review of all government spending. Fortunately, former Finance Minister Greg Selinger, Progressive Conservative Leader Hugh McFadyen and Liberal Leader Jon Gerrard all expressed a willingness to work with other parties to review spending when the CTF raised the idea in pre-budget meetings in 2009.

Spending Background

Beginning in 1999, had spending increased at the rate of inflation, accounting for population growth, spending for 2009-10 would be more than \$2 billion lower than it was.



In fact, according to CTF research, if government spending had have increased at the rate of inflation and population growth, a surplus of more than \$11 billion would have accumulated over the last 11 years. That’s enough to not only pay off our province’s general purpose debt, more than \$4 billion would be left over.

Dependency on federal handouts has increased substantially over the years. Instead of moving towards being a “have” province, Manitoba has been heading in the wrong direction, becoming more dependent on federal handouts.

Table 3: Federal Transfers as a Percentage of Total Government Revenue

	1999-00	2009-10
Equalization Payments	15.9%	20.6%
Total Transfers	27.8%	37.0%

Based on 1999 budget and 2009-10 Second Quarter update

Committee Mandate

Having all three parties work together to review spending should be welcomed as a positive exercise for any government. Instead of sniping from the sidelines, opposition parties could be part of a constructive effort to improve government spending. Further, politically difficult decisions that governments tend to avoid could be passed if all three parties set aside their differences.

Some of the initiatives that the committee could look at includes:

- 1. Areas for contracting out services
- 2. Assets/land sale opportunities
- 3. Programs which are ineffective
- 4. Programs which aren't core services
- 5. Best practices from other jurisdictions

Recommendation 5: Halt West Side BiPole 3 Line

The west side bipole route cannot be defended on an engineering, economic or environmental basis.

In fact, analysis released by the CTF and engineering and environmental experts in October 2009 shows several instances of where the government’s own data contradicts statements by the government as to why the line must be built on the west side.

Myth	Reality
Caribou herds will be hurt if the line is built on the east side	<ul style="list-style-type: none"> - According to provincial government reports there are “at-risk” herds on both sides of the province - There is no evidence to show existing bipole lines have hurt caribou herds
The east side area is pristine and would be ruined by a hydro line	<ul style="list-style-type: none"> - <i>Manitoba Hydro</i> already has power lines running through the forest on the east side - Provincial highway maps show winter roads running through the forest - The province is going to make the roads all season roads - Provincial mining maps show the area has already been disturbed by mining activity - Provincial tourism books show there are fly-in fishing camps in the area
A hydro line would ruin the east side’s chance of receiving an UNESCO designation	<ul style="list-style-type: none"> - Even with a new hydro line, the area would still be far less developed than Banff National Park, also an UNESCO World Heritage Site - Former UNESCO President Jim Collinson has stated repeatedly that a power line would not prohibit designation of the area
It’s too difficult to negotiate with aboriginal communities on the east side	<ul style="list-style-type: none"> - The government has negotiated with aboriginal communities to build the hydro dams the new power line is going to connect to, certainly it could work with the other aboriginal communities

The west side line is estimated to cost Manitoba ratepayers \$1 billion more than the east side option and will tear up 400-600kms more of our environment. That is a billion dollar political decision that Manitobans simply cannot afford. Especially during this period of economic recovery, the government should reverse its decision.

Recommendation 6: Create Opportunities for the Private Sector/Improve Consumer Choice

The private sector is the driving force behind any successful jurisdiction. Unfortunately there are many barriers that prevent businesses from expanding or locating in Manitoba.

Below are some industries that are being held back by government “policy handcuffs” and, if given the opportunity, could provide billions of dollars in private sector investment, taxes and thousands of new jobs.

Private Sector Hydro Development

Manitoba Hydro has a virtual lock on hydro development in the province. While Manitobans have heard for decades that hydro development is our equivalent to “Alberta’s oil,” development has been quite minimal over the last 20 years.

By encouraging private sector development of potential dam sites, the provincial government could see a massive investment of private sector dollars, the creation of hundreds of new jobs and millions in annual taxes. Further, just as other provinces have done, the government should charge the companies “water rental fees” for the right to use our waterways.

Increase Private Health Care

Allowing private sector health care firms to deliver more services in Manitoba would help the provincial government and its citizens in many ways.

First of all, each year thousands of Manitobans head to the United States and other jurisdictions to access health care. They do so because they are either not satisfied with the services offered by Manitoba’s public system or the potential for waiting many weeks for such services. Each visit means that thousands of dollars unnecessarily leave Manitoba and support other communities.

While some like to fear monger and claim that allowing the private sector to deliver health care services will destroy the public sector, it is important to note that the private sector already delivers a number of health care services.

Chiropractors, physiotherapists and dentists are already providing private health care services alongside the public system.

Allowing the private sector to expand delivery of health care services would not only mean more jobs and an increase to our tax base, it would help take the

strain off a public system that continues to be a black hole of government spending.

Further, the *Supreme Court of Canada* made it perfectly clear that the private sector should not be feared, but embraced. The court declared that:

“democracies that do not impose a monopoly on the delivery of health care have successfully delivered...services that are superior to and more affordable than the services that are presently available in Canada. This demonstrates that a monopoly is not necessary or even related to the provision of quality public health care.”

Open up the Liquor Industry

Alcohol sales in Manitoba truly are a mixed cocktail. The *Manitoba Liquor Control Commission* generally has a lock on the sale of spirits and wines in large urban centres. However, smaller communities can generally sell such products in private stores. Across the province private beer stores are permitted to sell only beer products and a handful of private wine stores are allowed to sell wine.

While the government urges Manitobans to reduce their “carbon footprints”, the Province’s bizarre set of rules which govern liquor sales ironically force citizens to make separate trips to purchase their groceries and their choice of alcohol.

Reducing the government’s control in this area, and allowing private alcohol stores to expand freely would not only improve the selection of products available, it would improve convenience for citizens and potentially increase the government’s bottom line through income taxes, sales taxes and alcohol taxes.

Opening up Vehicle Insurance to Competition

Some Manitobans love *Manitoba Public Insurance (MPI)*, while others are not so fond of its service. Unfortunately for those that would rather purchase their automobile insurance from another provider, they cannot.

MPI’s monopoly on providing vehicle insurance is detrimental for Manitobans as the state-run provider does not face the forces of competition and innovation.

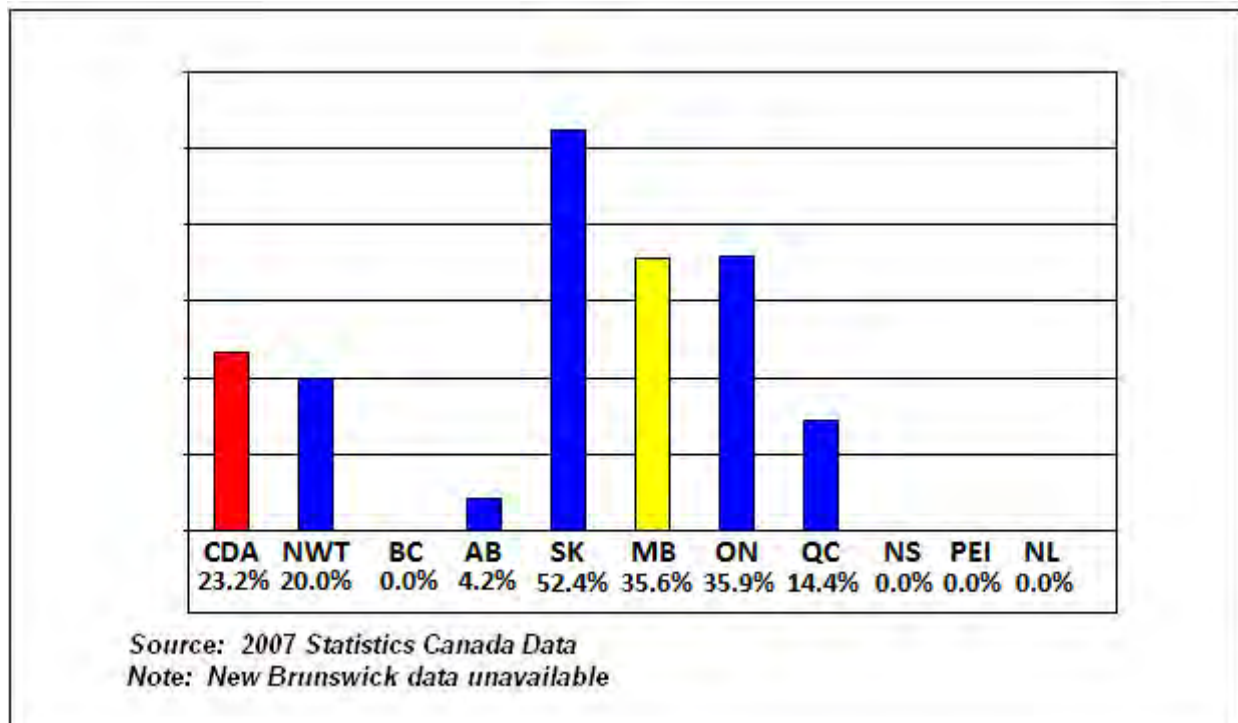
By opening up this industry to competition, Manitobans would be given choice when purchasing vehicle insurance. Further, MPI’s customer service levels would be forced to improve or it would face the threat of losing its customers.

Recommendation 7: Develop Long Term Targets for Eliminating School Taxes and Pursue Fundamental System Reform

School taxes are one of the most archaic forms of taxation in the province as they are completely insensitive to ability to pay. Unlike income taxes, school tax bills must be paid whether someone loses their job or have received a significant pay cut. Citizens should not be forced out of their homes because they can't afford their school tax bill.

For those reasons and other aspects of the archaic form of taxation, the CTF urges the government to table long term targets for phasing out school taxes. As 2007 Statistics Canada data shows, Manitobans pay some of the highest school taxes in Canada. Phasing out the tax would certainly make Manitoba a more desirable place to live.

Chart 3: School Taxes as a Percentage of Total Revenue From School Taxes and Provincial Education Spending

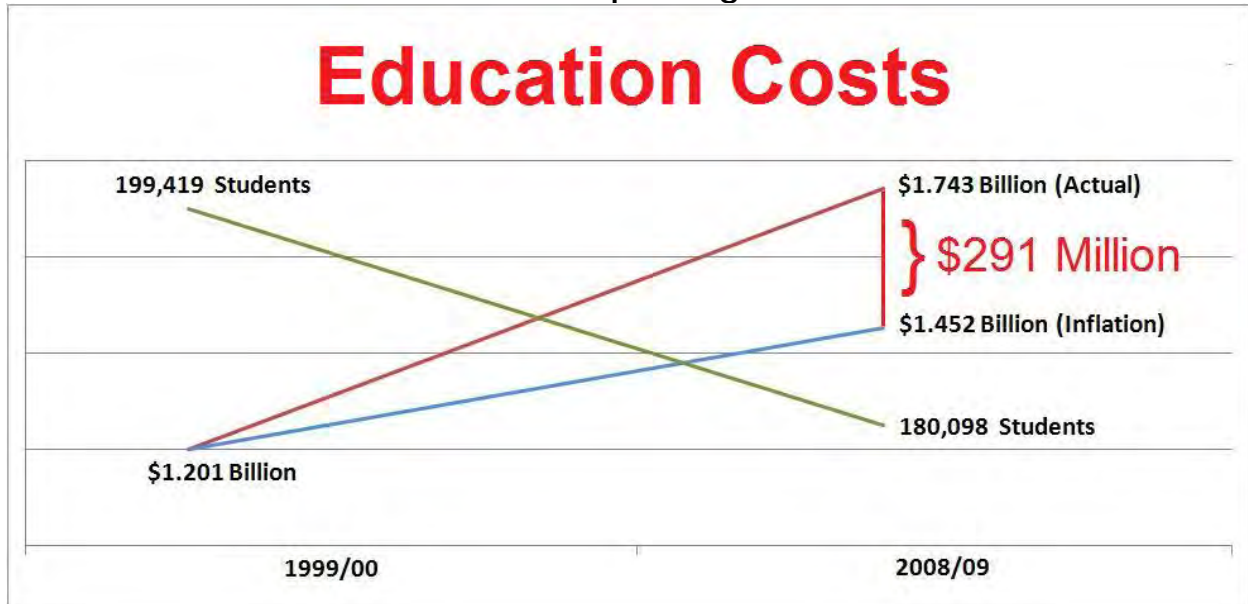


** School tax revenue as a percentage of total revenue raised by school taxes and dollars spent by the provincial government on K-12 education, is the third highest in Manitoba. At 35.6%, Manitoba's rate is significantly higher than Alberta (4.2%), B.C. (0%), Quebec and most Maritime provinces.*

Phasing out the tax will not be easy. After all, education spending has been out of control over the past decade.

According to provincial data, enrolment dropped by almost 20,000 students from 1999-00 to 2008-09 while expenditures increased from \$1.201 billion to \$1.743 billion. Despite a 10% drop in enrolment, costs have increased by 45% - more than \$291 million above the rate of inflation.

Chart 4: Education Spending vs. Enrolment



As recently noted in the *Winnipeg Free Press*, while the number of students continues to decline, the number of full-time teachers in Manitoba has increased by 136 over the past two years.

Fundamentally, Manitoba’s education system is broken. We urge the government to pursue fundamental reform of the system.

Recommendation 8: Develop Long Term Targets for Eliminating the Payroll Tax

The payroll tax is nothing short of a tax on jobs. Applicable on payrolls above \$1.25 million, the tax serves as a disincentive for companies looking to hire more workers or locate here. After all, Manitoba is the only western province to levy a payroll tax.

Table 4: Payroll Taxes in Western Canada

Province	Payroll Tax
British Columbia	NO
Alberta	NO
Saskatchewan	NO
Manitoba	YES

Every dollar that is left in the tills of businesses is a dollar that they can use to expand, hire more workers, pay existing employees more and invest in their operations – all taxable measures.

The CTF realizes the payroll tax cannot be eliminated overnight, but even signalling a long term target for the elimination of the tax would send a very positive signal to the business community. It would certainly help with Manitoba’s recovery from the global economic slowdown.

The CTF recommends setting a target for the elimination of the payroll tax within the next ten years.

Recommendation 9: Develop Long Term Targets for Reducing Personal Income Taxes

According to the CTF's 2010 income tax calculator, at the \$35,000 income level, Manitobans pay more income taxes than individuals in all other provinces with the exception of Quebec. At the \$45,000 and \$60,000/yr income levels, Manitobans pay the third highest income tax levels in the country.

Table 5: Income Taxes Payable at \$35,000, \$45,000 & \$60,000

\$35,000	\$45,000	\$60,000
\$8,273 (QC)	\$12,178 (QC)	\$18,077 (QC)
8,132 (MB)	10,975 (NL)	17,181 (NS)
7,863 (PEI)	11,668 (MB)	16,965 (MB)
7,822 (NS)	11,561 (NS)	16,879 (PEI)
7,664 (NB)	11,457 (PEI)	16,443 (NB)
7,575 (AVG)	11,168 (NB)	16,359 (SK)
7,551 (SK)	11,057 (AVG)	16,304 (AVG)
7,444 (NL)	11,018 (SK)	16,265 (NL)
7,111 (BC)	10,252 (AB)	15,137 (AB)
6,987 (AB)	10,184 (ON)	15,099 (ON)
6,899 (ON)	10,112 (BC)	14,638 (BC)

As government officials often boast about Manitoba's "low cost of living," one could assume that government services would be cheaper than most other provinces. However, the income tax bills that Manitobans pay to support government services are among the highest in Canada. It simply doesn't add up.

High income taxes reduce the ability of Manitobans to save, pursue entrepreneurial activities, support our local economy and stay off of government assistance programs.

Part of Manitoba's high income tax problem is attributed to our province's low basic personal exemption (BPE). The BPE is of course the amount one can earn before paying income taxes.

Table 6: Basic Personal Exemptions Levels Across Canada (2010)

Province	Basic Personal Exemption
Alberta	\$16,825
Saskatchewan	\$13,348
British Columbia	\$11,000
Quebec	\$10,505
Average	\$10,130
Ontario	\$8,943
New Brunswick	\$8,777
Nova Scotia	\$8,231
Manitoba	\$8,134
Newfoundland	\$7,833
Prince Edward Island	\$7,708

As you can see in the chart above, Manitobans begin paying provincial income taxes at a mere \$8,134 – far below the national average.

As noted earlier, the basic personal exemption has not kept pace with inflation over the past ten years. The CTF recommends not only indexing the basic personal exemption for inflation, but developing a target of reaching \$15,000 for this benefit within the next five years.

Recommendation 10: Develop a Long Term Target of Becoming a “Have” Province

Over the past ten years Manitoba has become more dependent on equalization payments from other province. In 1999, 15.9% of the province’s total revenues came from equalization payments, as of the province’s second quarter statement, that figure had climbed to 20.6%.

While the economies of provinces that pay those funds recently declined, it showed just how precarious our province’s financial footing has become. Clearly, Manitoba is heading the wrong direction.

It is dangerous for the provincial government to depend on those dollars year after year. Our province is rich with resources and entrepreneurs; by removing the barriers that prevent them from driving our province even more – high taxes and punitive regulations – we could eliminate our dependence on such funds.

The CTF is once again recommending the provincial government follow New Brunswick’s lead and develop a goal of becoming a “have” province.

Obviously it cannot happen overnight. That is why New Brunswick set a long-term goal of 2026. Manitoba should pursue the same long term thinking.

Part IV: Conclusion

Manitoba needs to go in a new direction. Spending has been on an unsustainable tear over the past decade and it has cost Manitobans dearly; through paying some of the highest taxes in Canada.

Worse yet, Manitoba is more dependent on federal transfers than we were ten years ago; including higher dependence on handouts from wealthy provinces (equalization payments).

The Manitoba government should set course for a new direction. It should begin by taking a sober look at spending and establish an all-party committee to work together to review all government expenditures.

The government should especially look at reforming school funding. Over the past decade property taxes have skyrocketed, as has school funding, while the number of students in the system has dropped off.

Getting spending under control would help the government reduce taxes and allow Manitobans to keep more of our hard earned incomes. This would provide citizens with more opportunities to pursue entrepreneurial activities, save for tomorrow, support our local economy and stay off of social services.