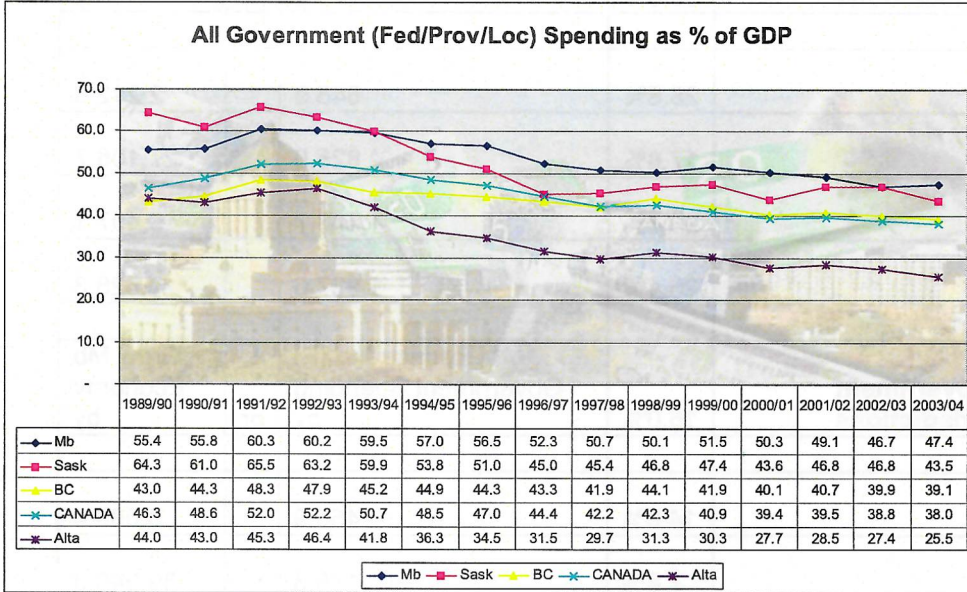




WANT THAT SUPERSIZED? MANITOBA'S PUBLIC SECTOR



- In 1965, Manitoba's public sector, measured as a percentage of Gross Domestic Product (GDP) was the smallest in western Canada. By the 1993, it was the largest. During the 1990s, all four western provinces were forced to retrench their spending as a percent of their economy, with the biggest adjustments happening in Alberta and Saskatchewan and the smallest in Manitoba.
- In 2003/04, combined local, provincial and federal government spending as a percent of the economy was 47.4% in Manitoba¹, compared to 38% nationally. Still the largest in western Canada, that means that Manitoba's total government spending as a percent of the economy is 24.6% higher than the Canadian average.

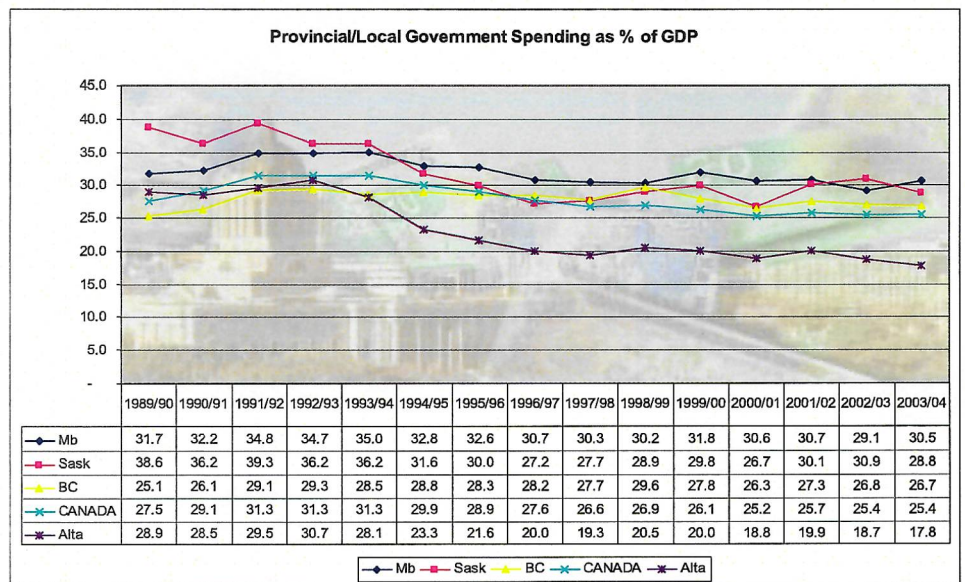
- When broken down further, combined

provincial-local spending is 20.4% higher than the average. Federal spending in Manitoba, at 16.8% of GDP, is a startling 35.5% higher than the Canadian provincial average of 12.7%. Ottawa spends 14.5% of GDP in Saskatchewan, 7.8% in Alberta, and 12.4% in BC.

- The table at the bottom shows the comparative adjustments required, either in reduced spending or economic growth, to bring public expenditures in Manitoba to the smaller size in the three other western provinces and at the Canadian average.

OBSERVATIONS:

- There is ample room to reduce government spending in Manitoba to bring it to average levels in Canada. This is contrary to various reports about the "under funding" or "starving" of public services at both the local government and provincial government levels.
- A disproportionately high federal spending presence in Manitoba is likely distorting and politicizing the provincial economy.
- Many of Manitoba's policy challenges, like low growth, demographic decline and Canada's lowest business investment levels are tied to the province's comparatively oversized public sector and its resultant higher tax burdens. Strong evidence suggests a slimmer provincial government would result in more growth.
- Economists estimate that for every ten percent points of government spending there is a corresponding one percent decrease in economic growth. With total government expenditure in Alberta at 25.5% compared to Manitoba's 47.4%, this suggests a 2% per annum difference in annual economic growth due to the higher burden of government. With compounding, the comparative growth penalty over one decade for Manitoba is about 22%.



¹ There are definitional issues related to government spending. For example, the dividends from crown corporations are incorporated into provincial spending statistics, while their payrolls are not. We argue that the crown corporations (like MPIC and Manitoba Hydro) are part of the public sector since they are under political ownership. If their presence was recognized in the government spending ledger, total government spending as a portion of provincial GDP would likely push past half the economy- among the highest in the world.

- These figures illustrate the counter-productive nature of Canada's dysfunctional equalization system. Only the Maritime provinces, also dependent on transfer payments, have larger public sectors than Manitoba. Equalization leads to disproportionately higher levels of government spending which feedback into lower growth rates, therefore perversely increasing the disparity gap with the wealthier provinces. In the West, Manitoba receives the most from equalization, its size of government is the largest, and its rate of economic growth the most anemic.

Reducing Manitoba Provincial-Local Government Spending to Sizes in Other Jurisdictions		Reduce Mb (P-L) Government Spending by	or	Grow Mb Economy by
To achieve:	30.5%			
Sask % of GDP	28.8%	645.9		2,242.6
Alberta % of GDP	17.8%	4,825.0		27,106.7
BC as % of GDP	26.7%	1,443.7		5,407.1
Canada % of GDP	25.4%	1,937.6		7,628.3
Reducing Manitoba Federal Government Spending to Sizes in Other Jurisdictions		Reduce Mb (F) Government Spending by	or	Grow Mb Economy by
To achieve:	16.0%			
Sask % of GDP	14.8%	455.9		3,080.4
Alberta % of GDP	7.8%	3,115.3		39,940.3
BC as % of GDP	12.4%	1,367.7		11,029.9
Canada % of GDP	12.7%	1,253.7		9,871.9
* all figures in millions of dollars, Manitoba 2003 GDP = \$37,992 million				

SOURCES: Statistics Canada, Public Institutions Division, Financial Management System; The Fraser Institute