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Manitoba is in a negative feedback loop

Manitoba's chronic reliance on transfer payments, its ever-inflating public sector and its increasing concentration of sectoral decision-making power in the hands of a few on Broadway is having an enervating effect on the province, Law Professor **Bryan Schwartz** argues in *The Suppliant Society*. It doesn't have to be that way, Manitoba can change for the better, Schwartz demonstrates in this series for the Winnipeg Free Press and the Frontier Centre for Public Policy. The series starts today and continues weekly on Saturdays, ending on March 5. Footnoted versions of this article can be found at winnipegfreepress.com and at www.fcpp.org

Several years ago, the government of Manitoba proposed the provincial slogan "Spirited Energy" to signify the strengths of Manitoba society. There are no doubt many, including friendliness and respect for ethnic diversity (1). However, compared with other provinces, in many respects, we are doing poorly. Personal incomes are lower, (2) and taxes are higher (3). Productivity and ratings as a competitive business environment are lower (4). Crime rates are frightening (5). Overall conditions in many First Nations communities are intolerable. Our health care system combines relatively high costs with poor out-comes (6). Our major university continues to rank dead last in its category in the leading national quality survey (7). Infrastructure is crumbling. The provincial debt is mounting (8). A major cause of this distressing situation is the lack of balance and diversity in Manitoba's institutions, and communities, which causes individual freedom, choice and prosperity to suffer. The commercial, non-profit and local government sectors here are overshadowed, and to a large extent controlled, by the provincial government.

One way to gauge the malaise is to survey the supposed remedies. The province offers tax rebates on tuition for students who stay or come to Manitoba after completing post-secondary degrees (9). Would a materially and spiritually thriving community have to subsidize even its own emerging talent to stay? An apologist might argue that we cannot begin to compete with a province full of oil and gas, but this is not much of an excuse. We have hydroelectricity, and it is renewable. It could generate much better returns to the people of Manitoba if Hydro's mandate were clarified and its governance improved. Instead, the Crown corporation piles up debt and wastes hundreds of millions of dollars on boondoggles such as a power line on the west side of the province. Manitoba's natural endowments also include forests, farmland and rivers, but free, diverse and well-governed societies can achieve prosperity even without natural resources.

Bitter experience shows that resource-rich, but corrupt or oppressive societies can remain poor.

Manitoba is in a negative feedback loop.

Our economy underperforms, and as a result, it receives massive federal subsidies through equalization payments (10). These subsidies encourage government waste, mismanagement and the stifling of our civil society by providing no incentive to improve beyond the status quo.

Do not be overly impressed by talk about our growth and stability over the last few years compared with other provinces--much of that "growth" comes from provincial public spending, fuelled by federal transfers and equalization. That money in turn comes from provinces that have stronger economies. Look around at the major buildings and projects in Manitoba over the past 10 years, and ask yourself, "Which ones are not government owned or subsidized?" Federal transfers, based on poor performance, can harm as well as heal. If a government must earn its money by taxing the commercial sector, it has a strong incentive to create a climate where that sector can thrive so that tax revenues grow. However, federal equalization payments instead compensate provinces with weak economies and go straight into the hands of the provincial government. A private sector weakened by bad public policy must go cap in hand to the province for subsidies.

Non-profit fundraisers also must rely more heavily on the public purse when private donors have limited resources or have skipped the province.

Fortified with federal money, rather than revenues generated by a vibrant economy, the provincial government in Manitoba has increased its control over massive areas of society:

- Regional health authorities have increasingly taken control over the delivery of health care, rather than just its funding and co-ordination. Non-profit organizations that used to run hospitals and seniors homes have lost most of their influence to centralized government control;

- * The universities are hamstrung in their ability to raise money through tuition, and hence find innovative ways to improve quality and support less-advantaged students. By imposing a tuition freeze, the province increased its role as funder, and with that, its role as decision-maker;

- * The City of Winnipeg and other municipalities have been thwarted in their attempts to achieve a more secure revenue base that reflects their responsibilities. Heavy-handed provincial interference (some of it partisan in nature) in local decision-making continues.

- * Political competition is stifled by extremely low spending limits for political parties, while the government continues to use public funds for self-serving media campaigns;

- * Selective subsidies to big business are used to lure and retain investment, rather than creating conditions for a more generally inviting and competitive business sector.

Awash with federal money, the provincial government can in many respects provide the most remunerative jobs with the best benefits. Critics from "have" provinces complain that Manitoba has more, and better paid, workers per capita than the provinces that are sending it millions of dollars.¹¹ The private sector cannot readily compete with the security, pay, perks and pensions offered by the provincial public sector.

In my profession, law, there must be a strong and independent private bar, replete with champions of the little guy who want to challenge big business, big unions and big government.

However, I have seen time and again, that many of the most talented young lawyers in this province leave the stress and uncertainty of private practice for government work where they are restricted from challenging the status quo.

Over and over again I hear from people -- business people, charitable organizations, academics -- that they regard some government measures as misguided or oppressive but that only bad can come from objecting publicly. The first rule of lobbying in this supplicant society: Only a naf criticizes his patron.

A Winnipeg Free Press editorial on Dec. 8, 2010, provided a stunning epitome of the supplicant society's effect on free expression. A group of retired engineers had written an open letter protesting the government's forcing Hydro to build Bipole III on the west side of Lake Winnipeg. "They deliberately excluded young engineers who might seek careers at Hydro. After 11 years in power, has it come to this? That professions and careers can be endangered by pointing out that the emperor has no clothes"?

A genuinely pluralistic society is one where individuals can express themselves freely.

They can create a variety of organizations to fulfill their needs, and they can run them with a real degree of independence. Real institutional diversity allows for experimentation, innovation and competition -- and with that, a society that is not only free and varied but also prosperous.

In the following series of articles, we will explore some of the practical means of reforming Manitoba so that it is transformed from a supplicant society to one that is more free, fair, pluralistic and prosperous.

Endnotes

1.) The author wishes to thank Kyle Lamothe for his assistance with both research and analysis in the preparation of this series.

2.) Statistics Canada, "Median total income, by family type, by province and territory (All census families)." Available online at <http://www40.statcan.gc.ca/l01/cst01/famil108a-eng.htm>, using 2007 data as it is the most recent available. Note: Manitoba sits ahead of the Atlantic Provinces (Newfoundland, PEI, New Brunswick,

Nova Scotia), Quebec and Nunavut. Manitoba is well below the national average (national at \$66,550, Manitoba at \$62,070).

3.) TaxTips.ca, "Average tax rate by province/territory (total taxes payable divided by total employment income) 2010." Available online at <http://www.taxtips.ca/taxrates/taxcomparison/taxcomparison2010.htm>. Note: For nearly every tax bracket, the average tax rate is either the highest, second highest or nearly tied for second highest. Quebec is the highest across most brackets, with Manitoba and PEI very close behind. See also Mil-agros Palacios, Alex Gainer, Charles Lamman and Niels Veldhuis, "Canadian Provincial Investment Climate Report: 2009," Fraser Institute, December 2009, Table 6: Canadian Provincial Investment Climate Index, 2009 on p. 17. Manitoba is in 10th place for Personal Income Tax compared with all other provinces, in 8th for Corporate Capital Tax and in 5th place for Corporate Income Tax.

4.) Ibid. Figure 1 on p. 2. Manitoba ranks 6th overall as a preferable environment for attracting and nurturing investment compared with other provinces. It is behind Ontario, Newfoundland, B.C., Saskatchewan and Alberta.

5.) Statistics Canada, "Crimes, by type of violation, and by province and territory." Available online at <http://www40.statcan.gc.ca/101/cst01/legal50c-eng.htm>. Per capita information is staggering. Per 100,000 people, in 2009, Manitoba had 10,517.82 Criminal Code violations compared with the national average of 7,223.80, which is higher than all other provinces except Saskatchewan. Also worth noting is Violent Criminal Code Violations with Manitoba at 2,152.52 and the national average at 1,313.83. Most staggering are homicides: Manitoba at 4.66, national average 1.81.

6.) "National Health Expenditure Trends 1975-2009," Canadian Institute for Health Information (CIHI). Available online at http://secure.cihi.ca/cihiweb/dispPage.jsp?cw_page=PG_1595_E&cw_topic=1595&cw_rel=AR_31_E on page 148. Also see CIHI "Health Indicators 2009." Available online at http://secure.cihi.ca/cihiweb/dispPage.jsp?cw_page=AR_152_E&cw_topic=152 on p. 98 ("Wait Time for Hip Fracture Surgery"), p. 124 (Number of general/family and specialist physicians), and p. 126. See also "Health Indicators 2008." Available online at http://secure.cihi.ca/cihiweb/dispPage.jsp?cw_page=AR_152_E&cw_topic=152 on pages 48, 50 ("Wait Time for Hip Fracture Surgery") and "Health Indicators 2007." Available online at http://secure.cihi.ca/cihiweb/dispPage.jsp?cw_page=AR_152_E&cw_topic=152 on p. 50. See also Ben Eisen and Dr. Arne Bjornberg, "Canada Health Consumer Index 2009," Frontier Centre for Public Policy: Policy Series No. 78, (December 2009) on p. 19. Manitoba ranks seven out of 10 amongst the provinces on many measures of health care performance.

7.) Maclean's On Campus rankings of Medical Doctoral Universities. Available online at <http://oncampus.macleans.ca/education/2009/11/05/our-19th-annual-rankings/>. The University of Manitoba ranks dead last out of 15 schools.

8.) Pascal Gauthier, "2010 Manitoba Budget," TD Economics. Available online at <http://www.td.com/economics/budgets/mb10.pdf>. (Summary of 2010 budget and a breakdown of provincial debt

and debt-to-GDP ratio since 2006-2007.)

9.) Province of Manitoba, "Tuition Fee Income Tax Rebate. Available online at http://www.gov.mb.ca/tuition_rebate/index.html.

10.) See Manitoba Hydro, "Financial Statistics (2009 fiscal year ending March 31, 2009." Available online at

http://www.hydro.mb.ca/corporate/ar/2008/ar_0809_10VrFinStats.pdf. Long-Term Debt of Hydro expanded to \$7.218B in 2008, \$6.822B in 2007.

11.) Ted Tkachyk, "West route for Bipole III wrong," Winnipeg Free Press, June 18, 2010, A17. Available online at http://www.winnipegfreepress.com/opinion/letters_to_the_editor/west-route-for-bipole-iii-wrong-96636839.html. This is a letter to the editor by the Reeve of the RM of Grey who states, "That line will be considerably longer (1,290-1,485 km vs. 885 km); more expensive (\$1.1 billion vs. \$650 million) and with an estimated power loss of \$50 million. In addition, 2,700 towers will be needed, rather than 1,600. This may result in higher possibility of weather-related damages." This letter is not the best source, but it is a good summary of the facts.

12.) Department of Finance Canada, "Federal Support to Provinces and Territories." Available online at <http://www.fin.gc.ca/fedprov/mtp-eng.asp>.

13.) Ottawa Citizen, Editorial, "Manitoba's Equalization Shell Game," February 11, 2007. Available online at <http://www.fcpp.org/publication.php/1689>.

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