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### Underdevelopment is overrated

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 Supplicant Society*. It doesn't have to be that way, Manitoba can change for the better, Schwartz demonstrates in this series published by the Winnipeg Free Press and the Frontier Centre for Public Policy. The series started Jan. 22 and continued weekly on Saturdays, ending today. Footnoted versions of the entire series can be found at [winnipegfreepress.com](http://winnipegfreepress.com) and at [www.fcpp.org](http://www.fcpp.org)

Manitoba's supplicant society is self-perpetuating. A dominating provincial government crowds out and constricts the rest of society -- the business community, non-profits and local government. The dependent communities must then seek provincial patronage. Friends are rewarded; critics learn to be circumspect. The fed-up simply leave. And so it goes... indefinitely?

Our province is propped up by federal transfers. Over \$2 billion a year in equalization payments floods in from the "have" provinces (10). Billions in transfers also come from health and social policy programs available to all provinces, but "have" provinces contribute more to the federal pot, so there is a subsidy element in that as well.

A much-overlooked element in Manitoba's dependency involves First Nations reserves. Ottawa, not the provinces, pays for most of the government services provided to these provincial residents. Yet the population is included in Manitoba's count for the purposes of transfer payments that are supposed to fund provincial services. Someday, First Nations in Manitoba might start asking hard questions about how much of Manitoba's windfall is actually used to assist them.

From time to time, the downpour of federal money abates somewhat. Other provinces may join the ranks of the "have-nots" from time to time, and Manitoba then has to share with them. "Have" provinces may experience downturns and contribute less to the equalization pot. But notwithstanding these temporary ups and downs, can't we continue essentially in the same vein indefinitely?

Manitoba joined Confederation on the Quebec model. Back then, that meant having similar arrangements for bilingualism. But we now follow the Quebec model in many other ways. Both provinces have hydro resources,

both have economies that are largely dominated by the provincial government, both are "have-nots" and both rely heavily on federal transfers. It can be argued that in the interests of national unity, the rest of Canada will always be anxious to be fiscally generous to Quebec, and Manitoba can ride its coattails indefinitely.

There are, however, some risks that the status quo for Manitoba -- it might be unsustainable. For one thing, Quebec's clout within the federation is somewhat diminishing as its share of the national population decreases -- and with it, its representation in the House of Commons. At the same time, the "have" provinces are a growing part of the population, and with that, their representation in the House of Commons is increasing.

Equalization is not simply a transfer from the rich in "have" provinces to the disadvantaged in the "have-not" provinces. The increased federal taxes to support it are borne by the entire populations of the "have" provinces, including the least advantaged members of their societies. The transfer of resources from the "have" provinces also reduces the ability of their governments to address the needs of their own citizens, including those most in need. Indeed, critics of equalization in its current form have pointed out that it often helps "have-not" provinces to deliver better services than are available to residents of some of the "haves." The federal government will eventually have to accommodate these concerns (3).

Equalization is indeed a principle of the Canadian Constitution. It is stated in very general terms, however, leaving wide discretion to Ottawa in determining the level of subsidy and the mechanism for delivering it. The generosity to "have-nots" is likely to decrease in the years ahead, and cash transfers directly to provincial governments may not always be the means of delivering the subsidies that remain.

The Manitoba government has bragged of late about the superior economic performance of Manitoba relative to other provinces (4). The gross domestic product of Manitoba, however, includes government spending that is extensively underwritten by people in the "have" provinces. It is also easier for growth to remain "stable" in a province that is less dependent on its own business sector because it is not as susceptible to downturns in the global economy.

The neighbours are beginning to notice. In 2009, Manitoba was excluded from a joint cabinet meeting of the other three Western provinces. They explained that the trio had common interests including their status as "have" provinces and emerging producing communities (5).

An internal debate has also begun in some of the remaining "have-not" provinces. In 2007, New Brunswick produced a plan to achieve self-sufficiency (6). In late 2010, more voices from government, academic and business in Atlantic Canada warned of the need to overcome its dangerous dependency on transfer payments (7). A committee of prominent Quebec citizens, including Lucien Bouchard, declared in 2005 that the statism and debt levels of Quebec must be reduced in order to ensure a prosperous future for the next generation. Specific reforms to promote quality and efficiency were proposed, including raising hydro rates and university tuitions, with appropriate safeguards for less advantaged residents (8).

Here in Manitoba, the debate itself is stifled by the muffling effect of the supplicant society on bold thinking.

Those fed up with the lack of opportunity and dynamism can simply leave the province. Many do.

The bold choice we must make is to reinvigorate Manitoba by creating a more free and pluralistic society.

Before reform is forced upon Manitoba, it should take the initiative. The debate should not be cast in ideological terms of the "left" against the "right." The supplicant society dampens the prosperity, mobility and choice of the disadvantaged no less than other people. Those relying on publicly funded services would benefit the most from making these services more accessible and more respectful of individual choice and dignity.

Specific measures to implement such a change require thought and consultation. For example, the current equalization system that helps to fuel the supplicant society is well intended but ultimately damaging. It should be reformed to encourage self-sufficiency (9).

It is said that the journey of a 1,000 miles begins with a single step. But even before taking that first step, the traveller must determine the destination and form the resolve to get there. That is for Manitobans to decide -- are we content to remain a supplicant society, or are we determined to become a more vibrant one, with a new dynamism, pluralism and vitality?

#### Sustainable Underdevelopment

1) Manitoba Budget 2010, p. 4.

2) See Frontier Centre interview, November 21, 2007. Available at <http://www.fcpp.org/publication.php/1946>.

3) Bruce Johnstone, "Canada Needs to Rethink Equalization: MacKinnon," Regina Leader-Post, January 27, 2009. Available online at <http://www.fcpp.org/publication.php/2577>.

4) Manitoba Finance, "Manitoba Economic Highlights," November 8, 2010. Available online at <http://www.gov.mb.ca/finance/pdf/highlights.pdf>.

5) Peter Holle, "Getting past Manitoba's 'zombie' economy," Winnipeg Free Press, January 12, 2010. Available online at <http://www.winnipegfreepress.com/opinion/westview/getting-past-manitobas-zombie-economy-81861992.html>.

6) Province of New Brunswick, Office of the Premier Press Release, "Release of Our Action Plan to be Self-Sufficient in New Brunswick," November 23, 2007. Available online at <http://www.gnb.ca/cnb/news/pre/2007e1522pr.htm>.

7) "Maritimes chart new course away from federal handouts," Kathryn Blaze Carlson, [National Post](#), Tuesday,

Nov. 9, 2010.

8) "Clear-eyed Vision of Quebec." Available online at <http://www.pourunquebecclucide.info/documents/manifesto.pdf>.

9) A number of new ideas have been advanced for restructuring equalization in the interests of creating more incentives for growth. The diverse literature includes work by the Frontier Centre on "transformational equalization," available at <http://www.fcpp.org/publication.php/738>; the Atlantic Institute for Market Studies, available at <http://www.aims.ca/en/home/issues/equalization.aspx>; and the C.D. Howe Institute. Available online at <http://www.cdhowe.org/pdf/boothe-1.pdf>.

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