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### **Equalization is killing us with kindness**

*Free money makes Manitoba statist, mediocre*

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TRUDEAU reluctantly included one big "show me the money" clause in the 1982 constitutional package. To win support from some of the have-not provinces in his constitutional adventure, he agreed that "equalization payments" would become part of the "sacred text."

The federal government commits itself in Sec. 36(2) of the Constitution that: "Parliament and the government of Canada are committed to the principle of making equalization payments to ensure that provincial governments have sufficient revenues to provide reasonably comparable levels of public services at reasonably comparable levels of taxation."

Canada's commitment to "equalization payments" is long-standing. In the original 1867 constitution, Canada promised to pay a subsidy to several of the provinces. The treatment of equalization as a general principle goes back to 1940, to the Rowell-Sirois Royal Commission Report, which was largely implemented.

Justifications for the principle might be offered on several grounds. One is that the federal government has more means of raising taxes than provinces, and as long as it is passing on its "extra" revenues to the provinces, should take the opportunity to help the less fortunate. The reality is that provinces have almost unlimited taxing powers, including income and sales taxes. Another argument is solidarity: equalization is a palpable demonstration that Canadians care about each other. The more pointed form of this argument deals with the national unity issue. Would Quebec be more likely to separate if it were not regularly receiving large net transfers from the rest of the country? Another line of argument is that equalization ultimately helps the regions of the country that contribute to it. Taxpayers in Alberta end up subsidizing education in Newfoundland and Labrador, but many students will end up working in more prosperous Alberta.

Whatever the theoretical justifications, equalization has had some very negative impacts in practice -- especially for its "beneficiaries." Bad things happen when "free money" from Ottawa comes to a "have not" province. Governments do not have to make adjustments to become self-sufficient. That would include controlling levels of taxation, facilitating high-quality and diverse opportunities for university education, and providing a non-politicized and stable environment for new business investment. Instead, ineptitude and irresponsibility are rewarded with higher transfer payments.

The money from Ottawa is paid directly to the government of a province. Manitoba received \$1.7 billion of equalization this year. The billions in the hands of government means that a poor manager of the economy can still spend on projects that buy the support of the remaining voters. This can mean everything from expanding the public service to infrastructure projects or subsidies for private economic

development. When used to increase public-sector employment and enhance compensation, it can subsidize competition with private-sector employers, thereby making it harder for them to attract the most talented people. With so many in society dependent on government goodwill for their prosperity, who wants to be too critical of whoever is in power? You don't publicly bite the hand that might be feeding you. If you are fed up with high taxes and mediocre public services, you can always leave for more dynamic economic climates, and your vote no longer matters.

In Manitoba, as in Canada generally, it is not the "stick" that inhibits free expression, it is rather the carrot. Social approval for conformist views is always present. But one of the goals of an education system should be to encourage critical thought, independent thinking and the courage to ask questions and speak one's beliefs. The more insidious threat to free expression is the power of patronage. If you live in a society where the economy is dominated by government and a few large institutions, you are likely to be extra careful about not offending a potential grantor or employer.

Case in point: A while back, a friend of mine was being treated badly for resisting some shenanigans in the civil service he was working for in another province. When he went to a lawyer to consult about his employment-law options, he was told that the lawyer could only press the case so far. To press harder, my friend would probably have to get a lawyer from another province. The government is a major source of legal work, and if you lose it, you cannot replace it with another big customer.

A healthy society and political system must be one in which success depends on hard work, creativity and initiative, and not so much on politically driven and unpredictable grants of largesse from government.

Manitoba has reached a state where government places itself at the centre of everything: hands-on manager of the health-care system, overbearing patron of the arts and education, and not-so-silent partner in business startups. Control is maintained by adjusting funding levels and governing directly or by "remote control" (such as appointing a majority of the boards of major institutions like Manitoba Hydro and the University of Manitoba.)

Public support for post-secondary education should primarily finance students, not institutions. Let individuals be free to make their own choices about vocational or academic training, and which institution to attend. Universities can be freed to raise tuition in light of their own needs and ability to attract students. (The experience at my own faculty, law, was that we used much of the increase to subsidize bursaries, making it more accessible.)

Government should be welcoming the entry into Manitoba of innovative providers of health care, not chasing them away or buying them out with public money. Government can keep its role as a "single payer" of certain services, and still welcome diversity and competition.

Social assistance to those in need can be delivered in ways that minimize bureaucratic discretion and maximize the dignity and choice of the recipient. (The federal government's child tax credit is an example -- there are no strings on how a family uses it, no discretion on whether the government allocates it.)

Instead of effectively driving talented people out of the province, Manitoba should be a national trendsetter in attracting trained immigrants -- including ensuring that insular professional bodies

establish fair procedures to determine if immigrants are in substance competent to serve the public, rather than jumping over artificial hurdles set by local protectionists.

The "equalization" system is not the sole cause of the overly statist and mediocre conditions of Manitoba society. It has, however, done its fair share.

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