



*From
supplicant
society to
diversity &
dynamism*

Revitalizing Manitoba

By Bryan Schwartz

A PUBLICATION OF THE FRONTIER CENTRE FOR PUBLIC POLICY



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Inside...

- 1 **Manitoba: The Suppliant Society**
 - 3 **Diversity in Healthcare**
 - 5 **Diversity in Governance: A New Deal for Cities**
 - 7 **School Boards**
 - 9 **Political Diversity: Money Talks and its Language is Incumbency**
 - 11 **Watchdogs or Poodles? Independent Agencies in the Suppliant Society**
 - 13 **Manitoba Hydro: Reforming the Jurassic Crown**
 - 15 **Sustainable Underdevelopment?**
-

Introduction

One of the most important functions of an independent think tank is to inject controversial ideas and thinking into the public dialogue. Several years ago, the Frontier Centre for Public Policy, along with a handful of newer policy research organizations located in Canada's so-called "have-not" provinces began to examine the adverse effects of federal transfer payments on the economic performance of the "have-nots".


A starting point was an interview I did with the Nobel Prize winning economist James Buchanan in 2002. He had written a ground-breaking paper in 1948 which argued that governments should bribe people in slower growing regions to stay where they were. He observed that Canada, one of many countries in the world with a system of equalization transfers, had not followed his advice about how this should be done—which was to simply cut taxes for individuals in less affluent areas. Buchanan was nervous about government to government transfer systems on the grounds that they create a major source of inefficiency that would be fiercely defended by beneficiary politicians and bureaucracies. Indeed, during the last few years various think tanks, including Frontier, have revealed a perverse result where large federal transfers to Canada's "have-not" provinces are supporting public spending levels that are substantially higher than those found in the paying "have" provinces. Where politicians get to spend money without being responsible for taxation, spending has increased.

A strong case can be made that Canada's transfer payment system is harming the economic prospects of recipient "have-not" provinces, particularly Manitoba in Western Canada. The problem is that the flow of transfer money from taxpayers elsewhere has artificially enlarged the size of the public sector in the recipient provinces. By reducing the need for recipient provinces to generate their own source tax revenues, transfers have lessened their need to have competitive tax rates. Higher taxes mean less investment and less job creation which, over time, has led to lower living standards.

Manitoba's inflated public sector has also concentrated substantial resources in the hands of a comparatively few politicians who make decisions that impact the performance of entire sectors of the economy. What has emerged is a society that is politically driven and reliant on discretionary and unpredictable grants of largesse from government. It is a less dynamic society where individual choice, effort, creativity and initiative are suppressed.

The following series of commentaries by University of Manitoba Law Professor Bryan Schwartz explores the debilitating politicization that Canada's well intended equalization system has produced across various areas of public policy in Manitoba and offers some alternative paths forward. Professor Schwartz proposes ways in which by creating greater freedom in the governmental, business and non-profit sectors individuals and groups can better express themselves in distinctive ways and innovate to achieve their objectives. He argues that these reforms would produce a more democratic, diverse and dynamic Manitoba society, and enable the province to move towards self-sufficiency.

Peter Holle, President,
Frontier Centre for Public Policy





Manitoba: The Supplicant Society¹

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.

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 healthcare 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, mis-management 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 healthcare, 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 naïf criticizes his patron.

A *Winnipeg Free Press* editorial on December 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.

Diversity in Healthcare



Last year the United Kingdom government issued a white paper on healthcare.¹ It says it is time to put an end to their equivalent of our regional health authorities (RHAs): decentralize, offer patients more choice and engage general practitioners more in decision-making and bureaucrats less.²

Here in Manitoba, the stranglehold of RHAs over the system only increases. The Filmon government created these bodies in an attempt to achieve more co-ordination and efficiency in the delivery of healthcare.³ They were supposed to provide a level of autonomous governance, rather than have the tough and important decisions all made by the higher levels of elected politicians.

The law setting up RHAs did not require them to take over operations and actual delivery of hospital and other care.⁴ RHAs could instead have acted as funders and regulators. Hospitals, many of them run by charitable organizations, could have continued to provide their distinctive ideas and voices. Neither the RHAs nor the government has provided any hard and systematic evidence that the takeover of facilities has promoted quality or saved money. Manitoba spends more per capita on healthcare than most other provinces and, by many measures, achieves among the poorest outcomes.⁵ What progress has been achieved is principally the result of infusions of federal money: When money poured in to shorten waiting times, they did. However, as the money receded, the waiting times expanded.⁶

The Doer government established a committee a few years ago to review RHAs.⁷ As was typical of the Doer government, it structured the review process to minimize any risk of searching criticism or uncomfortable recommendations. The three-person “external” review panel included a former Winnipeg Regional Health Authority board member,⁸ relied on survey results from mostly RHA employees and board members⁹ and was advised by a group that included six senior RHA and government insiders.¹⁰ The panel predictably recommended more of the same centralized command and control by the RHAs,¹¹ while criticism and ideas from outside submissions were mostly ignored.¹²

What public policy thinking requires, instead, is a new willingness to think innovatively and to consider how patient choice and institutional diversity can help, rather than hinder, cost control. This is what an Alberta MLA concluded in his recent report on reforming that province’s healthcare legislation and system: Listen to what the patients want.¹³

In 2002, a Senate committee headed by Michael Kirby produced a thoughtful report titled *The Health of Canadians*.¹⁴ It recommended, among other things, that RHAs act as service purchasers, not providers. A variety of commercial and non-profit providers would compete to obtain funding based on quality and price. A more diverse and competitive environment would produce both efficiencies and innovation.¹⁵

The RHAs would not be in the conflict of interest that arises when they are both funders of healthcare and service providers. Although the current RHA system has difficulty efficiently delivering excellent healthcare, it is a very attractive model for the current government. The government can selectively attribute difficult decisions to the RHAs but step in and take credit for popular results when it chooses. RHA boards consist of appointees of the government: friends and supporters of the government can be appointed and potential critics excluded. The province has taken few steps to improve its process of government agency appointments generally. This could be accomplished by identifying the merit principle as central, setting minimum qualifications for positions and insisting on transparency of the educational, affiliation and career backgrounds of those who serve.¹⁶

The command and control of the system by government includes labour relations. The government attempts to buy the support of healthcare professionals during the relatively good times. The province has received a lot of new money from the federal government over the past decade: some to relieve the so-called fiscal imbalance felt by the provinces generally, the rest to promote healthcare in particular.¹⁷ The provincial government passed on much of the boon in the form of better pay for healthcare bureaucrats and providers.¹⁸ They are generally skilled and dedicated contributors to our society and should be paid fairly—but has the quest for voting support from public sector employees to some extent distorted government planning and spending?

The healthcare professions, like other bodies, are partly self-regulating,¹⁹ which is an important value. Professional standards of excellence and ethics can be defended by a profession in the face of misguided government interventions. However, the ability and willingness of the professions to act as a voice independent from the state is compromised when an increasingly large percentage of practitioners are government employees.

Academics should always be a reliable source of independent and expert insights, forthrightly expressed. In Manitoba, many healthcare professionals have a dual role: employees or contractors with an RHA and with the University of Manitoba. If RHAs choose to control public comment and dissent by experts in connection with their RHA duties, their freedom to speak out as academics may also be seriously impaired. The report of the Canadian Association of University Teachers panel on the Dr. Larry Reynolds case raises, without resolving, some troubling questions in this regard.²⁰

The Kirby model points one route to a return in Manitoba to a system in which there is institutional diversity in healthcare delivery. In most northern European countries and, more recently the United Kingdom and British Columbia, other models have been proposed to reduce the control of central bureaucracies—systems in which patients and primary-care providers would have a larger role. It is time for Manitoba to review its own healthcare system and emerge with a model that provides more opportunities for providers to find innovative and efficient ways of providing care and for patients to choose caregivers and technologies that match their own distinctive needs.



Diversity in Governance: A New Deal for Cities

As mayor of Winnipeg, Glen Murray was a national leader and an advocate for a new deal for Canadian cities. A central feature of the new deal was that provinces would pass legislation to provide cities with the tax base and taxing powers to match their responsibilities. Cities would no longer be largely confined to property taxes but would also have access to growth taxes such as sales taxes, where revenues would grow along with the local economy. The city would have an increased right to taxes generated within its borders, such as a percentage of the GST derived from activities in Winnipeg. The argument was that this would create an economic incentive for city governments to adopt the policies and investments needed to grow their local economies and thereby their tax receipts.¹

Winnipeg, for example, is too dependent on property taxes. Raising them does not generate much extra money. It may even lose revenues, as homeowners and businesses fleeing high taxes relocate just outside the city perimeter but continue to use City of Winnipeg services and resources. The property tax system does not adequately recognize that many non-residents of Winnipeg carry on business and employment here and the City must pick up the costs of facilitating their activities. Thus, the City incurs major costs in attracting business—such as fixing roads or building a convention centre, but it does not capture its fair share of the resulting tax revenues.

So far, the province of Manitoba has largely resisted a new deal. The general subsidy that each local government receives each year remains subject, to a large extent, to the exercise of provincial discretion. The province also intervenes in local budgets on a line item basis—such as funding half the cost of new positions in the police force.²

The province's support for public works projects sometimes displays contempt for local democratic processes.³ Case in point: the Southdale Community Centre. The City set up a volunteer, non-partisan committee to prioritize the building of new recreational centres.⁴ But during the 2007 election, Premier Gary Doer determined that the Southdale Centre would go to the front of the line. Doing so helped to secure the election of an NDP candidate in the previously opposition-held riding.⁵

More of the new deal should be adopted in provincial legislation. The City should have a fiscal base that is less subject to shifting and detailed provincial preferences, one that grows more in line with the economy and that recognizes and rewards the efforts of municipalities to host economic activity. Winnipeg could then reduce its overburdening property and business taxes.

Legal arrangements, however, cannot be the whole solution.
Part of the answer is a change of attitude on the part of provincial leaders.

The province will always have an overlapping role in many areas of City jurisdiction. In some cases, intervention in local politics is justified to promote a compelling provincial policy object or to ensure equitable treatment among different municipalities. There will always be some need for provincial oversight and the exercise of judgment about how far to intervene in local matters. However, a provincial government, without foreswearing any of its legal authority, can make it clear by its words and actions that it genuinely places a high value on respecting the wishes of elected local politicians. The Doer-Selinger government has proceeded in a different direction. The title of a *Winnipeg Free Press* article in 2007 might have captured the reality: "Mayor Doer' runs this town."⁶

The latest move is for the provincial NDP to endorse candidates in municipal elections.⁷ Doing so is disrespectful of the concept that local government is a distinct level of authority, that it has a special role in reflecting the conditions and aspirations of local communities and that a balanced society disperses governmental authority, rather than concentrating it in a few hands.



School Boards

Local school boards in Manitoba can be a means of gathering the insight and wisdom of parents, students and local community members. The government of Manitoba is determined, however, to reduce them to one more level of the provincial bureaucracy. We are headed towards the same overly centralized model as in healthcare, where the independent boards of hospitals and seniors homes have been steadily pushed aside or relegated to an ever-diminished role by government-controlled Regional Health Authorities.

The province has taken many decisions out of the hands of local school boards in recent years.

The government assumed a veto over local school closures, attempted to cap tax increases supported by local school boards in the interests of meeting student needs, forced the amalgamation of divisions and asked to review and approve local budgets.¹

There actually is a real need for greater centralization of funding for school boards. Province after province has reviewed and eliminated systems where schools are financed largely through local property taxation.² That system is harsh on parents and students in economically disadvantaged communities or areas that do not have valuable commercial properties. This province is moving gradually in that direction, but the property-tax system is being used as an excuse to further squeeze out local input and replace it with centralized control.

Former premier Gary Doer indicated that once the province reached a point of funding 80 per cent of school board revenue, it would take over union negotiations and standardize them province-wide.³ Then, even more Manitoba voters will be on the provincial payroll, and the ruling party can try to buy the political support of more public employees with taxpayer money. Local control will be diminished even further, and with that, the opportunity for innovation, experimentation and diversity.

Centralized fiscal support need not be accompanied by micromanagement. The provinces used to complain bitterly about strings attached to federal transfer payments, as did band governments. Ottawa has responded by increasingly relying on bloc funding, rather than using its spending power to dictate or supplant the choices of other governments. Provinces that have centralized funding have found ways to maintain some real local power and choice—e.g., leaving local school boards a meaningful portion of their budget that is free of provincial direction.

We should be looking for ways to increase, rather than impair, choice and diversity within the public school system. Greater freedom should not be confined to those who can afford to send their children to private schools. Alberta led the way in Canada in introducing charter schools in their system. These schools, although publicly funded, have a significant measure of autonomy with respect to curriculum, staffing, educational focus and approach.

Instead of being forced into cookie-cutter schools run by a provincial bureaucracy, parents and children are freer to find an educational home that suits their own needs and aspirations.



A recent study by the Canada West Foundation found that Alberta's charter schools have achieved considerable success. Educational outcomes, tested by objective measurements, have improved in both reading and math, while students and parents report a high level of satisfaction.⁴ The study suggests that these schools can be models for innovation and excellence. Alberta charter schools bring real pluralism to the system. The focus of some is gifted children, others on math and science, and others have an Aboriginal dimension.

To be sure, rules governing the development of charter schools must be carefully designed and implemented or serious problems can emerge. For example, a province cannot simply allow charter schools to cherry-pick the easiest-to-teach students and ignore those with special needs. Legislation and regulations can easily ensure that charter schools are widely accessible and not confined to students with superior financial means or academic gifts. In fact, charter schools can be established—with special financial support—to find innovative and effective ways to serve special needs children.

We can add primary and secondary education to the sectors of Manitoba society that have been placed under the central control of government and add their administrators and staff to the effective roster of provincial employees. Or we can do something far better. We can increase equity in funding across the system and at the same time enhance the ability of parents, students, teachers and administrators to come together and create distinctive educational communities. With diversity will come innovation, lessons to be learned and shared across the system and ultimately better educational outcomes. Thoughtful and imaginative reforms to the governance of our schools can be an integral part of moving from a supplicant society to a revitalized Manitoba.



Political Diversity: Money Talks and its Language is Incumbency

The power of an incumbent in a supplicant society is massive—as long as the federal money keeps rolling in. Premier Gary Filmon lost power after presiding over a period of drastically cut federal transfers to the provinces. Premier Gary Doer succeeded politically not by charisma, but because of the plentiful federal money that poured in.

Doer consistently touted the reforms he introduced as premier, particularly banning political contributions by both unions and corporations. However, his overall approach to reform left incumbent governments with more power than ever compared with political competitors.

The law does not prevent the government from using public money to ingratiate itself with corporate and union interests.

Under Doer and his successor Selinger, the provincial government maintains an environment that is less and less competitive in relation to many other provinces and locations.¹ Economic activity has been promoted by public works projects and “partnerships” in which the viability of a project is dependent on government dollars and favour—a subsidy culture. Big businesses in a supplicant society, including Manitoba’s, are not necessarily supporters of free enterprise. Many benefit handsomely from government patronage and repay it with support, or at least a muzzling of any criticism.

The support of union interests for the sitting government is ensured by increasing the scope of the provincial government sector and ensuring that unions receive satisfactory salary outcomes. As the Regional Health Authorities increasingly take over the running of facilities, more employees bargain directly with the government. The provincial government has also signalled that it plans to eventually take over negotiations with teachers from the school divisions.²

The Manitoba Nurses Union (MNU) has shown how the game is played outside of any legal limits on political contributions. Prior to the 2007 provincial election, it ran a flashy TV advertising campaign promoting the progress that had been made recently in delivering healthcare. Less than a year after the campaign, the MNU threatened a strike, claiming that conditions had since deteriorated.³ They secured a collective agreement that made Manitoba nurses the fourth-highest paid in Canada.⁴ Presumably, the quality of healthcare was suddenly restored to pre-election levels.

The NDP government has been shameless about using public money for self-serving advertising. An opposition party cannot spend more than \$250,000 in the year of an election.⁵ In the meantime, the NDP government continues to use public money to buy partisan political advertising under the guise of government departments and Crown corporations. In 1993, Doer complained to the Auditor-General about the use of public money to tout job-creation efforts by the Filmon government.⁶ Then in 2007, the amount spent on media to promote

the pre-election provincial budget doubled over what it had been the previous year to over \$156,000.⁷ For the first time, the government launched an image campaign and flashy website under the slogan “The Building Budget.”⁸

Overall, promotional efforts on behalf of the government exceed \$10 million a year.⁹ The 2009 budget advertising campaign cost more than ever¹⁰ and boasted of the balancing of the budget, stability and the stimulation of the economy. There was no mention of the government suspending the requirement under the province's balanced budget law, in respect of paying down the provincial debt, or that the province's “stable” performance (fuelled by transfer payments) was at a much lower level than other provinces.

Other government institutions and Crown corporations have been busy advertising too. Manitoba Hydro spent \$341,562 on a four-page insert in May 2009 that touted the large projects and investments being made in the province.¹¹ The Winnipeg Regional Health Authority spends much money on public relations and has entered into a deal with the *Winnipeg Free Press* to run and produce a series of supplemental magazines.¹²

The solutions to these abuses of the power of the incumbency are known and simple. Ontario long ago passed a law to ban partisan advertising by the provincial government—all advertising must be approved by the Auditor-General.¹³ A private member's bill was introduced in the Manitoba Legislature in May 2008 to secure the same arrangement here, but the government ignored it.¹⁴

The spending limits by opposition parties between and during elections are pathetic. They limit free expression and cannot be justified in the name of a level playing field. On the contrary, opposition parties need far more resources to be effective and to avoid having their message drowned out by public money being used for self-serving and partisan advertising. All MLAs need to be paid better in order to attract more talent and commitment, and opposition caucuses need far more money for research.

The problem of the government trying to buy support from big business and labour with public dollars can be addressed by curtailing selective subsidy programs and by restoring the role of private sector actors—both profit and non-profit—in delivering programs and services, rather than continuing a process of increased provincial micromanagement.

Don't expect such reforms to take place any time soon. It might be a breach of the Charter right of free expression for the provincial government to severely limit spending by opposition parties while not being constrained in using public money to promote its own partisan messaging; but who has the resources or stamina to launch a court challenge? Political science teaches that incumbent governments will generally tend to shape the political playing field to favour their own interests. Manitoba's current government has done so deftly, which has limited political competition and further entrenched the supplicant society model.



Watchdogs or Poodles? Independent Agencies in the Suppliant Society

During the Premier Gary Doer era, the self-sustaining nature of the suppliant society was shielded from inquiries and policy-making processes that might have asked hard questions or produced any real change.

Doer came to power largely because Gary Filmon did the right thing when a scandal broke. There were allegations that Conservative operatives had encouraged and financed an Aboriginal party to run in a riding in the 1995 election and thereby drain votes from NDP candidates. Filmon initially said the Chief Electoral Officer should investigate. Doer demanded an independent public inquiry.¹ Filmon, to his credit, agreed. Its investigation turned up some previously secret machinations that tarnished the image of the government, contributing to its defeat.² The lesson Doer learned, apparently, was never hold a public inquiry that might hurt your partisan interests. When questions were raised last year about NDP expense claims during the 1999 election, the Conservatives demanded a public inquiry, and rightly so.³

Why had the office of the Chief Electoral Officer come down very hard on the losing Conservatives for inadvertent breaches of election laws—yet gone so soft on the winning NDP when its operatives engaged in calculated and arguably illegal measures to secure public financing? Maybe the treatment really was principled and consistent—but how could the public know without an independent inquiry? Doer's response: trust the Chief Electoral Officer.⁴

The current government is reluctant to hold a public inquiry when its own image is vulnerable. For example, it did not support a public inquiry into the Crocus Investment Fund scandal when provincial ministers were under fire.⁵ However, when the primary Taman inquiry targets were an independent prosecutor and a municipal police body, no stone was left unturned.⁶

There is a conflict of interest when a government must decide if it will call an inquiry into its own conduct.⁷ The solution is to introduce a major role for an independent official. That person would be a preliminary investigator examining the need for an inquiry, considering carefully its scope and the protections to be given to those under scrutiny, and would make a decision or a public recommendation to the government of the day. The federal government of late has successfully used preliminary investigators to look at issues such as setting up an inquiry into the Air India disaster and the Mulroney scandal. It is important for the public to have a justifiable confidence in the impartiality of senior officials, including the chief electoral officer and provincial auditor, who report directly to the legislature and act as referees in the democratic process.

There should be a review of the provisions concerning the appointment and removal of such officials to determine whether they are effective in ensuring independence. The remuneration of these officials should be tied by legislation to an objective benchmark rather than left to the free discretion of current or future power holders.



The administrative agencies that scrutinize government decision-making are filled at the discretion of the government. To some extent, this is legitimate. Agencies are often charged with policy-making, and in some contexts, it can be appropriate for a government to appoint senior officials who share the government's philosophy. But competence and integrity should be major factors as well. Manitoba is behind other provinces in bringing more transparency to the appointment process: Qualifications should be defined and made public and the relevant background, education and experience of persons appointed should be made clear.

Under both Doer, and his successor Selinger, the NDP government's approach to scrutiny of its administration and policies by opposition parties has been just as uninspiring. Opposition members have little in the way of research funding or staff. The legislature sits so infrequently that Question Period is too rare to make a proper impact. Legislative committees meet only when the Assembly is in session. If the opposition parties do discover anything, they have pitifully less money to spend explaining it to the public than does the government.

Democratic reform measures must include:

- Minimum sitting days for the Assembly, and the authorizing committees to meet more extensively;⁸
- Providing more resources to opposition caucuses;
- Raising the limits on spending by opposition parties during and outside of elections; and,
- Ending the use of taxpayer money to subsidize partisan propaganda dressed up as government information.

These reforms are not sufficient in themselves to produce a balanced, competitive, and free political culture. Manitoba's political culture would remain distorted by the dominance of the provincial government over its dependant businesses, non-profits and local governments, but opening up the democratic process could be a crucial beginning.



Manitoba Hydro: Reforming the Jurassic Crown ¹

Manitoba Hydro has a monopoly on the retail supply of electricity in Manitoba.² As a Crown corporation, Manitoba Hydro is exempt from federal and provincial corporate income taxes. Yet it produces comparatively little profit for its government owner or for the people of Manitoba.³ Manitoba is squandering the potential of Manitoba Hydro to be an engine of economic growth. Manitoba Hydro is a Jurassic Crown, stuck in a bygone era.

Part of the problem relates to Manitoba Hydro's mandate. Manitoba Hydro's mandate needs to be reviewed and clarified, including addressing the extent to which it includes generating a reasonable return to the provincial treasury. Manitoba Hydro is directed by legislation to supply energy to meet Manitoba's needs and to promote economy and efficiency.⁴ Instead of promoting energy

efficiency, Manitoba Hydro's non-residential rate structure discourages conservation by rewarding heavy or wasteful users of power.⁵

Although the provincial government includes Manitoba Hydro's net income for purposes of Manitoba's balanced budget legislation,⁶ Hydro has rarely paid a dividend from its cash profits to its government owner.

The provincial government has also offloaded major public policy expenses onto Manitoba Hydro that should have been part of the provincial budget. Instead of the much shorter and cheaper route along the eastern side of Lake Winnipeg that Hydro initially favoured, at the government's behest Hydro now plans to build its new BiPole III power line on the western side of the province. Hydro's estimate of the added cost for the west side line over the east side route is \$410 million,⁷ while critics assert that the cost could be as high as \$1.75 billion.⁸ The east side route is also more environmentally sound, as it would not waste renewable energy that would be lost in transmission over the longer west side route. If for public policy reasons the Manitoba government wants Hydro to build its new power line on the west side route, the extra cost should be borne by the government, not Hydro. If the government has public support for such a major public policy expense, it should have no concern in making it part of its budget and subject to prior approval by the Manitoba legislature.

Part of the problem relates to Manitoba Hydro's governance. While legislation applying to Crown corporations generally requires that their boards act in the best interest of the company, it would be useful for the *Hydro Act* itself to specifically recapitulate this responsibility. Other governance issues should be addressed in a modernized statute. For example, Hydro's board is appointed by the government. The process is not transparent. Though its board is supposed to provide strategic oversight and direction to Hydro management, board appointees are not required to have any particular industry expertise. The disclosure of Manitoba Hydro's governance practices in its annual report does not measure up to standards expected of publicly traded corporations.⁹ Despite having over \$12 billion in assets at March 31, 2010,¹⁰ Hydro publishes no return on equity targets. Manitoba Hydro states that its shareholders are the public of Manitoba,¹¹ but no shareholder in a publically traded company would tolerate such treatment. Neither should Manitobans.

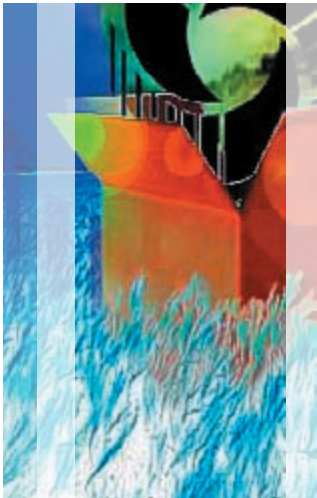
Manitobans deserve better.

There should be a thorough review and clarification of Manitoba Hydro's mandate and governance. Among the reforms that would improve Hydro's governance, transparency and accountability are:

- Amending Manitoba Hydro's legislation to make it clear that its board and management have a fiduciary responsibility to act in the best interests of the corporation;
- Requiring Manitoba Hydro board appointees to have relevant financial or industry expertise;
- Giving the provincial government explicit legislative authority to issue written directives to override or substitute for decisions made by the Manitoba Hydro board. The directive and the government's reasons for issuing it should be public, as would Hydro's impact analysis, including any material financial, environmental, labour or system implications. A directive would not take effect until after Hydro's impact analysis is made public;

- Ensuring that the rate structure for non-residential users promotes energy efficiency and economy;
- Periodic evaluation of Manitoba Hydro by independent experts to determine whether its board and management have maintained or enhanced the market value of the public's investment;¹²
- Ensuring that Manitoba Hydro's public financial accountability documents such as its annual report and quarterly updates meet or exceed standards for publically traded corporations; and,
- Ensuring that the extra costs of any public policy activities carried out by Manitoba Hydro that a publically traded corporation would not undertake without compensation are first approved and appropriated by the Manitoba Legislature.

Manitoba Hydro is a key component of the provincial economy. It touches the everyday life of every Manitoban. It is a major employer. With a better defined mandate and improved governance, Manitoba Hydro could help reform Manitoba from a supplicant society into a more vibrant one, but Manitoba Hydro itself needs to be reformed. In the meantime, the Jurassic Crown remains an obstacle to a rejuvenated society.



Sustainable Underdevelopment?

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.¹ 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 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” are 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 However, the gross domestic product of Manitoba 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 thousand 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?



Endnotes

Manitoba: The Suppliant Society

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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.
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9. Ibid. RHA External Review on p. 6: 557 internal surveys vs. 175 external survey responses, where the internal recipients were made up of 352 RHA managers, 82 board members, 120 RHA advisory council members and three health managers.
10. Ibid. RHA External Review at p. 127—Includes Randy Lock, Executive Director, Regional Health Authorities of Manitoba; Larry Hogue, Chair, Council of Chairs of RHAs and Chair of Brandon RHA; Brian Postl, CEO of WRHA and rep for Manitoba RHA CEOs; Donna Forbes, Assistant Deputy Minister of Regional Affairs, Manitoba Health; Heather Reichert, CFO Manitoba Health; and Joanna Plater, Manitoba Health (acting as co-ordinator).
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Political Diversity: Money Talks and its Language is Incumbency

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2. See Elections Inquiry Commission (Commissioner Alfred M. Monnin), "Report of the Commission of Inquiry into Allegations of Infractions of the *Elections Act* and the *Elections Finances Act* during the 1995 Manitoba General Election," March 29, 1999.
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 5. Crocus was a Labour Sponsored Venture Capital Corporation. Investments in it were subsidized by government tax breaks. It went into receivership amidst controversy about how it was managed, including questions about whether shareholders were informed in a timely manner about losses in the value of its assets.
 6. The Taman Inquiry was a public inquiry into the conduct of the police, independent Crown prosecutors and victim supports services in the aftermath of an incident where an off-duty police officer was responsible for a fatal car accident. After five year old Phoenix Sinclair was murdered after child and family services returned her to the custody of her birth mother, the NDP government promised to commission a public inquiry. That was in 2006. Citing concerns over prejudicing criminal proceedings, the government still has not carried through. Opposition critics have alleged that the government wants to stall the inquiry long enough to ensure that it does not affect the government's prospects in the next election.
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Manitoba Hydro: Reforming the Jurassic Crown

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3. Manitoba Hydro's consolidated net income for the 2009-2010 fiscal year ended March 31, 2010, was \$163 million. On its 2009-2010 electricity operations, Manitoba Hydro earned \$164 million on revenues of \$1,599 million. Hydro posted a \$1 million loss on revenues of \$138 million on its 2009-2010 natural gas operations: Manitoba Hydro, *Manitoba Hydro-Electric Board, 59th Annual Report*, on p. 51. Available online at <http://hydro.mb.ca/corporate/ar/2009/publish/index.html>.
4. *The Manitoba Hydro Act*, supra note 68, s. 2.
5. Effective April 1, 2010, Manitoba Hydro's General Service energy charge (the charge for non-residential electric service based upon the electric energy consumed or billed where Manitoba Hydro provides the transformation) fell sharply with consumption, from 6.84 cents/kilowatt hour (kWh) on the first 11,000 kWh to 4.69 cents/kWh on the next 8,500 kWh, and to 3.05 cents/kWh on the balance. For residential users, the energy charge rises slightly with consumption—from 6.38 cents/kWh on the first 900 kWh to 6.57 cents/kWh on the balance. See Manitoba Public Utilities Board, "Procedural Order 33/10: Manitoba Hydro General Rate Application," on pp. 2 and 5. Available online at http://www.pub.gov.mb.ca/pdf/10hydro/33_10.pdf.
6. "For the purposes of this Act, the balance as at the end of a fiscal year is the average of the net results for the fiscal years within the four-year period ending at that time. The net result for each of those years is the net income or loss as shown in the audited summary financial statements for the government reporting entity for that fiscal year..." *The Balanced Budget, Fiscal Management and Taxpayer Accountability Act*, C.C.S.M. c.B5, s. 3(1). Manitoba Hydro is part of the government reporting entity, see Manitoba, *2009-10 Manitoba Public Accounts*, Vol. 1, on p. 111. Available online at http://www.gov.mb.ca/finance/pdf/annualreports/pubacct_1_10.
7. Bob Brennan, Letter to the Editor, *Brandon Sun*, April 18, 2008. Available online at http://findarticles.com/p/news-articles/brandon-sun-the/mi_8087/is_20080418/letter-editor-15-billion-figure/ai_n50725125/. For more discussion on the BiPole III route, see Bryan Schwartz and Elijah Harper, "East side the right side," *Winnipeg Free Press*, May 14, 2007, available online at <http://www.winnipegfreepress.com/historic/32228799.html>; and Bryan Schwartz and Elijah Harper, "East side advantage," *Winnipeg Free Press*, October 17, 2007, available online at <http://www.winnipegfreepress.com/historic/32489899.html>. Also see Bryan Schwartz and Perry Chung, "East vs. West: Evaluating Manitoba Hydro's Options for a Power Transmission Line from an International Law Perspective," *Asper Review of International Business and Trade Law 2007* Volume VII, p 1. Available online at <http://www.asper-chair.com/index.php/asper-review>.

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8. Mary Agnes Welch, "Hydro exports may not cover new line: Tories," *Winnipeg Free Press*, September 18, 2010, A8. Available online at <http://www.winnipegfreepress.com/local/hydro-exports-may-not-cover-new-line-tories-103195264.html>.
 9. Manitoba Hydro's annual report does not appear to meet Toronto Stock Exchange guidelines set out in "Corporate Governance: A Guide to Good Disclosure." Available online at http://www.ecgi.org/codes/documents/tsx_gtgd.pdf. Unlike SaskPower, its Saskatchewan Crown corporation counterpart, Manitoba Hydro does not disclose in its annual report whether it is in compliance with governance standards for publicly traded companies that were developed and implemented by the Canadian Securities Administrators (CSA) under National Policy 58-201, *Corporate Governance Practices* and National Instrument 58-101, *Disclosure of Corporate Governance Practices*. As a Crown corporation, Manitoba Hydro is not required to comply with these CSA standards. However, the CSA standards provide the benchmark of good governance practices in Canada: *National Instrument 58-101 Disclosure of Corporate Governance Practices, Form 58-101F1 and Form 58-101F2*. Available online at http://www.tmx.com/en/pdf/Notice-NP58-201_CGGuidelines_NI58-101_CGPractices_Apr15-05.pdf. In its 2009 Annual Report, SaskPower reported substantial compliance with CSA governance standards: SaskPower, *SaskPower Annual Report 2009*, pp. 18-23. Available online at http://www.saskpower.com/news_publications/annual_reports/2009/pdfs/AR2009_complete_report.pdf.
 10. Manitoba Hydro's consolidated assets as at March 31, 2010, were \$12,437 million. Total assets for electricity operations as at March 31, 2010, were \$11,856 million, while total assets for natural gas operations were \$581 million: Manitoba Hydro, *Manitoba Hydro-Electric Board, 59th Annual Report* on p. 51. Available online at <http://hydro.mb.ca/corporate/ar/2009/publish/index.html>.
 11. Manitoba Hydro, *A History of Electric Power in Manitoba*, p. 33.
 12. For a more complete discussion of the framework to conduct an independent valuation and review of a commercial Crown corporation, please see S. Schwartz, "Saskatchewan's Commercial Crown Corporations: Time for a New Crown Review", Saskatchewan Institute of Public Policy, Policy Dialogue, Winter 2008, pp. 10-11. http://www.uregina.ca/sipp/documents/pdf/Winter2008_PD_online.pdf and S. Schwartz, "Time for a New Crown Review", Frontier Centre for Public Policy. Available online at http://www.fcpp.org/main/publication_detail.php?PubID=2263.

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.pourunquebec.clucide.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>.



The Frontier Centre for Public Policy is an independent, non-profit organization that undertakes research and education in support of economic growth and social outcomes that will enhance the quality of life in our communities. Through a variety of publications and public forums, the Centre explores policy innovations required to make the prairies region a winner in the open economy. It also provides new insights into solving important issues facing our cities, towns and provinces. These include improving the performance of public expenditures in important areas like local government, education, health and social policy. The author(s) of this study have worked independently and the opinions expressed are therefore their own, and do not necessarily reflect the opinions of the board of the Frontier Centre for Public Policy.

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Further Reading

November 2010

Stealth Equalization

By Ben Eisen

<http://www.fcpp.org/publication.php/3482>

February 2010

The Real Have-Nots of Confederation: British Columbia, Alberta and Ontario

By Ben Eisen and Mark Milke

<http://www.fcpp.org/publication.php/3196>

March 2004

Transformational Equalization: A 3 Part Series

By Peter Holle

<http://www.fcpp.org/publication.php/738>

The articles included in this publication are digests of policy commentaries from Frontier Centre's

