

Speech to Charlottetown Rotary Club

Financial Reality is Needed in Maritime Canada

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Thank you for the opportunity to give my second speech to the Charlottetown Rotary Club.

Fifty years ago your predecessors chose me as their teen aged representative on the Rotary Adventure in Citizenship program. I visited Ottawa, spoke to MPs and senators and learned a great deal about government.

I was required to speak to the club when the program was complete. My father, a long standing member of this club and college principal, was in the audience. He had several suggestions for improved delivery after I sat down!

I'd also like to bring greetings from the Rotary Club in Wellington, Ontario where I live. Wellington is a village of about 2,000 people where Rotary is a vibrant force. I'm pleased to present President Sider with a Wellington banner.

I'd like to start my presentation with a warning.

The warning is that I'm going to speak very frankly about difficult issues.

I will be taking fundamental issue with the approach the federal government, P.E.I., Nova Scotia, New Brunswick, Quebec and Manitoba have been taking in relation to the many subsidies the Government of Canada provides to regions.

I will try not to use too many figures. If you wish to access the statistical information that supports my presentation, I suggest the websites of the Ontario Department of Finance, the Frontier Center for Public Policy, the Mowat Center at the University of Toronto, the Ontario Chamber of Commerce, the Atlantic Institute for Market Studies and Statistics Canada.

I support the view expressed by the Atlantic Institute for Market Studies that these subsidies are "the help that hurts".

Aside from tolerating my frankness, I'm going to ask you do four things:

First, recognize that Ontario's economic and financial condition has deteriorated sharply over the past few decades. Ontario, over the years, has been the source of the largest part of the external funding coming to the Island.

Second, pay very little attention to anything your provincial, regional and federal leaders say about regional subsidies. Most of it is wrong.

Third, I'm going to ask you to think about the economic path P.E.I. is following and where it will take you in future.

Fourth, I'm going to ask you to entertain and even welcome fundamental change in the fiscal architecture of Canada because substantial change is the only way to assure a reasonable future for your children.

Let me start with Ontario.

Ontario lost 30% of its manufacturing jobs between 2004 and 2010.

Its public services are the least accessible in Canada.

The provincial government faces a serious budgetary crisis.

Like most manufacturing jurisdictions, Ontario has not found its footing in the new global environment dominated by China, India, Brazil and other emerging countries.

Despite valiant recent efforts to deal with educational problems, Ontario's universities and colleges are funded at levels far below the Canadian average and far below the funding provided for comparable U.S. institutions.

Enough said.

These factors should cause you and your provincial government to reflect on the wisdom and decency of constantly seeking more money from Ontarians through the federal government.

There is no indication that the government of this province is reflecting in this way. In his reaction to the recent federal budget, the provincial Minister of Finance still wants more.

I'd now like to deal with what regional leaders say about equalization and other regional subsidies.

Local leaders – including federal cabinet ministers – observe that equalization and possibly some other regional subsidies are required by the constitution.

They are not.

What is required is a commitment to the principle of equalization to achieve comparable programming across Canada, whatever a commitment to a principle means and I'll leave it to the lawyers in the audience to interpret that.

It does not say that the federal government must make payments to ensure comparability.

I should also say that while this is a \$15 billion program, the Government of Canada doesn't even bother to measure comparability of provincial programming in different provinces.

Without a system to measure program comparability, equalization isn't really a program. It's a cheque writing machine grinding endlessly along in some room somewhere in the Department of Finance in Ottawa.

Regional and national leaders are also fond of saying that traditional recipient provinces need help to bring their services up to national standards.

This is nonsense, especially in relation to P.E.I.

P.E.I. has 50% more nurses in relation to population than Ontario.

University funding per student is 28% higher in P.E.I. than it is in Ontario.

Believe it or not, P.E.I. has nearly double – double! - the number of residential care beds as Ontario in relation to population and by far the most of any Canadian province.

The fact, amply documented, that Ontario has the least accessible provincial programming in Canada is probably surprising to you.

You might well ask why we have this problem.

Many factors are at play, including the lassitude of most of Ontario's federal legislators and many members of the Ontario legislature as well.

However, the biggest difficulty is that the federal government has a massive system of regional subsidies, much of it hidden, which it expects Ontario taxpayers to largely fund.

It's not just the amounts that are the problem. It's the way these subsidies work.

I'll deal with equalization first.

The Government of Canada, unlike Australia, does not consider population need at all in determining equalization payments.

In 2006, the federal government conducted a detailed study of where equalization funding would go if population need – factors such as demographics, cost structures, population dispersion, immigration patterns and others – were considered.

One of its conclusions is that Quebec, P.E.I and New Brunswick are very much over equalized in the sense that they are receiving much more funding per capita than the analysis of their needs suggests they should receive.

The federal government treated this report as a state secret and refused to release it.

A new version of this report has just been released by the Mowat Center at the University of Toronto.

While the new report differed in many fundamental ways from the old, the overall conclusion remains that P.E.I. and Quebec are dramatically over equalized and Ontario under equalized.

In the words of the report, “if expenditure need was added to the existing system, P.E.I. would see a near 30% drop (in its payments) from \$322 million to \$235 million”.

Quebec’s payment would drop by \$3 billion and Ontario’s would grow by \$1 billion.

So at least part of the reason for the incredible generosity of public programming in this province and Quebec is that they are getting too much equalization and Ontario too little.

It gets worse.

The Government of Canada disproportionately subsidizes Maritime Canada in four different ways and this combination – in Quebec and Manitoba as well as the Maritimes – has produced local economies that are out of phase with the demands of the global environment.

I’ve already mentioned equalization so I won’t revisit that.

The second type of subsidy is disproportionate federal government employment in this province and the region.

Prince Edward Island has more than twice as many federal public servants in relation to population as Ontario and both Nova Scotia and New Brunswick are not far behind. This is true even though Ontario has the national capital!

These wildly disproportionate employment patterns contribute to your dependence on the public sector in a world where that dependence is more a liability than an asset.

This issue has received little attention but it is very large in dollar terms. The Frontier Center in Winnipeg estimates that the subsidy attached to disproportionate federal employment is \$153 million annually for P.E.I. and about \$1 billion for Nova Scotia.

The third method the federal government uses to provide regional subsidies is gross unfairness in transfers to persons, particularly in EI.

In this region and province and region, much is made of the perceived need to subsidize fishermen and other seasonal workers and extensive EI arrangements are in place for them.

The problem is that there are very large numbers of similarly marginalized workers – perhaps even more marginalized – in very large urban areas and they are not protected in this way. This means there is a huge financial drain out of Ontario relating to EI and resentment at the unfair treatment of individuals that is behind it.

I'm not going to go much further into the disaster for Canada that is EI. You can see it in the fact that Ganong has to import Romanians to operate their New Brunswick plant even with an unemployment rate in the province that hovers around 10%.

I recommend that you go to the website of the Mowat Center at the University of Toronto where you will see just how profoundly corrosive this program has become in terms of the functioning of a modern economy.

The fourth method the federal government uses to subsidize regions is discriminatory provisions built into many ordinary programs.

Two thirds of the airport rentals collected by the federal government come from Pearson but it generates only one third of the traffic. Marathon runs are supported in Prince Edward Island but not in Prince Edward County.

Nobody really knows how much of this kind of routine discrimination there is, least of all the federal legislators who countenance it.

The subsidy problem is compounded by the fact that the government of P.E.I. and the other governments in the Maritimes and Manitoba have seriously misused the torrents of money coming to them from this complex and partly hidden system of subsidies.

Everyone in this room should be very troubled that the provincial public sector in this province in relation to population is three times the size of the provincial public sector in Ontario in relation to its population.

Citizens of the other traditional recipient provinces except Quebec should be troubled for the same reason.

There is nothing that justifies that kind of excess, especially in P.E.I. The Island is one of the easiest places in Canada to deliver public services.

The biggest danger for this province and the rest of Maritime Canada and Manitoba is not that some other Canadians are getting tired of paying the bills or resentful of obvious inequities and inefficiencies even though large numbers of them are.

The biggest danger is that these provinces and to a lesser extent Quebec now have artificial economies sustained in significant measure by compounding levels of subsidies coming from other Canadians.

P.E.I. is one of the most heavily subsidized jurisdictions in the developed world with an economy that is dominated by a localized public sector at a time when economies are both market driven and global.

The same is true for the other Maritime Provinces, Manitoba and to a lesser extent Quebec.

Their productivity is very low: in this province it is about 70% of the national level which is in turn weak relative to international competitors. These five provinces are fundamentally uncompetitive.

In the past eighteen months, I have had the opportunity to see how dangerous all this is for Canada.

I have travelled extensively in both India and China. I have been privileged to see some of the most advanced research facilities in the world in Bangalore and infrastructure in China that makes Toronto seem underdeveloped.

If we think we can compete with these giants by subsidizing whole regions and writing cheques to each other, we are sadly mistaken. That is why all Canadians should be worried about the regional subsidy system the federal government has built over the last five decades.

In short, we need to make fundamental changes. I would like to ask you to consider them.

The first change you should make is to abolish the phrase getting more money from Ottawa or the federal government.

The money Island politicians constantly seek comes, of course, from other Canadians.

In the memorable words of a Globe and Mail columnist, it comes from the guy struggling to operate a tiny strip mall in a Toronto suburb and many like him across the country. We have a duty to be considerate of them.

The second change you should make is to immediately vote any politician seeking more subsidy money from other Canadians out of office.

I hope my comments today have shown you how corrosive that approach is for Canada and the Island.

The third change Islanders should make is to be open to the many new directions that researchers have identified to deal with the difficult problems I have described.

The problem of regaining some degree of competitiveness in PEI, the Maritime region, Manitoba and Quebec – regions with nearly a third of our population - is so serious that there almost certainly is no magic bullet that will solve it.

The solution will have many elements but all would mean change for the regional subsidy system.

The principal possibilities are:

- moving to a new equalization arrangement based on both need and capacity;
- transferring GST revenues to provinces in return for an end to some or all transfer payment schemes;
- federal assumption of part of provincial public debt in return for an end to some or all transfer arrangements and a commitment not to run provincial deficits in future;
- a transformation of the EI program so that it treats all similarly situated Canadians in the same way, regardless of where they live;
- major efforts in recipient provinces to bring out-of-control expenditures in line with practices prevailing elsewhere.

As one practical suggestion, the P.E.I. government could undertake an external spending review along the lines of the recent Drummond review in Ontario. Your seven hospitals for a very small population should be the starting point for this project.

In summary, federal regional subsidies have been a complete failure over the decades they have been in place.

Incomes have converged largely because of the scale of the regional subsidy system and we are now left with five provinces with economic structures that are out of phase with the global environment.

Also, the system has greatly impaired the capacity of the 13 million people in Ontario to make their way in the world. This is a national tragedy, the dimensions of which are only beginning to become apparent.

But there are possibilities for change which would give this province and others a chance to be genuinely self sufficient and able to develop their own plans for the future.

I would like to conclude with a few personal observations.

In the past people from Atlantic Canada changed the world.

Samuel Cunard from Halifax changed the world of shipping and his name is still honored wherever there is salt water.

Sir Andrew MacPhail from Orwell was a transformative figure in Canadian medicine whose work is still improving the lives of millions.

Max Aitkin of Fredericton, better known as Lord Beaverbrook, was one of the key figures who saved Britain in 1940 through his work in aviation.

I would like to see the emergence of new leaders of this caliber who could help this region make the changes necessary to succeed in the future, rather than simply being custodians who hang on to failed policies from the past.

Thank you again for the opportunity to be here. I've been away nearly 50 years but I have never forgotten this place. I never will.