



The first woman to hold that post in Canada, Janice MacKinnon served as Minister of Finance for the Province of Saskatchewan between 1993 and 1997, under NDP Premier Roy Romanow. Encountering a deficit and debt crisis, she cut public spending, imposed tax increases and made Saskatchewan the first province to balance its budget. Her ten-year career in politics included stints as Minister of Social Services, Economic and Co-operative Development, Trade, Research and Investment and as Government House Leader. She is currently a professor of public policy at the University of Saskatchewan and serves on the board of a high-tech transportation company. MacKinnon's third book, *Minding the Public Purse*, provides an insider's account of how Saskatchewan avoided fiscal catastrophe and the transformation of federal-provincial financing orchestrated by Paul Martin. She also discusses the future of Medicare and other social programs and calls for a frank debate about the fiscal challenges facing Canada. She was interviewed prior to her speech to the Frontier Centre on May 12th, 2003 in Winnipeg.

FC: Manitoba and Saskatchewan share bad winters, high out-migration numbers and stagnant population levels. We can't change the weather but will we ever attract people and keep them here if we don't do something about taxes?

JM: Well, there is no doubt about it in the global economy where we are increasingly competing for education skilled people across the globe, one of the first things people and companies look at are the tax rates. I tried in Saskatchewan to show them our utility rates – you've got a cheap phone here – but all these things don't cut it in terms of what they actually look at when they are deciding where to locate. So, taxes, for instance, income taxes, at least in Saskatchewan where our income taxes are at the top end you certainly need to be competitive and it is a first step.

FC: How did you balance Saskatchewan's books and reduce its debt?

JM: Through a lot of pain. Part of the message of my book is to debate public issues like your Centre does before they become crises. We left a fiscal situation in Saskatchewan until it was a crisis and so we had to make dramatic cuts to fundamental programs and raise taxes to get out of the situation. Although the public accepted it and we were re-elected it is not the preferred way to govern. Deal with issues before they are a crisis.

FC: In your new book you recant your former opposition to federal budget cuts in the early 1990's and say they helped to improve the Canadian federation. How?

JM: The federal government moved back in 1995 from the funding of health care and welfare and it caused a lot of hardship for the provinces so I was very concerned at the time. Looking back on it now I can see that the federal government had to reposition itself, it had to take on new roles, for example, the Child Benefit, the first new social program in thirty years, fully federally funded and the innovation strategy which promotes research which is critical to Canada's future. The federal government will have to take on larger roles in other areas such as the environment and the military. So, it is a different federal government. It cannot provide the level of funding to programs like health and welfare as it has in the past so, in the long term, repositioning was necessary.

FC: Saskatchewan has been relatively more aggressive than Manitoba in cutting its taxes. Why is that?

JM: When you live close to Alberta you are acutely conscience of the fact that you regularly lose business people and head offices to Alberta if your taxes are not competitive. You talked about out-migration – in Saskatchewan, particularly in Saskatoon which is our main economic centre, there are stories about people who are just going to pick up and move to Alberta if the tax rates aren't reduced and so it is a matter of pragmatic politics – we had to do it.

FC: Is it more important to cut middle income tax rates or the top rates?

JM: The problem is the politics of it suggests that you cut middle income tax rates because that is where most of the voters are but in terms of keeping high end earners in the province, the top end has to be cut. It's politically difficult but economically necessary.

FC: Governments worldwide are moving to neutrality in provision of public services where they are funding publicly but providing services through a mix of public and private providers. Do you agree with this?

JM: Governments, as you say, across the world are doing that. Even here in Canada, Saskatchewan and Manitoba and the Atlantic provinces are becoming a minority. If you look at British Columbia, Alberta or Ontario and Quebec, the largest provinces, they have explicitly said that, for example, in health care they support private clinics as a way to make the system more efficient than it has been. And, I think, that is the way of the future and that Manitoba and Saskatchewan are going to have to change. The problem in those two provinces is the relationship with the public sector unions so it is very difficult for those governments to say that we are going to open up the delivery. .

FC: How do you deal with that?

JM: Well, it's very difficult because NDP governments rely heavily on the unions – I saw that a lot when I was in government. The government is just going to have to say in health care, for example, one of the biggest cost drivers are public sector salary settlements. In some cases such settlements are necessary because of shortages of skilled people, but in other cases dramatic wage increases result from union bargaining power. Governments will have to say that there is going to be competition and so, if unions are going to continue to demand top dollar, governments are going to have to say we will open it up to other means of delivering those services.

FC: You did not agree with the Romanow Commissions answer for fixing Medicare. Why?

JM: The Romanow Commission is saying that we have a health care system that we are already struggling to fund and we are going to add on to it and we are not going to increase any taxes or find any other way to pay for it. Well, that's not possible except at a huge cost to everything else – it would mean taking every new dollar that comes to the federal government and putting it into healthcare which is obviously not wise public policy. It means that the Commission did not deal with the fundamental question – how do you pay for this? So, in that sense, I disagree fundamentally with it. You have to tell people how you are going to pay for it.

FC: A former Manitoba health minister, Larry Desjardins, who was in the NDP government in the 80's, told the Frontier Centre recently that Tommy Douglas' original vision saw

Medicare as a catastrophic back-up. It is his belief that Medicare is trying to do too much.

JM: Probably -- Tommy Douglas, throughout his time as premier, had healthcare premiums. He didn't think it was a good idea for healthcare to be free; he thought it was a good idea for people to pay for part of it. I think the goals of healthcare should be two: One, it has to be the highest quality system with the best treatments when needed and, two, it should make sure that nobody is denied treatment because of their income. But there is a lot of scope for change within those two goals. Those are two pretty broad goals and I think we have to be much more commonsensical in dealing with healthcare and, as I say, opening it up to private sector competition, try experiments from other parts of the world, like Europe, and look beyond the United States which has a terrible healthcare model. There are also different regimes in European countries that are much more innovative. Again, I see a lot of public sector unions saying status quo only. If you try to deliver this any other way you are going to go to an American model. Not true-- not true at all.

FC: Why do European countries have user fees and co-payments and all that? What do you think of those?

JM: I think with information technology you can easily do those things where you have a healthcare card with all the basic data, your income, your health status. You can be much more innovative using a variety of vehicles - premiums, co-payment schemes, publicly supported insurance. Patients can also be given more choices, for example. What if you want a test and the physician says that is not medically necessary. You say, "I understand but I am prepared to pay for it, I would like to have that test for my own peace of mind". A system that has more flexibility could use various categories - if your treatment is medically necessary - the government pays; if the treatment is not medically necessary, the individual pays. I think there is a lot of scope for change. But the key thing is to get the public to realize that change is necessary and that change is possible without going to the American system.

FC: There is a view that top management people and skilled people in government are under paid. What do you think?

JM: I think that is accurate. One of the problems in public sector bargaining is that there is often a mandate - the wage increase is going to be 9% over three years - or whatever it is going to be and everybody gets the same wage increase. Never mind whether they are people who have very unique skills or are in short supply - they still get exactly the same wage increase as the person who does not have a lot of skills and who is not in short supply. At the top you have people who are under paid - a lot of key managers are under paid yet, at what you might call, the bottom of the skill sets we are over paying people relative to what is paid in other sectors of the economy.

FC: What's the answer for that?

JM: More and more people are being put into the bargaining unit so it is very difficult - I think you probably have to look at labour legislation and governments are going to have to start treating managers with particular expertise as people who are in short supply but they are going to have to move into a different category than workers who don't have a similar level of responsibility and don't have skills that are in short supply. We have to de-couple them - everybody is now treated the same and, unfortunately, whether we like it or not, everybody isn't the same. Somebody who is in charge of a budget of billions of dollars needs to be rewarded properly otherwise we are not going to get good people to do those jobs.

FC: Canadian labour laws are difficult to change particularly for an NDP government. Would it happen under the NDP?

JM: I don't know - it is probably less likely that it would - no doubt about it. But it is a problem that, unfortunately, it doesn't often

become visible. It is something taxpayers should worry about because if you don't have high quality people in those key positions at the top it is going to show and it is going to show in the lack of good public policy. It is one of those difficult choices and it is a particularly difficult choice for an NDP government to make. No doubt about it.

FC: Are you familiar with New Zealand where the Secretary of the Treasury has the highest paid position making maybe \$500,000 a year for what is a pretty important job. Would you agree with that?

JM: I don't know about the number - I don't know if \$500,000 a year is what you should pay those people - but I think we have to accept the fact that we are competing with countries around the world for skilled, educated people and in order to get those people you have got to pay them. There is just no way around it - Other issues such as quality of life matter, but in the end these people get offers for other jobs and so you have got to pay them what is required to ensure a high quality of public sector management.

FC: Harry van Mulligen spoke recently here about Saskatchewan's welfare reforms -- policy change which was essentially reversed here by the Manitoba NDP. As a former minister of social services, what did you think generally of welfare reform in Saskatchewan?

JM: The change that occurred in social services in the 90's was to move from the idea of welfare as an entitlement to the idea that welfare involves mutual responsibility. If you are able-bodied, welfare and other social programs need to be vehicles to help people move into the workforce. The responsibilities are mutual - government has a role to play but so does the individual and I believe the same in healthcare - government has a role to play but so does the individual.

FC: How do you deal with the interest groups that, you know, are into the entitlement philosophy and oppose any kind of reform? For example, on helping the poor - a helping hand versus an entitlement philosophy.

JM: One of the advantages I had when in government was that I always had very experienced deputy ministers who had long histories in government. The Deputy Minister of Finance said to me, "interest groups don't vote - voters vote - people vote." If you accept that - you have to listen to interest groups but you can't adopt a policy on the basis of what interest groups say because they never see the big picture - they see their particular issue and from their particular vantage point. So, to be successful a government has to go beyond the interest group and say "this is good public policy" and it is going to make sense.

FC: When your government ended rent controls in the early 90's - what happened?

JM: Not much that I am aware of. I think we would still find Saskatoon and Regina incredibly affordable places in which to live. If you were talking to somebody about their advantages relative to Calgary and Edmonton, for example, you would say they are very affordable. So, there was no impact in the sense that we continue to have affordable housing and probably the reason we do is that there was more housing built than when there were rent controls in place.

FC: Equalization is a policy that has more defenders than critics. The Atlantic Institute for Market Studies has suggested that it has some unintended consequences and that it creates a welfare trap problem where recipient provinces get penalized for cutting taxes or trying growth strategies by having their amount of equalization cut back. Do you have any thoughts on that as a former Finance Minister?

JM: Oh yes. It is an important and valuable program in Canada because it does equalize the capacity of different provinces to provide a basket of key services -- it's a basic floor in Canada below which nobody should sink. However, there is no doubt that it is a welfare trap in that if your province does better than anticipated, our problem is usually in oil -- we have a lot of oil -- so, if you do better than you thought you can count on well over 60% of that being clawed back in future years. To be fair, governments complained about when the claw back occurred but when there is an unexpected dip in oil prices then we are cushioned from the impact unlike Alberta or the federal government. Equalization is coming up for re-negotiation soon. It's like welfare, governments have to find a way to encourage provinces to get out of equalization. In Saskatchewan the goal is to get out of equalization -- it has been out a few times.

FC: Manitoba has quite a dependency on equalization.

JM: Yes, your province has a higher portion of its revenue coming from equalization.

FC: You sold the government's shares in the uranium mining company, Cameco. How did you rationalize that to the traditional NDPer who believes in government ownership of the economy?

JM: I think that government has to be strategic. So all we had were shares in Cameco and so what was the strategic reason for government to own shares in Cameco? Now I think you have to set ideology aside. Some advisors were urging us to get rid of these chemical shares when they were at \$18. What we did was to get really good advisors who said "wait, they are going up" -- we sold them at \$72 a share and made a whole lot of money which was used for public purposes -- to bring down the debt.

FC: Let's switch to Saskatchewan's history of Crown corporations - probably the most colourful in the country. State ownership of business is an idea that is fading into history?

JM: You really have to be pragmatic and set aside ideology and just take it on a case-by-case basis. Does the Crown provide an effective and affordable public service? Is it sustainable in the long term? It is also an investment -- is the taxpayer going to have their investment protected in the long term? You may find in some of them that it is time to move on but others -- power, for example - you may decide to keep them. If you look at power privatizations there have been some pretty unfortunate developments -- such as high power rates. The main thing I am concerned about with privatization is where the government just shifts the debt onto the taxpayer. So, governments should be pragmatic and there has to be absolute full disclosure.

FC: What about a local example -- devoting millions of dollars to build hydro dams for export contracts that might be there?

JM: I haven't followed what's happening here but I think we have a history in Saskatchewan of Crown corporation that have been generally well run -- I know that there are exceptions. But you have to be very up front with why you are spending those millions of dollars and you have to be sure that the markets are there. An idea that has been discussed many times but never acted upon is a western power grid, where Saskatchewan would purchase power from Manitoba.

FC: You are quite critical of the traditionalists within the NDP in your book -- why?

JM: If there is anything I criticize a lot it is the left-wing and often, not all, but many public sector unions because they were a real problem in helping the public come to grips with the fiscal crisis. We were at the point where our province couldn't borrow money in Canada and we could barely borrow money in New York and yet there were critics saying "there is no problem; all the governments have to do is raise royalties or some simple solution". This was very destructive, particularly when your own members come to you and say "what is the matter with you folks?" Some never accepted the facts.

FC: Have you left the NDP?

JM: I am not a member of any Party, now. When I left I decided I wanted right out of partisan politics which is actually quite refreshing. Partisan politics is hard because you have to believe that you have all the right answers and the Opposition has all the wrong answers -- that is not very often true.

FC: How do you think politics can become more relevant to the public?

JM: It is a huge problem, particularly when you look at the number of young people who are not voting. It sounds naïve to say this, but politicians have to level more with people. I think they often underestimate the capacity of the average voter to accept a difficult choice if necessary. Look at the 90's -- we made some incredible cuts. Similarly today with healthcare, the public suspects that we can't really afford what we are doing and if you said that and came out with solutions over the long term that worked they would be accepted. Politicians spend too much time dancing around issues instead of actually hitting them right on the head.

FC: You were quite positive to Paul Martin in your book. Do you have some hope he will break the policy status quo in Canada? A lot of people see it as stagnant.

JM: Yes, I have had lots of disputes with Paul Martin over the years over money but I think he would be a very different kind of Prime Minister.

FC: In what way?

JM: He would be much more policy oriented than the current one. He would be the first Prime Minister in a long time to begin from an economic foundation. If you don't have balanced budgets, you don't have a sound foundation and if you don't have a sound economy, you can't build all your programs.

FC: He could cut taxes?

JM: He obviously has cut taxes and I think he believes in a competitive tax regime.

FC: Last question -- are you going back into politics?

JM: You know, it is so refreshing to have your own views. One of the problems with our system is that when you are a member of a government, you don't any of your own views -- you only have the government's view. What you thought privately, you can't ever reveal that to the public so I think that there is a major role to play by ex-politicians, like me to talk about public policy issues and that is what I plan

FC: Thank you very much.