

WITH PAUL MARTIN, FINANCE MINISTER OF CANADA



Paul Martin with Chair Bruce Thompson

Paul Martin has been the Finance Minister of Canada since 1993. He has been the Liberal Member of Parliament for LaSalle-Émard, Québec since 1988. In 1999 he was named as inaugural chair of the G-20, an international group composed of both G-7 and emerging market nations, whose purpose is to provide a representative forum to discuss the challenges involved in managing the world economy. Mr. Martin was educated at the universities of Ottawa and Toronto, where he graduated with an Honours Degree in Philosophy. A graduate of the University of Toronto Law School, Mr. Martin was called to the Ontario Bar in 1966. The greater part of Mr. Martin's career in the private sector was as a business executive, first with Power Corporation of Canada, in Montreal, and later as Chairman and Chief Executive Officer of Canada Steamship Lines. He also served as a corporate director for seven major Canadian companies. In addition to his professional responsibilities, Mr. Martin has been active with a wide range of community and service organizations. He is married and has 3 sons. Paul Martin was interviewed after a Frontier Centre Board of Directors Policy Roundtable meeting with invited community leaders in Winnipeg on January 17th, 2002.

**Frontier Centre: Canada is in a recession, and as Finance Minister you have been under pressure to use the tools of “pump-priming” to reverse it. Some even advocate a return to deficit spending. Your latest budget statement disallows these methods – what has changed in theory or in practice?**

**Paul Martin:** Well, first of all, there is massive stimulus as a result of our tax cuts – over \$17 billion alone going to the economy and another \$8 billion in spending. So there is that stimulus – it turns out that our timing was very, very good. Obviously, that is crucial at the same time those lower interest rates are the single most important way of dealing with a slow down in the economy. Going back into deficit would only hamper our ability to do that.

**FC: Of the G7 nations, Canada stands out as one of two countries that are in surplus. This would seem to be quite an achievement – why is Canada different?**

**PM:** Primarily because of the very tough choices Canadians were prepared to make over the last six or seven years. I think this is entirely due to the fact that there was a huge national consensus – and that consensus was to eliminate the deficit and that consensus continues.

**FC: International press, like the respected Economist Magazine, commended your last budget as a prudent budget that balanced the need for stimulus with fiscal discipline. Many national commentators have criticized the sharp rise in spending, however, and warn of a slide-back to the old ways of deficit spending. Will Canada run a deficit?**

**PM:** This is not a question of ideology, obviously, we should do everything in our power to stay out of deficit but in terms of our spending – our spending today or at the end of last year was no greater than it was in 1993 when we first took office. The increase in spending has all taken place very recently and that is because of the huge transfers to the provinces for healthcare, the increase in Old Age Pensions which is a demographic question and, of course, the necessity of spending \$7.5 billion dollars on national security and I think that nobody would disagree with any one of those three.

**FC: Are we going to run a deficit?**

**PM:** I think we should do everything in our power to stay out of it.

**FC: Do you see Federal spending increasing at a faster rate than the economy in general or was this year just an aberration?**

**PM:** It is very important for us to control our spending and I would certainly want to keep the percentage increases down but to do so in a time of economic downturn – I believe would not have been the right decision.

**FC: What is your major achievement as Finance Minister?**

**PM:** Oh, I think that it's working with Canadians to establish the consensus to really bring fiscal sanity to the administration of government.

**FC: Ireland managed to create its admired “Celtic Tiger” economy by sharply restraining government spending in the mid 1980's and slashing corporate taxes. As its growth accelerated the size of government as a percentage of GDP fell. Do you have any views on the Irish policy mix? If federal spending were restrained below the general growth rate, would you see any prospects for a repeat of the Irish scenario here?**

**PM:** Obviously controlled spending is important but the issue is not controlling spending, the issue is also where do you spend. For instance, one of the areas most important to the Irish renaissance was their investment in education and I can tell you that that is probably the single most important thing the Irish did and that is certainly an area that we should emulate.

**FC: The Atlantic Institute for Market Studies has done some serious work around the problem of unintended provincial welfare traps where provinces are faced with strong incentives to not develop their resources or cut taxes because they will lose up to 80% of their equalization payments. Do you have a view about their work which suggests that federal transfers have retarded sustainable economic growth in the Maritimes, is Ottawa doing the “have-not” provinces a favour or hurting us with this largesse?**

**PM:** I don't think that expresses the problem correctly. If you take a look at Atlantic Canada, in fact, their major cities of Halifax, Moncton, Fredericton, St. John are all doing quite well in comparison to the national average. The problem that exists in this country, more than anything else, is the lack of economic development outside of our major cities – that is certainly true in Atlantic Canada but is also true in the rest of the country -- including Manitoba.

**FC: The Province of Manitoba underwrites one-third of its budget with federal equalization payments which allows the Province, for example, to have the highest per capita health spending in Canada, 20% higher than the Canadian average. If**

you ask the person in the street whether they are aware of the federal contribution to public spending here many have no idea how dependent this province is on federal transfers. Does this low-profile transfer system not disadvantage the feds?

**PM:** To a certain extent, I suppose it does in terms of the national debate because it allows some of the provinces to basically make statements about the fact that the federal government isn't carrying its share of the load in areas such as healthcare but, to be quite honest, I think that Manitobans, and Canadians in general are really fed up with the wrangles and just want their governments to deal with the issues.

**FC:** In Halifax recently, you commented that there was merit in exploring the idea of reducing federal tax rates for have-not provinces in place of transfers like equalization and regional development programs. You also said that several premiers are sympathetic to the idea. Can you elaborate?

**PM:** I'm not saying that's the total answer but I certainly think it should be part of the "tool kit" that we should be examining. And it would require, certainly, national agreement. In other words, this is a measure that would be applied in those areas that are doing less well than others and obviously those that are less well-off would have to agree otherwise, in fact, the whole system would flounder.

**FC:** Here is a final zinger question ... think tank "blue sky" stuff ... several years ago your government used a "one-time" payout to end the Crow transport subsidy which had effectively discouraged the diversification and development of the rural economy. Most observers agree that this change has benefited the Prairies. What do you think of the idea of a similar one-time payment to provinces who are willing to exit the equalization transfer system? For example, Manitoba might get \$10 or \$15 billion dollars in return for an end to an annual payment of \$1.5 billion – this would temporarily increase the federal debt but would allow the province a chance to extinguish its debts, create an endowment fund, cut taxes, etc.

**PM:** I think that any measure that would improve the quality of life in any province and certainly Manitoba is something that one should take a look at. Whether I agree with the idea or not doesn't mean that it shouldn't be open to debate. The question that you would have to ask is that, if in fact that happened, and then in five or ten years the quality of services – education and healthcare for example, in a province such as Manitoba continued below the national average then clearly one would have to begin the equalization process all over again. So you would have to ask whether, in fact, what you were actually doing was buying temporary respite. But as far as I am concerned, while I do believe that equalization is an important part of the national fabric – I also believe that we should be looking at other options -- I think that everything should constantly be up for discussion.



---

The Frontier Centre for Public Policy is an independent public policy think tank whose mission is to explore options for the future by undertaking research and education that supports economic growth and opportunity. You can contact the Centre at: 201-63 Albert Street • Winnipeg, Manitoba CANADA R3B 1G4 • Tel: (204) 957-1567 Fax: (204) 957-1570 • E-mail: [newideas@fcpp.org](mailto:newideas@fcpp.org) • web: [www.fcpp.org](http://www.fcpp.org)