



The Hon. Frank McKenna, P.C., Q.C. is the former Premier of New Brunswick (1987-1997) and currently Counsel with the Atlantic law firm of McInnes Cooper. He devotes his considerable energies to the law firm, numerous corporate directorships, volunteer activities and his long time passion – continued economic development of the Atlantic region. Mr. McKenna offered several policy ideas for ending regional dependency and creating alternatives to federal regional subsidies in a speech entitled “Exiting the “Have-Not” Paradigm” at a Breakfast on the Frontier event in Winnipeg on April 25th, 2002. He shares more thoughts in the following brief interview with the Frontier Centre for Public Policy that same day.

Frontier Centre: Your record as a three-term premier of New Brunswick is usually thought of as successful in economic terms since a more vibrant private sector emerged during your oversight of that province. Was that a coincidence, or did you take particular measures to help that happen?

Frank McKenna: We were very, very consumed with growing the economy because we knew we might be able to keep up with the rest of Canada but not overtake the rest of Canada and so, almost as a signature policy, our government appealed to New Brunswickers to try to get rid of the have-not image and status that they had and to create a province that was more self-sufficient and capable of standing on its own two feet. So we set out to diversify the economic face of the province, to bring new industry in and to make it a “business friendly” province and to try to grow entrepreneurship within the province.

FC: What do you consider your major achievement as Premier of New Brunswick?

FM: I probably could encapsulate it by saying – creating a greater sense of hope and pride.

FC: How should we promote a more diversified regional economy?

FM: Deliver good government, invest in knowledge and innovation, actively recruit immigrants and try to change the federal/provincial arrangements in such a way that incentives are placed in a more strategic way.

FC: Are there intrinsic factors that make provinces like the Maritimes and the eastern prairies habitual beggars at the national economic table or is their have-not status a creature of public policy?

FM: I think bad government begets bad economies. I don't think that that is so true in those two regions – in fact, I tend to think they have better governments -- but we haven't been gifted with oil, we haven't been gifted with an auto pact and, as a result, we have had to overcome some natural disadvantages and I believe the federal policies, generally speaking, tend to support more strongly those regions that prosper rather than those regions that don't.

FC: What are your thoughts on how to counter the phenomena of dependency on government in poorer parts of the country?

FM: Well, I am making the suggestion today that we have an immigration policy that actively directs immigrants towards regions rather than simply allowing them to flow towards Toronto and, secondly, that the Government of Canada actively pursue a low tax policy in disadvantaged regions to allow them to grow more quickly than the national economy as a whole.

FC: You are no doubt familiar with the contention by the Atlantic Institute of Market Studies that federal transfer payments have hurt “have-not” provinces more than they have helped them. What is your opinion?

FM: I don't think they have hurt them more than they have helped them and I don't think there was any bad intention but I do think they have a perverse impact and that perverse impact is to make regions more dependent. They give very little incentive to create greater on-source revenue because those revenue sources are taxed back. So, I think it is fair to say that the programs are well-intentioned, have had minor to modest success but, generally speaking, aren't transformational.

FC: The provinces that receive substantial equalization payments, generally, have larger public sectors than the average. Some have said that payments end up subsidizing larger governments, more public employment and higher wages. Do you agree with that as a potential downside of equalization that it delays adjustment and restrains innovation and modernization of the public sector?

FM: No, I don't accept that, and I doubt very much if it is true. In fact, during my time as Premier I saw one statistic indicating that the highest number of public servants in the country per capita was in Alberta which is the wealthiest province in Canada. We have to remember that some of the disadvantaged regions are very rural in nature and, as a result, they require government to be spread out much more than if you were to try and govern downtown Toronto.

FC: The Nobel prize winning economist James Buchanan, who is an original proponent of equalization, says that from an ideal economic point of view transfers should be given to individuals instead of various levels of government. He believes the best system would simply apply differential rates of income tax in different provinces. How would you see these old transfer programs being modernized?

FM: Well, that is exactly what I am speaking about today. I wasn't aware that that was his view but it's my view that lowering the tax rate will actually reduce the inequity between the regions. What equalization does is allow governments to deliver reasonably comparable levels of services but it doesn't allow the economy to grow faster in “have-not” regions and I believe the judicious use of both would result in the need for equalization dissipating over time.

FC: Won't certain provinces have a problem with your idea of lower taxes as an alternative to equalization?

FM: I don't believe that will be the case. The whole country is better off if we can reduce disparity. It means an overall federal expenditure down the road – an overall lower federal expenditure number one. Number two, it creates more prosperous markets for the goods of all provinces and I think most Canadians who are seeing a lot of money now spent on equalization and other programs would be prepared to spend money if they knew at the end of the day this would be genuinely transformational in terms of creating greater equity in this country.

FC: What federal programs would you phase out to pay for this?

FM: You couldn't do anything from the outset. You would have to introduce the tax changes and allow them to work. Then, over time, you could look at the Regional Development agencies and then other federal transfer programs. As the poorer provinces became more prosperous I think you could look at considerable federal savings.

FC: Would you lower rates – or simply have a tax holiday?

FM: Well, my view is that you wouldn't have it forever – but maybe for a ten-year period you would have a tax holiday.

FC: What do you think of the idea of a one time buy-out of the equalization system where Manitoba and New Brunswick might, for example, get \$10 or \$15 billion in return for an end to an annual payment of \$1.5 billion. That's just an example. This would temporarily increase the federal debt but would allow the "have-not" provinces a chance to extinguish their debts, create an endowment fund and/or cut taxes. Does this make sense?

FM: Well, it won't happen -- so in that sense it doesn't make sense. You can accomplish the same thing effectively, I think, if the Government of Canada were to "zero-rate" taxes -- corporate taxes, in those provinces. But, I do believe that the Government of Canada has to look at transformational events and if that involves a fairly large expenditure with some certainty and guarantee that down the road these provinces will require less federal resources then I am in favor of such an expenditure.

FC: Canada's birthrate is too low to sustain its current population, never mind increase it. Is more immigration the only way to make sure that Canada has a future? How do we encourage more people to come Canada?

FM: The problem is not encouraging more people to come to Canada – there are lots of people who want to come to Canada. The problem is getting those people spread across the country instead of being in three large population bases. So, my answer is, yes, we need more immigrants but, no, simply directing them all to go to Toronto which is the current policy is not the way to do it.

FC: According to a federal cabinet minister, the Charter of Rights will restrict the ability to tell immigrants where they can go in Canada. What is your view on that?

FM: I just find that hard to accept. People who make a decision to come to Canada aren't Canadian citizens, they are people from outside. Surely to goodness, our Charter of Rights doesn't extend around the world to prospective immigrants. For the reason, I think that we can still end up offering some direction. The Charter of Rights was not set up to impede the development of Canada but to support our citizens. I think, in a situation like this, that where there's a will, the will be a way to get around it.

FC: Thank you.

