

Why A Canadian-U.S. Union is a Bad Idea

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The main problem with the union of Canada and the United States is that it reduces the number of competing political jurisdictions in the world. This is almost always bad. The more political jurisdictions we have competing for residents, the less oppressive any one of them can be. That's why no state in United States has dared to set a marginal tax rate in excess of 15%. If one were to do so, it would lose a large percent of its high earners. It's also what constrains state governments to restrict the level of welfare payments.

If it raised them too high, it would gain residents, but the kind it would gain are those who want welfare, not those who are productive. Given how both state supreme courts and the U.S. Supreme Court have ignored many of the restraints on government in their Constitutions, this political competition is one of the few restraints left.

This might come as a surprise to Canadians, who don't see much political competition among provinces to keep tax rates low. They're right in observing the empirical fact, but the empirical fact is itself evidence of what I'm saying. What limits competition among Canadian provinces is a huge tax that the federal government puts on those provinces that keep tax rates low and a huge subsidy to those who set them high. The tax is called "equalization payments." A province like Alberta that keeps tax rates low will see its per capita income rise more quickly than that of other provinces and will thus be a bigger net payer of equalization. A province like Newfoundland, Quebec, New Brunswick, or Manitoba that sets tax rates high and also wrecks its economy in other ways will see its equalization payments to itself rise. So the federal policy has limited tax competition. This, incidentally, is why it was so important for former Treasury secretary Paul O'Neill to oppose (which he, fortunately, did) the EU's (or the OECD's--I've forgotten which) attempts to limit tax competition among nations.

So those who want more economic freedom and the accompanying economic growth that goes with it should be pushing, not for mergers of countries, but

for break-ups. That's why, for example, I would like to see the United States break into smaller jurisdictions. We would get more political competition, lower tax rates, and, as a side benefit, a less powerful U.S. military (because there would no longer be a U.S.)

There is a downside. Political jurisdictions that are independent tend to restrict trade across borders, something that states and provinces cannot legally do. But in this era of negotiated trade agreements to reduce tariffs, this is a far smaller danger than it was when the U.S. states were merged in 1787.