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Chair

Mr. Yvan Loubier

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•(0805)

[English]

The Chair (Mr. Yvan Loubier (Saint-Hyacinthe—Bagot, BQ)): Good morning, everybody.

I want to thank you for being here for the meeting of the Subcommittee on Fiscal Imbalance. I will allow you 15 minutes for your opening statement. Then we will give the opportunity to members to ask some questions.

Welcome, Mr. Tory. And good luck with your election.

Mr. John Tory (Leader, Progressive Conservative Party of Ontario): Thank you very much to you and to the members of the committee.

I have two apologies this morning. The first is because we don't have copies of the presentation available in French. I was revising it up until 7:20 this morning. Because I'm involved in a byelection campaign, I was working on it late last night. So there wasn't a proper opportunity to have it translated, and I apologize for that. I also apologize for the fact that I told you I was available at eight o'clock in the morning, which I'm sure was not the first choice of time you would have picked to hear anybody. But having said that, I am very happy to be here.

I'm not going to read the presentation today. I'm going to just flip through it and make comments, and then we can have questions.

This is an issue I first started talking about when I ran for mayor of Toronto in 2003. I came to realize from listening to people, whether it was individual citizens, people who were running social service agencies, or people who were running the city government, that there was a serious problem in the country with both the level of taxation that people were experiencing and, perhaps even more importantly, the fact that they were paying what they thought was enough tax to all governments.

There were serious problems with regard to the financing of other levels of government besides the federal government. Even at that time, of course, in 2003, the federal government was experiencing substantial surpluses, the provincial government was beginning to have some financial problems, and the municipal governments were having financial problems. Although taxpayers didn't understand all of the nuances and mechanics of federal-provincial-municipal finance—I'm not sure even people who are in government fully understand all those things, because there is a lack of transparency—I think what you did see is taxpayers starting to understand that they were paying enough tax but that the money they were paying was

not getting to the level of government where it was needed most to deliver the services to Canadians.

There is, of course, a very acute situation in Ontario at the moment, where you have a provincial government trying to deliver services it has a constitutional responsibility to deliver, including in particular health care, but not limited to health care. Of course, you then have the municipal governments in Ontario, which I think end up making do with much less money than they need, given the services they are responsible for delivering, in part because the province doesn't have enough to do what it has to do.

What we've done in the country, in my view—and this is one of the principal theses I'm arguing this morning—is tinker with these things over time. We've had various and sundry first ministers meetings and other such meetings where we have adopted fixes that are supposed to be sometimes for a generation, sometimes for a decade, sometimes for five years. Rarely do they last longer than a very short period of time. I think we've invented a system, through all the tinkering, that is lacking in transparency as a result. It's so complicated now and it has so many add-ons and things that have been put on the side of it that it's lacking transparency.

I think it becomes very difficult to justify to the one taxpayer who finances all governments the fact that we are generating these huge surpluses at one level of government. Provincial governments across Canada are facing deficits. Municipal governments certainly in Ontario are suffering greatly. There seems to be no solution to this in the eyes of the taxpayers.

So I make the argument that I think the leaders of the country have to come together. It is their responsibility, first and foremost, to come together as partners in the federation and take both the national interest and their respective provincial interests and work together to develop a better and more transparent answer that can address the fiscal imbalance for the longer term.

I provide in here some language you've read many times before, and I don't need to go through with regard to the principles of equalization, because I think oftentimes people misunderstand what the purpose of the equalization program was when it was conceived and continues to be. People think it was meant to create equal amounts of wealth in the country or equal amounts of economic activity, when in fact it was meant, to paraphrase, to replicate an amount of revenue that would allow for the provision of public services across the country at reasonably comparable levels of taxation.

●(0810)

This province has always—from my perspective, very proudly—assumed a leadership role in sharing the country's wealth. That continues to be the case with the equalization arrangements concluded as recently as October 2004; you see continuing additional amounts of money flowing from Ontario into the equalization program and in turn disbursed to other parts of the country. I think these contributions by Ontario to these national programs have to continue, both because it's in the national interest, which has always been very important to Ontario, and because it's in Ontario's interest. A strong Canada is important to a strong Ontario, and a strong Ontario is important to a strong Canada, but we're getting to the stage where we have to, in some way, address the fact that in Ontario we're having difficulty delivering our core services to Ontarians at the same time as making all these contributions to these national programs.

If you look at 2003 alone, we had a really difficult year in Ontario with SARS, mad cow disease, a power blackout, and the West Nile, which cost billions of dollars in revenue to the province as a result of diminished tourism and economic activity, but there was no respite from the escalation of health care and education costs. In fact, new needs being identified for additional investment in things like post-secondary education, agriculture, and infrastructure really couldn't be properly met.

I think what has been happening in response to a lot of this over time, under parties of all stripes, is that our leadership comes together and does some random subjective transfers on the part of the federal government. Deals are done in respect of things like health care, offshore revenues, equalization, and so on. They are often seemingly unconnected to one another; they are often singular in their nature in that they address one particular problem, or one particular province; they are often short term, and there's really nothing done to sit down and look at the broader picture of federal-provincial financial relationships, or the broader relationship, and to decide where we're going with this as a matter of long-term planning in the country.

I think a lot of the deals made have very little in them by way of accountability provisions. There's very little by way of assurances to taxpayers that the money provided for under these deals gets to the place where it's meant to be, and I think this leads, in my view.... I'm a businessman who is very recently into politics—I don't even yet have my first seat in the legislature, I hope I will a week from yesterday—but I think when you have this kind of arrangement where you don't have the transparency, you have the short-term thinking, you have the kind of one-off fixes that aren't part of a larger plan, it in turn leads to much less effective planning on the parts of other governments—provincial governments, municipal governments. I think it leads to less effective delivery of services, because there is really no measurement of what you're getting for the additional money being put in. I think it inevitably leads to another round of ad hoc discussions later on, only because, by definition, if you do something short term or one-off, you end up either with other people wanting the same deal, or a similar deal, or with somebody two years later saying the deal wasn't good enough and they want a better one.

I look at the health care accord, for example. As much as the money was needed by the provinces, and as much as it was welcomed by the provinces, already—it's not even a year old—you have people making noises about how it's inadequate, and making noises about various other provisions in it. This was supposed to last initially, as I said, for a generation, and then even for a shorter period of time than that.

Similarly, the conference held last fall on equalization seemed like another short-term exercise. You had the partners in Confederation directing more money at an unreformed system and not really tackling the issue of whether this system needed more fundamental review and reform. The only act taken by the Prime Minister and the federal government was to appoint a panel to review how the money was disbursed. Following right on the heels of that came similar agreements—one-off kinds of agreements—with Nova Scotia and Newfoundland in respect of non-renewable resources. Again, I think it just continues with the pattern. Inevitably, following that, you had people from other provinces, including Ontario, saying that if you've done deals with them, I suppose there should be a deal for us.

●(0815)

I'm supportive of Premier McGuinty's initiatives and comments with respect to the need for changes to the status quo, though I do want to point out, consistent with what I said in the earlier part of my presentation, that I take issue with two things that are a part of his approach.

The first is that by going forward and asking for a number of \$5 billion, which he explains is 40% or some such number of the existing surplus, I think that is in effect advocating another ad hoc deal, only this one is for Ontario. I don't think the way we're going to solve these problems over time is simply to pick that number, even if that's the right number—in other words, how much of a surplus would be coming from Ontario taxpayers' pockets—and just say to send Ontario that and everything will be fine.

Similarly, while there is an inherent unfairness in the immigrant settlement funding arrangements between Ontario and other provinces—an unfairness that I have talked about for two years or more that I have been in public life and one that should be fixed—I again don't think that just fixing that or sending \$5 billion and confining yourself to asking for that is the proper way to go in this instance. I think we have to have a much more comprehensive solution.

The second thing I have said repeatedly is that I believe that in what he is doing, he is going about this in a way that is perhaps advanced more in the spirit of confrontation with the federal government, when I think he in particular, as both the Premier of Ontario and, as it happens, the person who is the chair of the Council of the Federation this year, should be looking for a much more constructive way to sit down with the partners in the federation and do some long-range thinking. Spend the time. Have the discipline to sit at the table. Don't focus on issuing press releases, focus on trying to find some reforms.

This comes back to what I think is one of the things missing in politics today—and this is a personal view that you won't have time to debate here this morning. There seems to be a tendency to suggest it's somebody else's responsibility to take these initiatives. I talk later on about a royal commission, and people have advanced the idea that there should be a royal commission to deal with this.

I think it would be a terrible mistake to appoint a royal commission first and then have some direction coming from the political leadership of the country later. I think what is needed here is a meeting of the partners of Confederation to discuss the kind of direction in which we should take this whole area of federal–provincial finance and the federal–provincial fiscal imbalance. Then, in turn, there may be a place for a royal commission or some other body of independent experts to refine it and in fact develop some specific proposals, which could then be considered again by the political leadership of the country. But I think the only people who really could set direction for Canada, who can agree on new directions for Canada, and make changes in government financing or financial arrangements that come the shared taxpayers, are the people who lead those governments.

I will just go through this quickly. I think this is something Canadians are really asking for, more so than anything else. I've probably been knocking at more doors than most other people in this room and probably lots of other politicians recently, just because I happen to be, at this moment, involved in an election campaign. There's a degree of dismay that people have about governments and politicians not working with one another and constantly seeming to engage in conflicts and fights and arguments.

And the taxpayers are smart. You all know this. You talk to them as well. They identify the fact that the governments are all talking about the money that belongs to them. The taxpayers know it's really their money, though, and they find that very frustrating. They know it's their money, yet these governments are all fighting about it as if it belongs to the governments themselves.

Especially when they read repeatedly about the existence of seemingly increasing surpluses every year at the federal level, I think the taxpayers honestly believe, both for that reason and because they simply can't afford to pay any more, that they're paying enough tax. But the issue isn't whether they're paying enough tax. As I said earlier, the issue is whether the money is getting to the right level of government.

So I would repeat the call in front of you today and I urge you to consider repeating the call, adding your voice to mine and those of other people who have said there should be a meeting of both the Council of the Federation and, beyond that, I would argue, all of the governments of Canada to discuss the issue of the fiscal imbalance. And it would not be just to discuss it in a gabfest, but to discuss it with a very specific view to embarking on a process of fundamental reform.

I look at Mr. McGuinty indicating that the Council of the Federation has decided that its contribution to this is to almost have established a committee to deal with it. I just think we are “committed” to death about this kind of thing, and that we really need people to sit down and decide that they're going to discuss some very specific concrete actions that they can undertake. And

then, as I suggest, they can refer that possibly to an independent body.

In dealing with a royal commission, I say here that if there were to be a royal commission or some other body like that—I'm not big on royal commissions, because I think they tend to be turned into huge, complicated, time-consuming, and very expensive things that should be rarely used—it needs clear directions from the political leaders on what it is seeking advice on. I think it should be given a relatively short time limit, albeit that the topic is complex, and it should be done in very budget-conscious fashion.

● (0820)

I had some other material in here about options. By no means do I endorse any of those by putting them forward; I just think there are things that have been put into the public domain by the Conference Board, by the Séguin commission, and by others that have suggested ways in which this could be dealt with. I'm happy to answer questions on my own personal views, not that those are necessarily that relevant to what you are doing, but I think there's been a lot of work done on this. Again, that to me underlines that we don't need to start from scratch in terms of having a royal commission or some other body that would start looking at this as if no one ever had before.

The last point I want to make is simply this. I really believe that in doing this we have to somehow make sure that the municipalities are a top-of-mind consideration in these discussions on the federal–provincial fiscal imbalance and possibly that there is a way found to have them participate in some way. It's simply because if you look at the delivery of so many important services today, you'll see those services are being delivered by local governments, which are, certainly in Ontario, cash-strapped. That is in part because of arrangements in place between the provincial and municipal governments, though I realize that is not part of federal jurisdiction.

At the same time, we have to decide who is going to do what among all three levels of government, all of which are financed by the same taxpayers, and make sure the taxpayers can see there are transparent, non-duplicative, simple, clear, efficient kinds of arrangements in place in terms of service delivery. I've come to realize more than ever, over the time I've spent in public life in one way or another for the last two years, that the local governments are the ones that have a crucial role to play in service delivery and in being accessible to people, more so than the other levels of government. Therefore, we shouldn't just leave them out of our consideration on these matters.

Thank you for your patience, Mr. Chair and members of the committee. May I just repeat one last thing in concluding?

I think the political leadership of the country has a responsibility to deal with these kinds of things and that too often political leaders are inclined to refer these things off to task forces or committees and so on. It goes against the grain of everything I learned when I was a business leader. I realize business and government are not the same, but you don't have the latitude in business to postpone your problems by referring them to a task force; when you have a problem, you have to act on it. You have to take your responsibility, just decide you are going to get whatever advice you can as quickly as possible, and proceed to put some recommendations in front of people and make some decisions. I would hope the political leadership of the country will do that and will take up that responsibility.

I just want to say, as one who is a political leader in Ontario, I welcome participation in that kind of exercise in whatever way is appropriate, including being here today, and I thank you for sending us a letter asking us if we wanted to come.

Secondly, I would keep in mind all the way through that a strong Canada is vital to a strong Ontario and a strong Ontario is vital to a strong Canada. We always, always, always in this province—and everywhere in the country, I would hope—have to keep the national interest in mind, making sure there are strong national programs that help us to develop the kind of country we want to have, but recognizing that we can't do that at the expense of any province, including Ontario. Both have to be strong.

So thank you.

I'm sorry if I have gone on over time, and I am happy to answer any questions you or members of the committee might have.

[*Translation*]

The Chair: Thank you very much, Mr. Tory.

[*English*]

Madame Ambrose, you have five minutes.

Ms. Rona Ambrose (Edmonton—Spruce Grove, CPC): Thank you, Mr. Chair.

Thank you, Mr. Tory, for being here today and for your comments.

I wanted to talk a little bit about the equalization formula as it applies to Ontario and Mr. McGuinty's comments. You made a comment about the tinkering with the equalization formula, which is something the Conservative Party, the official opposition, has been talking about for quite some time—the concern about tinkering with the federal-provincial fiscal arrangements and the lack of transparency as a result. As you also indicated, equalization as a formula and a very important national program is not necessarily supposed to be an economic driver, but is supposed to create and facilitate equal opportunities for Canadians across this country in terms of public service delivery. But also, it should not hinder or restrict economic growth, which is the other concern that we have.

In the October equalization deal that Premier McGuinty signed on to—and which we supported because we think it provides more sustainability in funding and predictability for the provinces over the next 10 years—one of the things of concern to us and our leader, which I brought up during the debates on equalization in the House, is that it contains a very generous floor. While this is very much an asset to the have-not provinces, the difficulty for Ontario with the

generous floor is that if the Ontario economy starts to decline in any way, Ontario will actually pay out more in equalization payments than it should. This is a concern. I think it will not only harm Ontario's economy, but it will also harm all of Canada, because Ontario, as you indicated, is a major economic driver for the economy of Canada.

So my concern in terms of Premier McGuinty's comments recently about equalization.... I frankly think his comments reflect a lot of the frustration that most premiers across this country are feeling in dealing with the federal government on these issues with ad hoc side deals. These ad hoc side deals may be within the interest of each province, but I don't think they are in the interest of the nation; in particular, I'm thinking of the Nova Scotia-Newfoundland deal on non-renewable offshore resources. We supported that deal, and we in the Conservative Party have been pushing for that for a very long time, but the problem with a deal like that and with ad hoc deals is that I think they have the opportunity to actually undermine the equalization program in this country. They set into motion, as you indicated, an opportunity for other provinces to want something similar, instead of us actually focusing on real changes to the formula.

But there is another element to this as well, which I was concerned about in the deal signed in October, and that is the impact of the U.S. economy on Ontario, which was not necessarily brought into consideration in the discussions around the table in October.

I wanted to know if you could talk a little bit about how you think Ontario can play a leadership role in ensuring that Ontario does remain an economic driver, considering the deal that was signed in October. Are you concerned at all by the fact that some economists think Ontario might be facing an economic downturn, and how can we insulate it and ensure in the next little while, through public policy changes or discussions between the federal government and the leadership in Ontario, that Ontario remains the economic driver in this country?

● (0825)

Mr. John Tory: Well, that's about eight questions in one, and I thank you for it. I'll address the biggest question, which was the last one, last.

I just can't emphasize enough how much I feel that the ad hoc approach to dealing with all these issues is wrong for the country. I think of Canada as a partnership; it's a federation. If you think about it as a partnership, the notion that you would have a partnership where, in this case—if you add up the territories and so on—13 or 14 partners, including the federal government and all of the provincial and territorial governments, would go off and make deals with two partners or three partners or one partner and then let the other ones know with a press release...that partnership wouldn't be very well run. And it wouldn't be very happy and cordial, because you would have partners who were disgruntled and others who were happy, and you would have no real long-term planning.

I tend to think some of the suggestions made by the Conference Board—in terms of one of your earlier comments about how you could have a situation in which Ontario wasn't doing well and nonetheless, as a result of the deal entered into in the fall, could be finding itself laying out more money—could be dealt with. For example, the Conference Board made the suggestion that we look at using three-year rolling averages instead of using these one-year calculations that take three or four years to do, in any event, with the 42 different taxation levels that are looked at. You could look, for example, at the 3.5 % escalation and examine it in the context of making it somewhat variable within the context of what the “have” provinces—not just Ontario's—growth actually is.

So as much as Ontario, I think, and people in Ontario want to make their contribution to these national programs and recognize that as an important part of Canadian citizenship and Ontario citizenship, if the Ontario economy is growing at 0.5%, but we are going to have to pay out 3.5% by way of an escalation, there may be some way to make it variable to some extent—I'll call it a partial indexation—so that at least you are taking account of the fact that the Ontario economy is not performing as well.

I think it speaks, as well, to the question of transparency. One of the reasons you can end up boiling down something that is a very complex and important part of Canadian citizenship to what is sometimes a non-constructive political debate is that the program is in fact so complex that it's easier to have a political debate at a superficial level about money in and money out than to really talk about what's going on. I think there is an urgent need to simplify and make this more transparent so that Canadians, those in Ontario and those elsewhere, understand how this works and understand that no one is being taken advantage of. It's a program that historically has worked quite well.

On your question with respect to the Ontario economy, I can only say to you that I rely.... You can rely on any reports you want. If you look at the last report of the Ontario finance minister, he talked about sales tax revenues beginning to diminish; he talked about other taxation revenues starting to drop off. I tend to rely more, as probably many of you do, on my anecdotal encounters with people in business.

Yesterday I was in Mount Forest, Ontario, and I went into two places of business as a part of my political canvassing. The first was a women's wear store that seemed to cater—and they told me they did—more to older women. It's in a typical small town in Ontario. I asked the woman how business was, and she said she had been in business for 20 years and it was the worst three months she had ever experienced. I asked her why, and she said people just don't have any money. Now, in that town it would be a reflection of the weakness of the farm economy and so on. But the bottom line is, in an era when we are all told that things are very robust and everything is terrific and Ontario is the engine that's driving the country, that's what she said.

So I went three doors down the street into the Ford dealership, and I said, “How are things? I know the auto industry goes in cycles because people buy cars and then they don't, depending on what incentives are out there”. The woman who runs the car dealership said, “It's very bad, it's a very low end of the cycle. Nobody's buying anything”.

I think that while there are still signs, because of low interest rates, that the housing industry is quite robust and people are buying houses and buying condominiums, and there are other parts of the economy that are doing well, those two anecdotes illustrate a much more broadly based answer you will get back from people.

Now, you asked me what the answers are. If I had those magic answers I'd probably already be the head of the government, or people would say that I should be put there immediately. But I certainly think we have to be very conscious of the levels of taxation, because that is an issue for a lot of people who are looking to invest in Ontario or in any other part of Canada, for that matter. I think we have to look at the regulatory burden that we are placing on businesses. I think we certainly have to find ways to address some of the competitive issues we face, whether they're in agriculture or manufacturing.

● (0830)

I don't argue that people can do very much about the high dollar. I mean, that is a function of world capital markets and financial markets. But I think taxation and regulation and the continuing difficulty that people are finding in getting into and staying in business because of the burden, both financial and otherwise, that governments at all levels place on them is a major issue that's only going to get bigger over the course of the next couple of years as we face more and more competition.

I hope that answers what was a series of questions. Thank you for it.

The Chair: Thank you, Mr. Tory.

Thank you, Madam Ambrose.

Mr. Szabo.

Mr. Paul Szabo (Mississauga South, Lib.): Thank you.

Welcome, Mr. Tory.

When we have the debate in Parliament about fiscal imbalance, much of the foundation information is basically that both the federal and provincial governments each have the tools in terms of taxation revenue, and a lot of this really has to do with whether or not they've used those tools effectively. So with that, Ontario theoretically could simply raise income taxes and deal with its problem.

But it raises a question for me that maybe you'd have some comments about. If the federal government is seen to be operating on a surplus basis, is that a signal for everybody to say, well, the fed can be the solution to my problem?

I raise this in the context of something as simple as the notional surplus in the EI fund. Over \$60 billion has been accumulated in terms of premiums in excess of the program spending. That goes into the general revenues of the government and is included in the determination of annual surplus or deficit. Over the same period of time we've also paid down about the same amount of debt. So effectively, the EI surplus now has basically been applied against debt, but over time it will have to go back to Canadians through lower EI premiums or increased programs, because it is under legislation.... The argument probably could be made that the federal government is not in a real surplus position, other than the fact that the EI surplus has provided those dollars.

So with that as one example, how do you assess Mr. McGuinty's \$23 billion number in terms of the fiscal deficit? Have you had an opportunity to consider its principal elements, and do you think it's a relatively accurate assessment of the imbalance in terms of inequities?

• (0835)

Mr. John Tory: Mr. Szabo, let me say a number of things about that.

First of all, even Mr. McGuinty, when he uses the \$23 billion number, does not suggest that the ideal fair arrangement for Ontario, as a contributing partner to Confederation and one that wants to continue to be, is to send the entire \$23 billion back and say we're square. He argues, I think, and I certainly would support this argument, that Ontario must continue to make a contribution that probably is a net contribution to Confederation and to the strength of the other parts of Canada because we have greater wealth here and greater wealth-generating capacity.

Part of the problem with these kinds of discussions, as I was saying to Ms. Ambrose, is that we end up talking about these numbers in ways that are incredibly superficial to discuss the issue of \$23 billion—if somehow it were all sent back, or as if that is what the problem is. I don't think that is the problem. If you go back in history, probably ever since most of these programs were developed, there has been a net contribution made by Ontario because we have a great wealth-generating capacity here. I think most people in Ontario have always felt that the contribution we have made nationally was also in our own interest. It has helped us to become the wealth-creating engine that we are in Canada.

The issue is more one of asking whether we have got to the point, forgetting about numbers, where we can't afford to finance our own programs—I will come back to your very important question about using your own tools—and where we are being asked to contribute more and more to these national programs at a time when we can't even afford to pay our own bills.

By the way, I am a strong believer that the government should be paying down debt. I think the efforts that have been made by the current government in Ottawa and some efforts that were made by the previous government in Ontario to pay down debt were good things. There is no business in Ontario, no family in Ontario that doesn't make an effort and, as a part of its own discipline, doesn't start to pay down its debt. It is something we all have to do. I think for governments to be doing this is a good thing, so I understand

what you are saying. Part of what is accumulated in Ottawa by way of what we call a surplus is money that goes to these purposes.

I heard what you said about the EI surplus. If you are implying that the solution here is to say that if Ontario has a problem it should just raise taxes, I think that is too easy an answer, because the taxpayers—certainly a lot of the ones I talk to all over Ontario, and I think it is probably true all over Canada, but I can't speak to that, as all my travelling has been in Ontario—would say they are paying enough tax. They believe they are paying enough tax. Not only would they say they are paying enough from the standpoint of how much of their income is going out in tax, but they would say, in many cases, they can't afford to pay any more tax. They are having trouble, especially middle- and lower-income people, making ends meet with respect to what it is they are trying to do to feed their families and just live their lives, no frills.

People suggest the answer is to say that Ontario has tools; it can just raise income tax. The Ontario government did that, and we opposed it. They promised they wouldn't do it, but they did. They raised taxes. The biggest tax increase in the history of Ontario was imposed last year by the Liberal government, and we think that was wrong because they said they wouldn't, in writing.

But having said that, anyone who wants to argue they haven't done something to enhance their own revenues would be not taking account of this tax increase. I think what is needed is a discussion of all of these things, including everything you have just said about the surplus and how it works, the need to pay down debt provincially and federally, and the tax tools—who's using them and how. That is the kind of thing we have to be discussing at a table, where all of the partners of the federation are having that discussion in a broad, long-term way as opposed to, every time we meet, doing these little deals on one thing or another other or doing a little tinkering here, a little tinkering there.

Mr. Paul Szabo: Okay.

Is that it?

The Chair: We will have another round. Thank you very much, Mr. Szabo.

Monsieur Côté.

[*Translation*]

Mr. Guy Côté (Portneuf—Jacques-Cartier, BQ): Thank you very much for your presentation, Mr. Tory. Some aspects of your presentation are very interesting, especially—and you stressed them quite a bit—the importance of cooperation between the federal, provincial and municipal levels of government. Obviously, we are all in favour of cooperation, we all love apple pie. However, there is a problem.

For example, in Quebec, we have over 200 elected members. Out of those 200, 179 agree that there is indeed a problem of fiscal imbalance. These 179 members are from all parties represented in the National Assembly and from the Bloc Québécois in the House of Commons. The 21 members from Quebec who do not recognize this principle are the federal Liberal MPs. One hundred and seventy nine members out of 200 make up a good consensus, in my view.

So then we talk about cooperation. But what can you do when one level of government decides, using its spending power, to invest unilaterally in the provincial areas of authority and at some other points in time decides also to withdraw funding from those same areas of authority? These decisions are very often unilateral. What can a province do? I know that Ontario deals with it in its document and might have some suggestions in this regard.

Along the same lines, my colleague Ms. Ambrose mentioned last year's equalization agreement which was imposed, since it was a take it or leave it proposition. A short while later, there were side agreements which deepened the imbalance even more and which distorted the functions of equalization. Do you not view this as a sign of failure? Quebec, Ontario and the rest of the provinces are quite willing to cooperate with the federal government, but that government presently has a budget surplus that allows it to do whatever it wants in terms of fiscal agreements.

● (0840)

[*English*]

Mr. John Tory: It's part of the challenge of Canadian government and politics. This is a relatively small country in population, yet we have a relatively complex system of government. I'm encouraged by the fact that this committee is here actually having a hearing, because I've heard it was not accepted commentary within the Liberal Party that there was a fiscal imbalance at all. But I suppose, if there is a committee that has Liberal members participating in it that is discussing whether or not there is fiscal imbalance and what is going on with it, that's a good thing for Canada.

Mr. Guy Côté: There's no pressure.

Some hon. members: Oh, oh!

Mr. John Tory: I understand we have a minority government and that things happen there that might not otherwise happen in a different circumstance, but that being said, they're here and they're participating, and I think that's good. There's no way around the mathematics of politics in the way things turn out.

Governments make decisions in very strange ways, and I understand the complexities of politics and government very well; I've been around politics for 35 years. In government there's often a tendency and a temptation to have little meetings for a couple of days to discuss an issue, go away for another six months or a year, and then come back for another couple of days a year later. I really do think there's a serious problem here that is affecting the legitimacy of the government, from the standpoint of the taxpayers of the country, as to how the finances are done, because there are provinces and municipalities with very serious financial problems. What you need to have is the leadership of the country sitting in a concentrated manner and just working away trying to find some answers to these kinds of things as opposed to the tinkering that's going on.

I have a preference for people raising and spending the money themselves. In other words, if there are things being done by provincial governments, I have a preference for the money being raised and spent by them, because then they're directly accountable for it.

Over time, again, if I were participating in one of these processes, I'd be looking for ways to simplify the myriad of programs where the federal government has a role and therefore justifiably thinks it should have a say. The person who supplies the money should have something to say about it. But maybe we should reduce the number of areas in which everybody is sending money back and forth to each other and find ways to make it more transparent and make for much more direct accountability on the part of that government that has the constitutional responsibility to deliver a service.

There isn't an answer to your question. This has been one of the age-old problems of Confederation. As well as it has worked in many respects, there has always been a challenge to take governments of different stripes, MPs and MLAs of different stripes, and different levels of government and then to try to reconcile their different views, fit them into how the country works, and try to reconcile all these arrangements.

Part of what I'm trying to say today is let's try to make those arrangements simpler if we can; let's certainly try to make them more transparent; let's try to make them more focused on long-range planning as opposed to short-term adhocery; and let's try to address what I believe does exist as a serious problem in the country, namely that there is an imbalance between the federal and provincial governments that is having a big impact in turn on the municipal governments.

● (0845)

[*Translation*]

The Chair: Thank you, Mr. Côté.

Madam Wasylycia-Leis, for a five minute round.

Ms. Judy Wasylycia-Leis (Winnipeg North, NDP): Thank you, Mr. Chairman,

[*English*]

Thank you, Mr. Tory, for being here. I appreciate your presentation.

My sense of this whole area is that in fact we are at a very critical point for this country and its future as we know it in terms of the federation and a strong national government. I have never seen anything quite so bad as the bickering that's happening between provinces, and I think outside observers are increasingly worried as to how we are going to get out of this mess and still have a country left. The very notion of equalization, which had its origins in the late thirties and early forties with the Rowell-Sirois commission, is up for grabs. It's in jeopardy.

Ontario used to play an important role and provide some leadership in sorting out some of those difficulties. Rather than playing that role right now, another government has jumped into the circle with its demands for another side deal, as opposed to trying to sort out the mess with the formula, the failure to get a committee going that would actually reach some agreement for the future of the program. We've got everybody in there trying to grab their piece.

While I can understand Ontario's concerns, given what's happened and how, I think, the federal government has failed Canadians, we need some leadership from Ontario in terms of getting out of the mess. Historically, that's been the case. I like to think Manitoba has played an equally strong leadership role, but I think Ontario has always been there.

Back in September 2003 the provinces—with the exception of Ontario, because Ontario was in an election at the time—came together and actually put forward a united position on strengthening the equalization program. It clearly called for a ten-province standard and clearly called for the full inclusion of all provincial revenues in the calculation of equalization entitlements. It was an excellent paper. I think if Ontario had not been in an election, it probably would have agreed. But that is basically sitting on the shelf gathering dust, because the federal government decided it was the wrong approach—too expensive, whatever.

So that's my first question: what's your opinion of that paper, or that solution, as proposed back in September 2003?

Second, what's your suggestion for stopping the bickering and getting away from the side deals? Notwithstanding Ontario's need for some money at the present, how do we get onto a more solid footing for maintaining a strong central government that is sensitive to provincial and regional needs?

Mr. John Tory: On your larger question of who is speaking for Canada and who is speaking for the national interest, I put this down to a matter of political will more than anything else. And it's not just political will on the part of the Prime Minister; it's political will on the part of all the political leadership of the country.

I've said throughout my commentary on the whole business of this fiscal imbalance as it affects Ontario, going back to last fall when the health meeting was on, that there is a very important need to make sure Ontario's positioning, rhetoric, and leadership on this always take account of the role Ontario has played historically in making sure that not just our provincial interests were represented, but the national interest was being taken into account. I do think that the strength of Ontario rests very much on the strength of the rest of the country, and the strength of the country rests, in part, on the strength of Ontario.

We have come to a stage where perhaps too much of the time of too many of the people...because it's not any one person. I think Mr. McGuinty has been doing a bit of this in recent days, but others have also been focused very much on their own interests, which is fine. They have to do that; they have a responsibility to do that. But perhaps they do that sometimes at the expense of making sure proper consideration is taken of the national interest.

I don't know whether the paper that was put together in fall 2003 represents the answer, but I do know it's one more paper that sits out there—albeit this one was put together by the heads of many of the country's governments. There are similar papers from the Conference Board and from.... I read about six yesterday, just in preparation for being here this morning. I guess part of the point I'm trying to make is that it's time to stop writing papers. It's time for people to get together in a room—not just the provinces by themselves—to reach an agreement, because in our country it's very nice if the provinces

can all reach an agreement on something, but that just sets it up for a potential confrontation with the federal government.

These people, including the federal government and the other partners in Confederation, have to sit down and work up a business-like and concise kind of an agenda on the most urgent areas in need of reform. It will require Mr. Martin to at least concede there is some kind of problem in the country that is causing this imbalance, which I believe does exist between the one level of government and the other two, and start sorting it out, whether it's with an answer that was put forward in fall 2003, or some other answer. I think it's just a matter of political will.

I've always thought it was easy, in watching politics as an observer or participant but not as an elected person, to lob out the press releases, pump for your own parish, and forget about the national interest. It's easy to do that, and it's always easy to pick a fight with somebody. It's harder to sit down and do the work of building the country. As I said earlier, it's not glamorous. It just involves going into a room with the partners in a spirit of partnership, deciding to put the national interest on at least an equal footing with people's own provincial or territorial interests, and not coming out until you have something done. I think we're at that stage.

I agree with you there's an urgency to this, and not just from the standpoint of money and the ability to deliver provincial programs. People are losing faith in the government because they're paying more taxes. They're struggling to live their own lives. Then they see all the governments fighting with each other, and at least half the governments claiming they don't have any money to address the problems people want to see addressed. They're losing confidence and saying this system is clearly not working, because the one thing they know for sure is they're paying enough.

So I think there is a need for the kind of reform you talked about, but it starts with having the political will, which is why I focused so much on that today. You can have as many royal commissions as you like, but it doesn't substitute for the political leadership that has to come from people elected to provide that leadership.

● (0850)

The Chair: Thank you very much, Madame Wasylycia-Leis.

Mr. McKay is next for three minutes in the second round.

Hon. John McKay (Scarborough—Guildwood, Lib.): I just wanted to ask you this. You've kept to a fairly non-partisan level of discussion. As I think about the differential raising of the fiscal capacities of various levels of government, what it brings into play is the foundational progressivity of this system.

On the national accounts basis, Premier McGuinty can make an argument on the differential, but when you mine it down, the reality is that Ontario taxpayers make more money and therefore give proportionately more money to the federal government by virtue of living in higher tax brackets. So you have that whipsaw effect on the one end, and on the other end you have programs that try to address imbalances, inequities.

An illustration might be the employment insurance. Ontario pays 41% of the premiums but gets only 25% of the benefits. What's your choice there? Would you prefer more people in Ontario be unemployed, so they could get more of the benefits they contributed to?

Similarly, people in other regions get a disproportionate share of the child tax benefit, which is a means-tested thing. The spread becomes quite dramatic. On an intellectual basis, I'm not sure how you would solve that, except by simply blowing up the whole progressivity of a tax system and replacing it with something else. I don't really know what it would be.

● (0855)

Mr. John Tory: Yes, I understand the point you're making, and I think I addressed it earlier. I accept the fact, and I think Mr. McGuinty does too.... In his comments I see he is not suggesting the entire difference between what we pay out and what we get back should be eliminated and we should just be square with the country. I think he has acknowledged, as do I most certainly...and I think I've acknowledged it more passionately and frequently than he has in this two- or three-month debate that's been going on.

I think what he's saying, though—and in this I would concur with him—there does reach a point in these kinds of arrangements where you have to be careful that two things are not happening.

The first is that by having these arrangements operate in the way they do, especially as amended—in other words, as you keep tinkering with them and putting new side deals and layering new arrangements on them—you don't start to demand so much of Ontario taxpayers, albeit with their additional wealth-generating ability, that you start to hamper the ability to generate that wealth; in other words, you start to hurt the Ontario economy or the quality of life in Ontario because you're asking for contributions to be made in excess of Ontario's ability to do so without hurting itself.

Second, at some stage you have to make sure there is some degree of flexibility in these programs—back to Ms. Ambrose's question earlier—to take into account fluctuations in Ontario's own performance over time. I think the series of arrangements in place today inadequately takes into account the probability that Ontario itself may go through difficult periods in terms of financing its public services, either because of the cost of those services or because of the way the economy is performing. The current arrangements don't necessarily take that into account and thus can lead to a situation in which Ontario has a period of acute difficulty itself in trying to provide for its citizens the services we're trying to provide on an equitable basis across the country.

Hon. John McKay: But how do you avoid the side deals? Year after year, things change.

Mr. John Tory: Well, I just think you have to.... Again, it's a matter of discipline.

As I said, a real partnership—which I like to think Confederation is—would not see a circumstance arise very often at all in which you would make side deals. If you had a deal to make on offshore revenue, you would make it at a table with all the partners sitting there. You would say these are your two partners in Atlantic Canada. They have an issue with non-renewable resource revenues. We have

to address that; let's address it together. That's the way it should be done.

I realize the Prime Minister would say he represents all Canadians in doing that. He has an argument there, but I think other partners involved in Confederation probably should be involved in any deal done with anybody, because we're all in this together. We're all in it together.

[Translation]

The Chair: Madam Ambrose, it is your turn.

[English]

Ms. Rona Ambrose: Thank you, Mr. Chair.

I want to go back to the comment you made about aligning revenues and responsibility so that those jurisdictions that are responsible for delivering services are raising the revenues that they are directly responsible for.

Going back to my original comment because of the concern I raised vis-à-vis the equalization deal that was signed in October specifically for Ontario, if there is an economic downturn in Ontario, we will see Ontario paying into equalization more than it can afford, for lack of a better word. In terms of that, I think it reflects the comments you just made. In the deal that was signed in October, I think there was a trade-off in the agreement, and that was that we traded flexibility for predictability.

There are some good things from that, but I'll continue to argue that I think this will eventually hurt, and it will only hurt contributors to the equalization formula—provinces like Ontario and Alberta, both of which, as you have said, are very strong provinces and proud contributors to Confederation. This is a concern, and it will continue to be a concern for Ontario if there is an economic downturn. So I hope that when you do become premier, you'll address this issue with the other partners in Confederation, particularly with Alberta.

I wanted to talk to you about what you said about simplifying the intersections between the vertical fiscal imbalance and the horizontal fiscal imbalance. One solution that has been advocated by us, the official opposition, is shifting tax points to the provinces and giving them more revenue-raising power in order for them to be able to deliver services in their areas of jurisdictional responsibility. I wonder if you could just comment on shifting tax points.

● (0900)

Mr. John Tory: Yes, I put it in here, Ms. Ambrose, because it is frequently advanced by you, by Mr. Charest, and others as a possible answer. I have watched it happen in the past and without complete success, namely because what happens is that the tax points get transferred and then there seems to be a bit of amnesia that sets in on the part of the recipients of the transfer of the points later on. They then come back and say they need more money, and the federal government says it transferred all those points to the recipients to give them that money or the ability to raise it.

I'm not here today to endorse specific options, I'm here to advocate that the leaders of the governments should sit down and come up with a series of options like this that they think would refine and make more transparent and more effective these arrangements. In my own case, I have a preference for governments raising and spending money themselves just because I think that produces purer accountability.

I think one of the biggest problems in government today is a lack of accountability. Everybody always points their finger somewhere else and says it's somebody else's fault, we got the money somewhere else, or gee, we gave that money to the provinces and they wasted it or didn't spend it in the right areas. The taxpayers are just left shaking their heads and saying it's their tax money and they're really are tired of all this fighting and bickering.

So I come back to saying, yes, I agree with you, I think there needs to be more flexibility built in, together with a degree of predictability. I think of some of the Conference Board-type suggestions, where you have rolling averages and you have perhaps a kind of indexation, as I called it earlier. Those kinds of things at least allow for a little bit of taking account of downturns that might happen in so-called have provinces.

On the transfer of tax points, again the good news is that such a transfer is in conformity with what I think is a better way to have pure accountability. The bad news is that historically, when such a transfer has been done, first of all the taxpayers don't understand it very easily because they see their taxes go up one place and they seem sometimes not to recognize that they went down somewhere else, because their tax bill doesn't change. Secondly, there is this amnesia that sets in perhaps two or three years later, when the governments that received the tax points forget about having received them.

Hon. John McKay: Two or three years or minutes?

An hon. member: Oh, oh!

Mr. John Tory: Sorry, you're probably right, Mr. McKay. Maybe not two or three minutes, but shortly thereafter.

Ms. Rona Ambrose: Thank you.

The Chair: Thank you, Madame Ambrose.

Monsieur Côté.

[*Translation*]

Mr. Guy Côté: Thank you very much.

There is one aspect that I really found intriguing, from the perspective of a member from Quebec. Rightly or wrongly, we often have the feeling in Quebec that if there is indeed a fiscal imbalance, Ontario would come down in support of it. I say rightly or wrongly, because I am aware that this is often a matter of perception.

Let me nevertheless provide one or two examples. Remember what happened last June, for example. Under pressure from automobile manufacturers, we saw the federal government inject very quickly half a billion dollars in the automobile industry of Ontario. We are very happy for the automobile workers, everything is fine.

At the same time, for many years the aerospace industry of Quebec has been asking the federal government for similar contributions in order for the aerospace sector to become in Quebec what the automobile industry is in Ontario. However, the federal government is very reluctant to do so.

You mentioned earlier the importance of us all sitting down together, to have these discussions, this cooperation. I have some difficulty with this. Despite my young age, it seems to me that this is exactly what the federal government, the provinces and Quebec have been trying to do since the beginning. But we always end up with those failures or situations where the federal government makes unilateral decisions.

My last point will be more a comment than a question because Ms. Ambrose took the words out of my mouth. Are you saying that it might be worthwhile to look further down the road and that the transfer of tax points to provinces, freeing up this tax space, might be a large part of the solution to the problem? Did I understand you correctly?

[*English*]

Mr. John Tory: I'm simply saying, Mr. Côté, that I think it is one of the options on the table to accomplish what I have said we should accomplish earlier, which is to make sure the money coming from the very same taxpayers ends up in the hands of the government that needs it to deliver public services to people in accordance with how those service-delivering responsibilities are divided under the Constitution.

I think there are things on which the governments are going to have to continue to work together. It's not going just be a matter of making sure that, say, all of the money is in the hands of either the Ontario or Quebec governments to invest in either the automobile or aerospace industries.

I think in terms of both auto and aerospace there has been a good history of the two governments working together on industrial development. We have quite a vibrant aerospace industry in Quebec, and certainly a vibrant automobile industry in Ontario, because there has been this federal investment over time, together with provincial investment. This is one of the reasons I think Ontario has to be mindful at all times of its obligations to the rest of the country; the rest of the country has helped to build the prosperity that keeps Ontario going.

So when you ask if the transfer of tax points is a solution, I guess I would just say that it's one of the tools you should be looking at. But I come here quite specifically today not to say that I have the answers but that we need to take a look at a broad range of possibilities.

Heaven knows, with all these papers—even just in the ones I read last night—there are probably 15 or 20 different ideas on things that should be done. I'm just saying there are a lot of people writing papers and forming committees, but there doesn't seem to be anybody sitting down and saying, fine, let's actually get an action plan together here. It may take time and it's not going to be easy, but we need to have an action plan that will bring about some reform and create the transparency and the effectiveness, and address the imbalance that I think exists.

• (0905)

[*Translation*]

Mr. Guy Côté: You mentioned that...

The Chair: Mr. Côté, I am sorry, but your time is up. We need to be fair to all members.

Madam Wasylycia-Leis, you have three minutes.

[*English*]

Ms. Judy Wasylycia-Leis: Thank you, Mr. Chairperson.

In fact, I'm trying to sort through some ideas for recommendations that we can make as a committee. Needless to say, coming from the NDP as I do, I don't really support the idea of more tax points being transferred, because I think cash transfers are sometimes the glue that holds this country together and that they provide some way to attach conditions to moneys that you have, some semblance of a national program. So I come back to a couple of solutions on which I'd like to seek your input.

Number one is an idea that was generated back in the fall of 2003 by the provinces but since then has been put forward, I believe, by almost every province, the idea of a new equalization formula that includes all 10 provinces—the 10-province standard—that includes all revenue, including resource revenue, as a beginning step.

The second is the need for us to actually address these deficiencies in terms of cash transfers from the federal government vis-à-vis the social transfer, which has been largely neglected. This brings in the area of education, which in fact I see from the news Mr. McGuinty has actually identified as an area of shortfall in terms of per capita investment on that front. As well, a shortfall was created in this area when the federal government pulled out of the Canada assistance plan back in the 1995 federal budget.

Those are two suggestions I'd like you to comment on.

Mr. John Tory: Again, to me, this is just more evidence of the adhocery. In fact, you're right, part of the reason all provinces have issues today with respect to the financing of their social programs is due to the changes that were made in an ad hoc fashion to address federal financial problems 10 years ago, in that period. I'm just not in a position to say whether that particular proposal that goes back to the paper from the fall of 2003 is the right one.

And I understand your concern. One of the reasons I'm also not sitting here today saying that the answer rests in the transfer of tax points is that I share a number of the concerns I mentioned about amnesia, but also about the fact that we need to have a strong national set of priorities that we agree on together. We are trying to have a country here. It is a partnership. I am not sure that if you simply transfer tax points, you wouldn't weaken that glue, shall we say.

The equalization program per se is the one that has been, I think, traditionally the kind of glue that's been there at least as far back as it goes. Maybe the answer does rest in a fundamental reform and rethinking of this program, whether it's based on a particular set of proposals or reforms advanced by the provinces in 2003, or some modification of that. The answer won't be found just in a committee

appointed by Mr. Martin to review how the money is distributed. There needs to be a much broader examination by the leadership of the country of how we can make this program more transparent, more effective, and fairer—fairer in the sense that no one will feel aggrieved on a permanent basis by what the result is, or even aggrieved on a temporary basis.

[*Translation*]

The Chair: Thank you very much, Madam Wasylycia-Leis.

[*English*]

Thank you very much, Monsieur Tory.

Mr. John Tory: Thank you for inviting me. I appreciate it.

The Chair: It was a pleasure for us. Good luck for the rest of your election campaign.

Mr. John Tory: Thank you.

• (0910)

The Chair: Do you have some comments to conclude?

Mr. John Tory: I just commend you on the fact that this exercise is happening. Whether it's happening because of a minority government or otherwise, I think it's a good discussion. These are the kinds of discussions we should be having, away from the light and the heat of other places where discussions get more heated than they should be. I think it's a great sign that you chose to invite someone like me, and I hope you're inviting lots of other people to come in.

I think there are business people and community activists who have views on these things, and I hope you're inviting them to come in and be heard. Lots of average people have views too. As I said earlier, they know what they're paying, what they can afford to pay, and how they're trying to make ends meet. They just shake their heads in amazement at how the governments can't seem to get their act together.

But I welcome the fact that you're trying to address some of those issues, and I thank you for having me.

[*Translation*]

The Chair: Thank you very much, sir. Goodbye.

• (0910)

(Pause)

• (0921)

[*English*]

The Chair: Good morning. I want to thank you for being here at this meeting of the Subcommittee on Fiscal Imbalance. You will have 12 minutes to make your opening statement, and afterwards we will have the opportunity to have some questions from members of Parliament.

[*Translation*]

Welcome, Mr. Bird and Mr. Perry.

Mr. Bird, you have the floor.

[*English*]

Mr. Richard Bird (International Tax Program, Joseph L. Rotman School of Management, University of Toronto, As an Individual): Thank you very much, Mr. Chairman.

I have prepared a few preliminary remarks, which have been circulated to you, and I'll keep those to 12 minutes.

My name is Richard Bird. I'm a professor emeritus of economics at the University of Toronto and am currently directing the international tax program of the Rotman School of Management at that university.

To begin with, I would like to make two things clear. First, I am not here because I have a particular message to deliver to you. I am not here because I am representing any organization. I'm simply here because you asked me to come and set out my views on this subject.

The second thing is that I'm a Canadian; I have lived here most of my life and studied and taught public finance, and I know a fair amount about federal-provincial relations and about at least some of the issues concerning the subcommittee. But I have to tell you I'm not an expert in Canadian public finance in the way that, say, David Perry, who is with me here, is an expert. So what I'm going to tell you or talk to you about doesn't bear specifically on Canada but rather bears on a set of issues that I have been encountering in many countries around the world as I have worked on this subject in the last 15 years or so.

The first thing I want to say is that I really don't find this notion of fiscal imbalance a very useful one in helping us to resolve the issues that exist not just in Canada but in any state in which decentralized governance has a significant role to play, and I don't think it helps us make much sense of the endless debate we have in this country over who should and does pay how much to whom, for what, and in what way.

I have quite a few reasons for saying this and I would be happy to supply the committee with a paper that goes into all this in detail. I point out that I wrote this paper actually first for Russia, and it is currently being published this month in India. These are problems that are worldwide. They are not problems that are peculiar to Canada, but we have similar discussions everywhere.

So let me just say a few things about why I don't think the balance approach is a particularly good one and then talk a little bit about what I think the real issues are.

First, we need to talk about imbalance. You make the assumption that it's a bad thing, and that implies that balance is a good thing. And what does balance mean?

In these discussions, balance usually means that each government should essentially be able to finance its own expenditures without depending on transfers, but in a federal or decentralized system this is both conceptually wrong and practically impossible. This is not something that can be achieved. It's not a worthwhile goal to think about. Neither the revenues nor the expenditures of any level of government are independent of each other—they all draw from the same taxpayers—and it doesn't make any sense to think, as is usually done in these discussions, that expenditure requirements of each government are rigidly determined by expenditure assignments in the constitution. This proposition is clearly wrong, as every legislature in this country proves every year. It also doesn't make any sense to think that the revenue potentials for each government are fixed forever by whatever the system happens to be at the moment you make the calculation.

I think the discussion also confuses a number of very different issues. I'm not saying this is done in your terms of reference, but often in the normal press discussion of these issues there is substantial confusion between the way the fiscal system affects the people who live in a particular jurisdiction and the government of that jurisdiction.

To take the two provinces I've lived in most of my life, if more rich people live in Ontario than in Nova Scotia, and the federal tax system is mildly progressive, as it is, then people living in Ontario on average will pay more to the federal government than people living in Nova Scotia. Unless the federal government spends more on the rich than it does on the less rich, the results will be a net fiscal outflow from Ontario. So what? What is the implication of this: that the federal government should tax the rich less or spend more on them? I mean, the balance perspective does not help us deal with this kind of question, and if this isn't what this is about, what is it?

• (0925)

Another common term in this discussion that is also highly misleading in my opinion is this notion of tax room. This, by the way, is strictly a Canadian phenomenon. Nowhere else in the world is this issue discussed in terms of "tax room", but for some reason, in Canada, and in Canada alone, we have this notion that there is a fixed pot of revenue that goes from the private to the public sector and that is then divided between the levels of government. Again, this just isn't particularly helpful. There is no such thing as a fixed share of output that does, or should, go to the government, and there is no way that it makes much sense to talk about the whole subject as though there were.

As you all know, both the federal and provincial governments in Canada can actually tax, more or less, whatever they want, however they want. Now, presumably they have to demonstrate to their constituents that they're acting sensibly when they do so and to face the consequences if they don't. But the point is that the fiscal outcomes at any level of government are not inevitable and are not carved in stone; they result from political decisions and can be changed. It may be useful for governments to blame others for their ills, but generally you shouldn't believe them when they do so. Now, it is quite true the federal government has what we call a first-mover advantage in this game—and we can come back and discuss that later if you want.

Finally, I think you also have to be very careful in this discussion to be clear about the difference between this imbalance, in the sense the committee seems to have structured it, which is what's called vertical fiscal imbalance between one level of government and the other level of government, and the imbalances between different governments at the same level. Some provinces are richer than others. No matter how you divide up any country, there are always going to be some parts that are richer than others; so even if the richest bit of the country is perfectly balanced in the sense of its own revenues covering its expenditures, the rest can only achieve similar balance with either unsustainably high taxes or, more likely, much lower expenditure levels. The result would be increasingly wide gaps in the level of services received by Canadians, depending on where they lived.

The way we deal with this problem in this country traditionally is equalization. There are lots of other ways that we actually do it too—and I think there's a lot more you could say about how well we've done that. Actually, François Vaillancourt and I have just written a paper on this in Canada. I think you will be talking with François, who will probably tell you about that, if you want to hear about it.

Anyway, remember that I said I don't know anything about Canada, so in concluding this statement let me say what I think I do know and what I have learned in working on these things in over 50 countries around the world. The main thing I have learned is that the big issue in government is to make government as accountable as possible towards its electorate. Ideally, no government should be able to tax anyone except those people over whom it has jurisdiction and to whom it is politically accountable—and it should have to perform this exceedingly unpleasant task in as open a manner as possible. This is not the way to get elected, but this is the way to have a good democracy.

The corollary of this argument is that governments should not be unduly reliant on other people's money in the form of transfers. Now, we economists like to talk about things at the margin, and there's a marginal argument here, which I am not giving you, but essentially in our structure of government right now, the major responsibilities for expenditures—which are likely to grow again this century—are at the provincial level. So I think there is probably a very good case, in principle, for increasing provincial taxes and reducing federal transfers.

But which taxes? How much? Which transfers and how much and what, if anything, this implies about federal taxes and expenditures are all different matters. You can't conflate all of these issues into a discussion about imbalance and say anything useful; you have to think about all these things separately.

I have a set of answers for all these questions, of course. I've been an academic for many years; we have answers for everything. But in my view, all these decisions really have to be made by the respective governments in their wisdom or otherwise, and then they have to be explained and defended to their electorates. I am really concerned they do so in a way that increases rather than reduces accountability.

● (0930)

In this last bit, let me move a little closer to reality, away from this ivory tower. Budgetary surpluses and deficits are not what this discussion is all about. It's about who makes decisions about what. The principle I just stated was essentially that the people who make the decisions should bear the political costs of doing so. The worse thing about the Canadian system is that since no one is 100% responsible for anything, no one is fully accountable.

Some such confusion is inevitable in a federal country, but you should try to minimize it, not maximize it. One way to do so would be to reduce federal transfers, at least to those provinces that can and should be able, if they wanted, to replace them with their own taxes. If the federal government doesn't want to do this it doesn't have to, but then I'm afraid it will do what it seems to have been doing in the last few years, and that's perpetuate and intensify confusion about who really pays for what.

On my second point, if a province doesn't want to accept federal money for a particular program, I have nothing against it being able to opt out of that program and, more controversially, to also free its taxpayers from the burden of paying for that program. If you don't like the resulting asymmetric or checkerboard federalism that would result from this kind of thing—which we already have in Canada to some extent—you can change the system, if you think it's a problem, or you can chuck out the governments at either level or both levels that you think produced it. I don't think increased diversity along these lines would be a big problem, provided—and this is a big proviso—the people who make the decisions about taxing and spending bear the full political costs of their own actions.

Finally, I hope the subcommittee is aware of a very fine statement on this whole issue of fiscal imbalance that Robin Boadway of Queen's University made a year or so ago. I'm in full agreement with much of what Professor Boadway says about the vagueness of the whole discussion and the reality that the federal government has the key cards in the discussion and determines the outcomes. But I'm much less worried than he seems to be about the ill effects of reducing either federal taxes or transfers. David may not agree with me on that.

As Boadway points out, reasonable people can reasonably differ on such issues. Of course, both Robin and I are quite reasonable, but I come to a different conclusion for two reasons. First, I have less faith than he seems to have in the benevolence of governments at any level. Second, I also put less emphasis on the essentially national dimension of what he calls social citizenship. But I do agree with what Boadway actually said in that. He said we've got to stop talking about this stuff as a constant federal-provincial fight. This is a major factor in the lives of Canadians. We've got to take it out of the annual budgetary process somehow.

Of course, the annual budgetary process now has become a long-term budgetary process, but that's another story. Perhaps we could do it by setting up a more arm's-length intergovernmental forum in which we could discuss the real issues, rather than continuing to squabble forever about who gets how much each year and under what conditions.

I don't think this is going to happen under the present political structure, because some of the key people who would have to decide to give up power won't particularly want to do so. Who does? But unless you can make some moves in this direction, I'm afraid we're going to dance forever endlessly around this Gordian knot and never decide either how to untie it or to cut it.

So even these few remarks might be annoying enough to some of you to provoke some questions. Thank you.

● (0935)

[Translation]

The Chair: Thank you very much, Mr. Bird. Merci beaucoup.

I give the floor to Mr. David Perry from the Canadian Tax Foundation.

[English]

Mr. David Perry (Senior Research Associate, Canadian Tax Foundation): Thank you, Mr. Chairman.

I should say at the beginning that I'm not here to represent the Canadian Tax Foundation. The foundation has a diverse membership. To get a consensus of all our lawyers and accountants working in the tax area and all three levels of government officials working in the tax area on an issue such as this would be impossible. So these are personal observations tinged with the fact that I've been working in the tax area for the last several decades.

Richard sort of dismissed everything that I was concerned about, the point of my remarks, because he didn't feel that the idea of a fixed tax level, a fixed tax burden, was relevant. Well, it certainly is the key to the whole discussion, now and over the last 138 years, of what can be accomplished within what are economically and politically acceptable limits on the tax system, the demands on the citizen.

You know, in this regard a previous federal Department of Finance took the position that there was no fiscal imbalance, that the provinces were free to raise taxes in any way they wished, and that would resolve the whole problem. But that didn't resolve the whole problem, because the concern at this point—and it's going to differ next year and the year after, and certainly in the next decade and the decade after that—is to maintain the tax burden we have and even to try to maintain the momentum we have for reducing the tax burden. This is what is acceptable at campaign time, and it has to represent the consensus of the community.

So it can't be dismissed, as some people do, as merely being a political concern. It is a matter of reflecting the consensus of the community.

If you could resolve the concern about the rate of growth in federal government spending and revenues and the quite different rates of growth in provincial spending and revenues simply by allowing the provinces to increase...or not allowing, but accepting that the provinces will increase their level of taxation, the implications for our dear members working in the tax compliance area as lawyers or accountants, for our members working in departments of finance and departments of revenue across the country, are ignored by the average person. Richard mentioned that I was going to talk about this, and I am.

The concern is that as the provincial government tax burden increases, it becomes more material in the accountants' sense to the design of the tax system. And the variations that we see all across the country now in the personal tax system, the corporate tax system, the sales tax system—to mention the three main ones—are exacerbated the more important the provincial levels are.

So if you either cede tax room from Ottawa to the provinces or the provinces simply move in and pick up additional tax room, the difference between a flat tax in Alberta of 10% and the five brackets in Ontario that produce a fairly progressive tax system become quite significant for people doing tax planning across the country and for the simple calculation of rates of return for the investment broker who's trying to flog stock or the company that's trying to persuade people to invest in RRSPs and bonds.

I think even Richard would admit this, that we have in Canada a unique system of taxation where the federal and provincial governments together cooperate as partners—I heard that this

morning—in a national tax system. Part of that has come, inevitably, from the dominant role that the federal government has played in designing the personal and corporate income tax systems.

● (0940)

The tax collection agreements that Ottawa has negotiated with most of the provinces reinforce this idea that the federal government has an idea in mind of a national tax system and of how much variation is allowable within the tax system. This has been important in making it reasonably simple to fill out an income tax return in Nova Scotia or in Alberta or in British Columbia or even in the territories. In Quebec, where there are two personal income tax returns every year, the dominance of the federal government is evident in the extent to which the two systems parallel. This is partly as a result of the dominance of the federal government and partly the competition between the provinces in terms of maintaining a competitive tax system.

But the national government has an obligation to try to maintain or even enhance the idea of a national tax system. A federal government that has two levels sharing the major tax fields as we do, that can provide this degree of uniformity and this degree of integration, whether it's in design or whether it's in administration through their tax collection agreements, is unique. Switzerland is, I think, the federation that shows how diverse you can be and still function. The Swiss cantons have a high degree of variation within their tax systems and it's not the same sort of integration into a national system. This works for Switzerland, but a lot of things work for Switzerland that don't work for other countries. Any other federal system sees the central government as the dominant player in the tax system and the provinces as add-ons or sharers who receive that which is given to them rather than setting their own rates.

That's a brief start. I would be willing to answer questions about some of the other proposals and other systems that have been used in the past to address fiscal imbalance in the Canadian system.

I was going to discuss things like constitutional amendments to shift responsibilities from the federal government to provincial governments. I thought perhaps it might not be a good idea to touch on that one.

I also thought about talking about the history of cash transfers and how effective they have been in solving the problem, and then I thought that on a Friday morning the day before March break for most of Ontario it's probably not a good topic to look at, so I concentrated on the tax area.

That is my presentation, Mr. Chairman. If there are any questions, I would be more than pleased to respond.

[Translation]

The Chair: Thank you, Mr. Perry.

[English]

Thank you very much.

[Translation]

We will proceed with our first round of questions.

[English]

The first round of questions goes to Madame Ambrose. Five minutes, please.

Ms. Rona Ambrose: Thank you, Mr. Chair, and thank you, Mr. Bird and Mr. Perry, for your presentations.

I have a question that I think is becoming increasingly relevant in the present era of globalization. It's in regard to the discussion around the evolution of federalism and questions of how it should evolve. Specifically, while this used to be historically the domain of international relations, I think it's becoming increasingly apparent that what happens globally has a direct impact on local economies.

Mr. Bird, you touched on this when you were talking about the worldwide problem and fiscal arrangements. I just came back from the Third International Conference on Federalism in Brussels, and there was an overarching discussion on fiscal arrangements. Obviously it's a worldwide problem, I agree. I would argue that on some levels it has more to do with one's philosophical approach as regards one's views of federalism, whether decentralized versus centralized.

But you were talking about fiscal decentralization and devolution as it relates to accountability and transparency. I have a question for you. I want to touch on the expertise in other jurisdictions that you obviously have in terms of the Canadian context and federal-provincial relations and international agreements and the provincial role in international agreements. There is obviously a constitutional and jurisdictional impediment to this discussion.

While the federal government is constitutionally responsible for negotiating these agreements and treaties, provinces, however, are responsible for implementing them to a great extent, and they are increasingly affecting local economies, provincial economies, and the vertical fiscal imbalance as well as the horizontal, for that matter. With your expertise in these other jurisdiction areas, I wonder if you could comment on how we might be able to involve provinces in international treaties and negotiations, based on your comment specifically about the need to have direct accountability in the process with the backdrop, I would suggest, of not going into a constitutional amendment, if there is some more practical inter-governmental mechanisms that you can see facilitating something like this.

• (0945)

Mr. Richard Bird: You've caught me off guard with that one. I didn't attend the third conference on federalism; I attended the second conference, where I actually presented the paper on all these fiscal arrangements. There was a separate session at the second federalism conference—I don't know what you did at the third—where we talked about exactly this issue that you're discussing, and I was absolutely delighted to leave it all to the lawyers, who are essentially the people who discuss this issue.

I actually know nothing about this question. Certainly there is a major impact of increasing trade and investment relations between countries on the way the fiscal arrangements of those countries impact. I can talk about that, but not about the question of how you get these governments to work together, or if you should, or under what format, in making treaties. As far as I know, nobody involves

the subnational governments in making treaties. In fact, Canada probably goes further in this than any other country. The thing is that almost everywhere, subnational governments are heavily involved in implementing whatever comes out of these treaties.

In countries like Germany, for example, there essentially isn't a German federal government, as you probably know. Everything is done by the Länder and the municipalities. They are actually the acting agents of government in virtually everything. There isn't a huge corps of federal officials that does anything. Taxes are collected locally; everything is done locally. But that is a totally different governmental system, in which they are currently having a huge fight, because the way the system has worked in Germany for many years, of course, is that a very large part of legislation—including all of these things you are talking about, the implementation of these foreign things that impact on delivery of services and so on—has to be approved by the Bundesrat. And representation in that is, of course, provincial, or Länder, representation. The federal government in Germany is feeling heavily constrained by the need to persuade the states to accept its international agreements. So it is attempting to get more and more of the material it is dealing with in this field moved away from requiring formal approval by the Bundesrat.

So yes, these tensions are felt everywhere. I don't think anyone has any clear solutions for it, and I certainly don't have any answers.

The Chair: Thank you very much, Madame Ambrose.

Mr. Szabo, please, for five minutes, not more, not less.

Mr. Paul Szabo: Thank you.

We have a mixed bag of tools to operate with. There are obviously the transfers, there are side deals, and there is probably everything else in between. We could shift to a greater proportion of some of those over the others, and I am interested in your commentary as to whether or not the existing tools that are available should not be restricted—or maybe they should be restricted—to certain things that may be helpful over the longer term.

My concern would be that the situation is going to deteriorate in direct proportion to the remedies applied. If you shift from, say, lower transfers but pass on more taxing authority to the provinces, my concern would be that the so-called “have” provinces may in fact have a greater opportunity to benefit over the long term than the “have-nots”, which would further exacerbate the problem.

I would be interested in your comments.

• (0950)

Mr. Richard Bird: Certainly.

May I first say that it's a pleasure to meet my member of Parliament. I haven't had the privilege....

Hon. John McKay: It's a pleasure for him too.

Mr. Richard Bird: I wasn't quite sure what you meant by all these side things and so on.

Mr. Paul Szabo: Like the maritime arrangement.

Mr. Richard Bird: Oh, yes, special arrangements.

Mr. Paul Szabo: Special side deals, yes.

Mr. Richard Bird: That's actually the way that all systems work. Unfortunately, there's a tradition in both the legal and the political science literature, and actually in the economic literature also, in dealing with federal issues to think that uniform treatment of all governments at any particular level is an inherent part of any federal solution. That's not true in any country in the world. Everybody everywhere, in all countries, makes all kinds of side arrangements and special deals for particular governments. With a colleague at the World Bank, I have a book coming out on asymmetric federalism in which we look at this in great detail in 14 countries. So everybody makes deals. That is not unusual.

Between my initial quip and that laboured answer, I actually forgot the major point, Mr. Szabo. I'm very sorry.

Mr. Paul Szabo: Well, let's deal simply with tax points. If you shift away from transfers to tax points, will the have provinces have a better opportunity than the have-nots?

Mr. Richard Bird: Yes, they probably will. In fact, in economic terms that is one of the major things that have happened as a result of increased integration with other countries, NAFTA and all that. Everywhere in the world we see more pressure being put on the fundamental conundrum of federalism, which has always been, why do the rich support the poor?

One of the answers in the past was that of course—I remember doing a study of Newfoundland many years ago—a very large part of the funds that allegedly flow from the centre to the periphery actually never leaves the centre because the periphery spends them all there. This has changed. The pullback to the central provinces from the periphery—oil is central to this—has gone down, so the economic interest of the central provinces in supporting equalization and so on has actually gone down in recent years. This is the most marked characteristic I have seen in Canada.

As I said earlier, I come from Nova Scotia, so I was brought up with the normal maritime view of central Canada, a term we used loosely to cover both Quebec and Ontario since to us it all looked the same. But I've lived most of my life in the centre here, and the major thing I have seen is Ontario actually becoming aware that it is a province and not a country and defining itself differently from Canada. One of the side parts of this has been—unfortunately, I think—decreasing interest in and perhaps support for providing more even levels of services throughout the country. That is partly due to the markedly increased integration with the U.S. economy, which is stronger here in Ontario than anywhere else, and it's perhaps inevitable.

But it's political. Mr. Perry said tax room is important, and then he proceeded to tell you how it has always been important for 140 years, during which time the amount of taxes taken has gone from 5% to 45% and then back down; it hasn't been very fixed. He was actually talking about the same thing as I was, but he was using the term “tax room” to cover what I would have called political equilibrium.

At any point in time you have a balance of forces in a country, and one of the reflections of that balance of forces is the size of the public sector. For there to be big shifts in the size of the public sector there has to be a shift in the political balance of forces that supports that shift up or down—it doesn't matter. We are and have been under

outside pressure and also, from an internal shift, have been shifting down to some extent. That is very difficult for everybody who is actually responsible for delivering services to anybody out there.

The problem isn't that the tax room is fixed. The problem is actually is that the concept we tend to define as tax room has actually been shrinking, and that's what is going on here. In those circumstances, if for whatever reason some richer areas are feeling less attached to the rest of the country than they were before and if what they view as the pot is shrinking for everybody, the fight is going to get much worse in terms of their attempting to get a larger share of what they think is their due.

This sort of thing always goes on, but the circumstances in which it goes on change. Right now I would be somewhat concerned. If you have a strong sense that every Canadian should have the same access to education and health and services throughout the country—we provide those services through the provincial level of government, essentially—then you might very well be concerned about the implications of a major shift in taxes away from the federal to the provincial governments. I am not concerned—for reasons I'll be glad to explain—but I can certainly understand why many people would be.

• (0955)

[*Translation*]

The Chair: Thank you, Mr. Szabo.

Mr. Côté, you get five minutes.

Mr. Guy Côté: Thank you very much. Both of you have very well explained, among other things, that the taxation process is essentially a political process, and how society, at a given point in its history, accepts for various reasons to be taxed more or taxed less. I found that very interesting.

You talked a lot about accountability and the importance for citizens who pay taxes to know exactly what their tax dollars are being used for and who is responsible for managing them. You also dealt briefly with the fact that the problem could be more than a structural one, in other words a constitutional problem.

I would like your opinion on the federal spending power and therefore on its power to invest directly in areas that are under the jurisdiction of the provinces and of Quebec, as well as on its power to unilaterally withdraw. I would like to know your views in this regard.

[*English*]

Mr. David Perry: The key, I think, was at the end of your question when you were talking about the power of the federal government to pull out. That shows the vulnerability of the system.

One of the things that overhangs this whole debate is the question of the length of time you're dealing with. It's very laudable to hope that you come up with a permanent solution for the fiscal imbalance. In fact, the federal government and the federal and provincial governments, in concert, have been coming up with permanent solutions to the fiscal imbalance for the last 138 years, all of them very effective.

When you talk about grants, about specific amounts of money, some of these historic attempts are interesting to look back at. I think it was 75¢ a head that Nova Scotia was complaining about at Confederation. One hundred years later, John Diefenbaker bought peace with Newfoundland with an \$8 million grant, which was seen to be very, very generous, to the Province of Newfoundland. Eight million: that gets lost in even Newfoundland's rounding now.

So these fixed dollar amounts tend to be short-term fixes. Statutory subsidies were also key to Confederation in 1867, and now they're small amounts that still reside in the books of the federal and provincial governments. But \$1.8 million for Ontario is not going to make or break them.

So this idea of looking for the permanent solution is fine if your horizon is five years, but if it's more than five years, then it's probably inappropriate.

There was one other question Mr. Szabo raised that was interesting, and that was about the setting of the tax points and the effect on the richest provinces. The Quebec opting-out system has worked very well in that there are no complaints from either side about the 16.5 points of federal income tax that are ceded from Ottawa to Quebec. It's not a thing that other provinces worry about. It's not a thing that Ottawa worries about. The only problem arises when someone from outside of Canada starts to look at personal income tax burdens in the provinces and finds that Quebec's is much higher than the rest of the country's because they forget about taking the 16.5 points off. So those are cosmetic things that still make the system work. Those 16.5 points work very well.

The points that were given for CHST don't work because they disappeared, they evaporated, and as Mr. Tory was saying earlier this morning, there is an amnesia about tax points.

●(1000)

[Translation]

The Chair: You have three seconds.

Mr. Guy Côté: Thank you.

The Chair: Madam Wasylycia-Leis, you now have the floor.

[English]

Ms. Judy Wasylycia-Leis: Thank you, Mr. Chairperson.

Thank you, both of you, for your presentations.

Mr. Bird, I'd like to pursue your position. I hear what you're saying in terms of questioning the concept of fiscal imbalance, but we are trying to grapple with the notion of some sort of equalizing role by the federal government among provinces, and we're doing it in the context of something entrenched in our Constitution.

Leaving aside fiscal imbalance per se, from a theoretical point of view, an academic point of view, and a comparative point of view with other countries, what is the best thing we can do right now in terms of this notion of equalization? Given the controversy right now—there's quite a mess in this country, and we're not sure where it's going to end up—what can we do as a committee to make some sense out of this, and where can we be most productive from a public policy point of view?

Mr. Richard Bird: I'm not sure I can answer that.

One of the things I said was that I wasn't going to talk about equalization—

Ms. Judy Wasylycia-Leis: I know, I know.

Mr. Richard Bird: — because there are really two different problems here. I'm quite happy to talk about equalization, but it is a different problem from the fiscal imbalance one as presented in the terms of reference and in the Séguin committee and so on.

On the equalization issue—of course, that's high profile now, because of these offshore agreements and all that stuff—basically what we have here is exactly what David Perry said about taxation. With regard to equalization, we've had to fix the system every ten or fifteen years. Until this last year, we've usually fixed the system by changing what we were equalizing, the standard to which we were equalizing it, and so on.

I started in this business.... My first course in public finance was 1957, the year we introduced the equalization system. We spent the whole course discussing equalization and why there were, what, 10 provinces and four formulas initially. From the very beginning, we have had special deals and compromises in the equalization system.

The basic problem at the moment comes from a saw-off we made at the time of the big oil price increase back in the late 1970s—a 1982 agreement in which we actually changed to eliminate Alberta out of the formula, basically. This exclusion of the richest province has distorted the whole thing.

Essentially, the answer to the current problems would be to include all resources in the formula and to equalize to a national standard. But we don't do those things, and we're not likely to do them, particularly because we have now changed the nature of the whole system—we now have a fixed amount we're allocating among different provinces instead. That is the most fundamental change made in the equalization system in 40 years, but it has never really been discussed here.

We actually have an Australian-type system now, one in which we allocate amongst different provinces an amount that is not determined by the action of those provinces. So it's a partnership.

David knows more about this than I do, but the equalization system strikes me as a good part of the system. I have no arguments with sections 36 to whatever it is in the Constitution, and I am quite happy to talk about how we could improve it. But whatever we do, that's the system that flows resources to the poorer political jurisdictions in the country to help them sustain a certain level of operation of public services, at tax rates that are more or less equivalent to those elsewhere.

That was a good idea. It was an idea that was part of the essential element of the whole system here for 40 to 45 years. I don't think it's going to go away. We will keep some kind of equalization system. I don't want to see it go away, but it's certainly something you have to do something about.

The specifics of these offshore agreements are things I really don't understand. I do have to say I have worked in lots of countries. I'm thinking of Indonesia at the moment, where the major problems we had in designing the decentralized finance system had to do with the fact that, in a sense, they had all of their oil in the most separatist place in the country. So I've seen these problems work their way through, but it's very difficult to deal with these things and I have seen no one deal with them very well. The usual academic solution is just to have the central government tax natural resources, but since that's not going to happen, there is no neat solution apart from that.

• (1005)

[Translation]

The Chair: Thank you, Madam Wasylcyia-Leis.

[English]

Ms. Judy Wasylcyia-Leis: I don't mean to interrupt, but I saw Mr. Perry shaking his head and I wondered if he wanted to—

The Chair: We will come back to you for another five minutes in a second round.

Ms. Judy Wasylcyia-Leis: Maybe he can slip it in somewhere.

The Chair: Thank you very much.

Monsieur McKay, for five minutes.

Hon. John McKay: Thank you, Chair.

Thank you, both of you, for your very thoughtful presentations. They were quite intriguing.

Professor Bird, you basically started out by saying that we are asking the wrong question, that this isn't really a question of fiscal balance or fiscal imbalance, it's far more profound than that, in that it's almost in the nature of what form of federation we have going forward.

You also throw an intriguing ringer in there: that Ontario, which heretofore has been the linchpin of Confederation and has basically said it knows it has to contribute more money in order to be able to keep the federation together, is now no longer comparing itself to the other provinces while trying to keep the country together; it now says it's really comparing itself to other jurisdictions in the United States. At one level, as a person who lives in southern Ontario, I tend to agree with you. Our orientation is to New York and to Chicago and other places of that nature.

When you put those two thoughts together, that doesn't augur well for the survival of the federation.

• (1010)

Mr. Richard Bird: That's what we call an interesting question, insofar as it's a question.

Yes, I'm a little worried, but I'm not that worried. I don't think the separatist party will arise in Ontario in the immediate future.

I think there is an issue here, and in a sense it's a failure on the part of the federal government to get a sense of the country across very well.

I've worked a great deal in Switzerland. I lived there for periods of time. My Swiss friends always said, "We are Swiss only when we are outside of Switzerland. In Switzerland, we are from Zurich", or whatever it happens to be. That's a very federal concept, and I have no trouble with that.

I hear many people asking themselves what it is to be Canadian. This is an English Canadian problem, obviously. I must say I have never understood that, possibly because I've lived abroad so long like a Swiss. I see in my children, and to a lesser extent in their children, a strong sense of nationhood and so on. But I feel this has been going down. This is not a scientific observation of any sort whatsoever. It's just something that worries you a bit. I'm not in favour of monogrammed golf balls and so on, but what you do about it is another story. There is a problem here.

The answer, which has always been a very difficult answer to achieve in Canada for all kinds of reasons, is that you actually have to step out of your federal and provincial shells and think of your role in the world and in some way work together.

What's really striking in Canada is that we have governments that cooperate in thousands of different ways all over the board and we really don't have any kind of formal cooperation. This goes back to your original question, Ms. Ambrose, about the international side. There isn't a forum in which provincial voices are formally heard when it comes to international matters, and there should be. There isn't a forum in which the federal voice is formally heard with regard to achieving national educational standards, for example, and there should be. We don't really talk together about these things. We've divided up the pie, and then we fight about how much we get to carry out our part of it and we accuse the other ones of interfering in whatever our share of the pie is.

But this may be inevitable. Politics is a competitive business, and that's fine. But it is a little worrying in a world that is changing very quickly. It's not changing any more quickly than it did in the past, actually, but our perception of the change is sharper than it was before.

So yes, I'm worried about this one, but perhaps David isn't.

[Translation]

The Chair: Thank you, Mr. McKay.

Mr. Bird and Mr. Perry, I would like to put a question to both of you. I believe this might help our committee have a better idea of how you view equalization.

Mr. Bird, you mentioned that you took your first public finance course as a student in 1957, the first year equalization applied. But equalization had been devised ten years previous, in 1947 to be precise, in the first ever report on fiscal federalism, the Rowell-Sirois report.

The idea of equalization had been articulated around the basic principle that comparable taxation rates and comparable levels of services should be in place in Canada from east to west. However, when we look at today's situation, we must recognize that such is not the case. In this regard, you mentioned that Alberta perhaps shuffled the cards a little bit.

For ten years now, we have been talking about an in-depth reform of the equalization formula so as to correct its ineffectiveness, but there has never been any agreement on the matter. Furthermore, we can wonder if the side agreements, specifically those of Newfoundland and Nova Scotia, have not shuffled the cards even more, given that it would have been necessary to reform the equalization system so as to allow it to serve its true objectives.

Let me give you an example. Today, if you exclude Nova Scotia's and Newfoundland's offshore oil revenue, the use of a ten-province standard no longer has the same meaning. If, in accordance with the logic of this standard, we should be looking at the fiscal capability of each of the provinces, then we should be excluding Alberta's oil revenues.

Are we not thus creating not only a misunderstanding but also a type of chaos for when the time comes, as you have both suggested, to adopt sustainable fundamental reforms?

• (1015)

[English]

Mr. Richard Bird: Well, I think we do want to talk about this. I think the problem is somewhat different from what you stated. It seems to me that these deals... I don't like these deals particularly. I agree they are not consistent with an appropriate approach to the whole thing. But I do think from the beginning we have had deals of varying sorts. Anyone who has traced the evolution of the formula over the last 40 years, as I have and as David has in one of his books, can see in detail that there have been endless changes and that these changes have mainly been intended to change the relative amount of money going to particular recipients. And that's all that has happened here. It's just that it has been done in a somewhat different way.

I think the whole thing does need a major revision. I was quite disconcerted in 1987 when we didn't really look seriously at this issue, and then we proceeded not to look at it again in 1992, and in 1997. We have kind of wasted 20 years, when we should really have been grappling with this formula in trying to get it right and doing the right things. During that whole period—and not just in these last deals but going right back to earlier periods—we have continually done all kinds of odd things with this, and the result is that the conceptual clarity and relatively uncontroversial empirical basis of this formula have both lost whatever lustre they might once have held.

Yes, if what you are saying is the following, then I agree with you. It is well past time to sit down and seriously look at the equalization formula, and not just at the equalization formula but at all of these other arrangements, which actually are inextricably related to whatever it is we are doing in the equalization formula. Indeed, I had the impression that at some point there was actually going to be a committee struck that was going to do those things, but I think we have all been waiting quite a long time to hear just what that would be.

[Translation]

The Chair: Mr. Perry.

[English]

Mr. David Perry: There is a problem, I think, when we look at the equalization formula and we take seriously people like Richard Bird and people from the federal Department of Finance who say a magic formula can be devised that will reflect the community's current views on who should get what.

I think if you look at the negotiations in federal-provincial fiscal relations, particularly the development and evolution of the equalization formula up to about 1985, the fact is that governments, federal and provincial governments together, decided how much was on the table and how much was a minimum for each province, and then the civil servants and the academics were dispatched to devise a formula that would fit it. And where the formula couldn't be amended, there were side deals.

Newfoundland's \$8 million side deal in 1957 was a side deal. You know, these will always be with us. That goes to a point Richard made earlier about the new idea of a fixed amount for equalization. There's always a fixed amount. It's just a matter of devising the formula.

• (1020)

[Translation]

The Chair: Thank you.

Madam Ambrose, pour cinq minutes.

[English]

Ms. Rona Ambrose: Thank you, Mr. Chair.

Mr. Bird, as the only Albertan on the committee I just want to say that when you were talking about the equalization formula, including Alberta in the present formula, and then you made your subsequent comment about including all resource revenue in the formula... I just want to call to your attention that the result under the current formula would be an increase in that \$5 billion payout to the equalization program. I'd suggest that Albertans might be a little concerned about that.

I just wanted your comments and Mr. Perry's comments on the impact of non-renewable resource revenues on the equalization formula. As you know, this has been an ongoing problem. It's something we've talked about in the Conservative Party for years, and the provinces have talked about it for years, to have non-renewable resources removed from the equalization formula. The finance minister, Minister Goodale, has struck an expert panel to look at this issue; it's one of the issues they will be considering over the next little while.

So I wonder, Mr. Perry, if you could comment on the impact of non-renewable resource revenue on the equalization formula.

Mr. David Perry: I was being cheered from the sides on this one.

I liked Allan MacEachen's view when in 1982 the federal government first realized it had created, in the equalization formulas, almost a runaway machine and that something had to be done. He dismissed natural resource revenues from the equalization formula. That was a neat trick.

I have a real problem here. My son has recently branched out on his own, which is great news for him. He has a job and has now become independent. I thought to myself that the subsidies I had been providing over a number of years were not appropriate anymore because he was on his own. He was an independent human being, but he didn't feel that this was quite appropriate yet. That's an argument that goes through a number of things like social assistance payments and now equalization.

Natural resource revenues are really, because of their haphazard distribution across the country and their haphazard popularity or value.... You know, when some of the natural resources that we relied on in the past cease to be major sources of provincial wealth, then they can be quite acceptably worked into the equalization formula. I think timber dues and stumpage are part of the equalization formula now. Revenues related to oil and gas are not. Well, in 1867, to go back to my point about permanence, timber dues and stumpage were the major provincial revenue source.

I think Professor Bird is feeling that I'm weasling out on these natural resource revenue questions—

Ms. Rona Ambrose: Well, I guess I was more specifically looking for some expertise on the argument between.... Specifically, there is ongoing discussion about non-renewable resource revenues and renewable resource revenues in the equalization formula.

I know where I fall in that argument, but I'm just wondering what you see.

Mr. David Perry: I could brashly say that I don't think renewable resource revenues are a significant problem; it's the non-renewables. It's whether the exploitation of oil and gas, for instance, should be used to create a capital fund that would provide for the eventual grabbing of the bootstraps and lifting up, to make Alberta that diversified economy it is now.

There's the argument that Nova Scotia and Newfoundland can use their oil and gas revenues to try to develop the infrastructure that will lead to a more diverse economy—a more stable and less cyclical economy that will be there when the oil runs out. That's a strong argument for essentially excluding non-renewable natural resource revenue from the formula. Yet if you don't exclude it, what do you do about Ontario? Ontario was the recipient province in the late 1970s, simply because oil and gas had run away with.... This was another side deal, another reflection that there was a cap on the total amount of equalization available.

But the question of whether or not Ontario really ought to have received the revenue was not discussed. Ontario didn't push the issue. Ontario made it clear they felt they weren't worthy of equalization, or maybe it was because it would impact poorly on their bond reception in New York. But for whatever reason, there was unanimity across the country that Ontario should be excluded from equalization. That again goes back to the whole issue of natural resource revenue.

I still haven't answered your question, because I don't think I can.

• (1025)

The Chair: Thank you, Madame Ambrose.

Monsieur Szabo.

Mr. Paul Szabo: Your commentary about the concern on the federation made me start thinking. Maybe in an Ontario context there have been allegations made by the municipalities that there's a lot of downloading going on. So that's another tool that even a province can use.

The other thing is that the federal government has been not just encroaching but occupying the responsibilities of provincial governments, whether it's child care, infrastructure, early childhood development, or cultural things that are traditionally the responsibilities of cities and provinces to build their cultural identities. When you start listing all the things, it's almost as if we're downloading to the municipalities and uploading to the federal government. Those are other tools that have to come into play.

The other thought I had was that the diversity of the economies of each of the provinces is such that should you establish some sort of rigid system on equalization or CHST, as the global economy starts to move over time, hitting the target squarely will no longer apply. So it seems to me we need a dynamic solution that is going to be responsive.

What do you think?

Mr. Richard Bird: Let me start at the beginning, if I may. You started with some remarks about municipalities, which we're not discussing here. I have to tell you that about ten days ago I talked at a forum here in Toronto about municipal finance. The mayor of Toronto was there, and I'm told I upset him terribly by what I said, which was that I simply didn't understand any reason at all why the federal government would be giving money to municipalities through this gas tax.

I agree with you that the provincial government is not doing its job properly, but you can ask the Minister of Finance about that and get quite a different view, I'm sure.

The more important question you raised goes back to this sort of institutional framework within which you decide these things. The main thing I've learned about these issues in helping a number of countries to write the economic parts of their constitutions and so on is that what is really important is not the particular decisions we make at a point in time about the formula, for example, but rather the mechanism by which we decide upon that formula. The problem in Canada has been that these critical issues have all been decided by people like me and my students in rooms like this without the proceedings being recorded or the door being opened, and it isn't really a good idea to do things that way.

These are very highly political matters, and I mean "political" not in the sense of partisan politics but in the sense that this is the way we from our different communities and so on work and live together. We have to develop a set of rules that includes a way in which we understand those rules, live by those rules, and change those rules when circumstances require changes, a way that somehow endures even though the particular solutions we reach at each point in time are bound to be wrong a short time later.

The dynamic aspects of building this institutional framework within which we decide these issues are a critical problem. Nobody has a good answer to this—nobody. I helped South Africa set up the Financial and Fiscal Commission, for example, and that really has not worked. I have worked in a lot of places on these things, and they really don't work.

There's only one thing I know that gets us somewhere. As Amartya Sen said, if you have sufficient publicity, you don't get "famed". If people have a good enough idea about what is going on, perhaps we don't get total disaster. That's my optimistic view of why we have meetings like this. It's not that there's a pat answer, but there are problems and we have to work together on them.

I don't know how responsive that is.

• (1030)

[Translation]

The Chair: Thank you, Mr. Bird, and Mr. Szabo.

Go ahead, Mr. Côté.

Mr. Guy Côté: Thank you very much.

We have been talking for some time now. We are seeing that equalization is perhaps not fulfilling the role it should be playing. From the very start there have been various specific agreements—the most recent ones are a good example—such that equalization is working even less. The transfers to the provinces and the various funding programs place the provinces somewhat at the mercy of the whims of the federal government. It is hard to imagine the federal government withdrawing from certain fiscal areas so as to allow the provinces to increase their taxes. There is the issue of the non-respect of jurisdictions. The only aspect that seems to find favour with you is that of the transfer of tax points. But this is of little value politically speaking.

Given all of these observations, how can we ensure accountability and access to the services our fellow citizens have a right to expect? In your view, what would the first step be in an attempt to correct or modify what we call the fiscal imbalance? It does not matter how we

call it. I am speaking of this reality that is such that too often citizens do not know to which government they should turn to and that there is one level of government that is drowning in surpluses whereas the provincial and municipal governments are having a devil of a time offering the services that they should be supplying according to the Constitution.

The picture is rather bleak, is it not?

My question is for either Mr. Bird or Mr. Perry.

[English]

Mr. David Perry: Yes, definitely.

I don't think there are any hard and fast rules that can be applied. It's a matter of what this committee comes up with, what this committee recommends to Parliament, and what the federal government can hammer out with the provincial governments. You have here a question of two different priorities: the priorities that the community attaches to the federal spending and the federal budgetary balance, and the priorities that the community attaches to provincial-local spending and provincial-local balances. You have to combine those two together. And then how do you reconcile those two quite possibly very different priorities, especially when, as Richard said, we are in a period where we are trying to pull back on the tax burden, certainly not increase it any more? This is not a free taxing era in our history.

So if one is going to gain, the other is going to lose. If you are going to establish priorities at the provincial level in terms of spending that are higher than at the federal level, how do federal politicians gallantly say we will give up these programs in order to provide more tax room or more cash for the provinces? Having made that decision, the rest is easy. It's a matter of how you want to balance the cash and the tax points; how much the national tax system is worth to you; and how much money has to be kept at the federal level in order to finance equalization, and in order to direct national economic policy. We may get back to that at a certain point in time.

There are a number of priorities that Ottawa has attached to the tax system that provide some sort of limit on how much it can give away, how much it can give up. If it chooses to keep more, then it has to be in the form of cheques payable to the provincial government rather than in reductions to the federal tax bill to citizens.

• (1035)

[Translation]

Mr. Guy Côté: In brief, you are saying that the problem is real and that it is partly structural, but that it is fundamentally political. Political choices must therefore be made. In the end, that would sum it up.

Is that a proper interpretation of your thoughts?

[English]

Mr. David Perry: Yes, except that—I am not sure whether it was translation or not—I don't think it's an insignificant problem.

[Translation]

Mr. Guy Côté: No, no.

[English]

It's a significant problem.

Mr. David Perry: Yes, yes.

[Translation]

Mr. Guy Côté: Mr. Chairman, how much time do I have left?

The Chair: You have another 30 seconds.

Mr. Guy Côté: I will gladly grant these 30 seconds to my colleague. I believe it is her turn.

The Chair: Madam Wasylycia-Leis, you have five minutes. We will then have a quick two or three minute round for everyone, after which we will move on to the closing statements.

[English]

Ms. Judy Wasylycia-Leis: I wish we had another hour. It's just getting interesting, and it has been very enlightening.

Professor Bird, I am having trouble understanding. I sense there is a contradiction in your presentation in that in your introductory remarks you said you really weren't that worried about the kind of diversity or asymmetrical federalism that emerges out of the way our system now works. But on the other hand, you seemed fairly supportive of an equalization program.

So I guess my concern overall in terms of this whole fiscal imbalance discussion is in fact how one preserves some semblance of national programs—say, medicare—that we deem to be important, when in fact you end up invariably against this wall of tax, leading to this argument, especially on the part of Quebec, that it's unfair and that there has to be an end to all of this.

I'm just trying to rationalize and understand where you are really coming from and what advice you give us.

Mr. Richard Bird: I certainly hope there is not going to be an end to all of this discussion, which is actually about how we bring values out and develop institutions that will help us to achieve those values. We realize there are disagreements. That's what politics is all about, working together with people you don't fully agree with on different things that are matters of common interest to you.

Now, as for my own views, I said I'm not worried about diversity in tax structures, and so on. As David actually said, the combination of competition between provinces and with the rest of the world, and the pure good sense of a fair degree of cooperation on many issues in everybody's interest, will resolve most of those problems, in my opinion. So I am not that worried about diversity in that sense.

However, I am a very strong supporter of equalization. There is no inconsistency here whatsoever. What equalization essentially does is not level the playing field but ensure that nobody is actually in a big hole. It provides a base on which everybody can compete fairly, and without that you really wouldn't have a country. It has been said, and it is true to some extent, that equalization is the glue that holds the country together. Improperly used, pushed too far, the glue may turn into a solvent. That's what we are afraid of.

I don't know the chemistry of that, but—

Ms. Judy Wasylycia-Leis: That's very good.

● (1040)

Mr. Richard Bird: As Mr. Côté said—and he is entirely right—these are political.... This is why you are here; this is the hard stuff.

Ms. Judy Wasylycia-Leis: Yes.

Mr. Richard Bird: We can deal with the easy stuff in the business school. The hard stuff you guys have to deal with, like figuring out how to make the thing work or, if you don't want it to work, how to make it not work, right? But it's a very, very serious business you are engaged in, and there are no quick solutions.

One other point was brought up earlier by Ms. Ambrose that I wanted to respond to, which was the point about putting resources into the present formula. Of course that wouldn't work; one would have to change the formula. But that's the point. It's not understood, because one of the first things that people do any time you suggest a change is to assume you change only that thing, and then see how it would work out when you change just that thing. You never change just one thing; it's the overall system you would think of changing.

So I would be interested to see the interaction in your thinking between the equalization and this imbalance question, because I actually didn't think there was that big an interaction. Where I think there is a much bigger interaction is in a lot of federal.... It's actually the spending power issue you mentioned earlier, which has been a fundamental problem and a pointed issue in Canada for a long time.

We call it the spending power. Every federal state—every federal state, or everyone—has the same issues and problems. They are called different names in different places. It is just true that if a government has money it can spend it—and it can actually spend it on whatever it wants. If it actually does that, then I think it is beginning to turn that glue into a solvent. I think these are things that have to be done by agreement and jointly; otherwise they are just going to make more trouble.

Ms. Judy Wasylycia-Leis: But then you end up with the problem of the accountability question.

Mr. Richard Bird: That's right.

The answer on the accountability thing—my answer, anyway—is this famous economic phrase “at the margin”. There is a large literature on all of this, and the argument goes that if, say, 90% of your expenditures come from money from somebody else, you are not likely to spend very sensibly. I don't think there is any evidence at all in support of that argument. There is no magic number like 10%, 50%, or 90%, above which you suddenly shift from being sensible people to irresponsible people. But I do think it's very important that you structure the system so that the actions of any government in a particular period of time that could make it worse off cannot lead to it being rewarded by getting more money, if I can put it that way.

There was a famous case in Quebec some years ago where the result of a pay increase was essentially to increase equalization payments to Quebec. That's not to say anything against Quebec, but that's just the way the formula worked.

When the formula works like that, this is wrong. So you have to be very careful in figuring out all these things. We don't really have any way of monitoring very well what we are doing with all of these systems—except of course in discussions like this, which is really what we are doing.

Ms. Judy Wasylcyia-Leis: Thank you very much.

The Chair: Thank you, Madame Wasylcyia-Leis.

Mr. McKay, for the last three minutes.

After that, we will have conclusions from our witnesses.

Hon. John McKay: What slipped in here, as Rona Ambrose mentioned, is that the deal between the premiers and the Prime Minister in October concerning equalization is probably the most significant change in equalization in the last number of years. It provides an escalator clause and a floor for a calculation. So a lot of the most egregious problems have been solved.

A panel was appointed. The federal appointees have been named, but we have yet to receive the names of the provincial appointees. If you were presenting to that panel at this point, what would be your single most significant recommendation?

I am addressing that question to both of you.

•(1045)

Mr. David Perry: I've tried to avoid making any recommendations this morning, so I think I'll carry on the way I was.

Hon. John McKay: It is rather discouraging when Professor Bird says the business people get to do the easy solutions but they get the salaries, and the politicians get the hard problems but they don't get the salaries. The system isn't working here.

Mr. Richard Bird: The country would be unified and agree that you already get paid too much.

Hon. John McKay: On that point there's no doubt. Whether they're right is another issue.

Some hon. members: Oh, oh!

Mr. Richard Bird: I'm never good at conclusions. I'm a question asker, not an answer giver.

My major concern on all of this federal-provincial fiscal stuff is that, actually, it's never discussed in any way except in this annual budgetary framework. We need some way of standing back and looking at this stuff as it develops and affects all of us over a longer period of time. I'm saying there should be a permanent body of some sort. I have worked with these federal-provincial bodies, as I've said, in different countries, and they don't actually work all that well because the regular political fights just get carried on in a different forum.

It's very hard to see how otherwise to do this. I like very much things like that Quebec committee on imbalance. We could have a lot of very good discussion there. I don't agree with some of the conclusions, but the issues were brought out and talked about. Why hasn't that been done more widely throughout the country? Why hasn't the country done that? I'm delighted that there is a subcommittee on whatever you think fiscal imbalance is, but I think it should be a much more prominent item in the thinking of governments at all levels than it seems to be.

Only in Quebec has this issue really been taken seriously because of the particular perspectives there. I would like to have seen it taken much more seriously elsewhere. It hasn't been. Where's the Ontario committee on this issue? The key players in the Canadian system in many ways are the provincial governments, and they really have not been stepping up to the plate on most of these major issues. I hope the Minister of Finance will make a liar of me shortly.

The Chair: Thank you very much.

You have two minutes each to conclude.

Mr. David Perry: I would just mention that over the last couple of years, particularly over the last little while, you've seen the community's attention focused on the problem of provincial governments financing key responsibilities and their inability to do so without raising taxes or getting bigger cheques from Ottawa.

But other than the concern about that, there's no momentum building for major reform in the federal-provincial fiscal arrangements. There's no major momentum building for a bigger share of the tax pie at the provincial level, leave aside cities. There's nothing that will lead to some open discussion and consensus and produce a solution that's not a surprise. I think over the past 140 years, any surprises we've had in this area have been bad surprises, certainly in the long term.

What you hope is that this committee in its future deliberations will begin to develop some sort of consensus. From that consensus, you begin to build momentum from concerns at the provincial level, which really haven't been expressed across the country in any sort of coherent way and without a definitive stance being taken. You hope that this is the beginning of the process that will lead to the feeling that a reform of the system is inevitable. I think that until you get that momentum and until you have consensus, there is no need for reform.

Thank you, Mr. Chairman.

The Chair: Thank you, Mr. Perry.

Monsieur Bird.

Mr. Richard Bird: I only have two remarks.

One, I liked very much what David just said, that you are not going to reach an answer that anybody else is going to accept, but if you can raise questions that become the beginning of a discussion about these issues, a more serious discussion than we have actually seen for many years in this country.... It was not an accident that I mentioned my beginning back in the fifties on this. That was a period where we did really discuss these issues. We maybe reached the wrong results, but, boy, was there a lot of discussion. Then we had another go-around in a more recent period, but that was not really about this issue; it was about other issues. We haven't really come back and looked at this federal-provincial thing very sensibly since the arrangements that we developed really in the after-flush of World War II Keynesianism.

It is past time that we thought about these things in a somewhat broader forum than we have, and I'm very pleased that you're beginning to raise these questions and to think about them. I do hope your subcommittee will actually have a report that may have some impact sometime.

•(1050)

The Chair: Monsieur Bird, Monsieur Perry, thank you very much for your excellent contribution to the work of our subcommittee.

[Translation]

Thank you very much for your participation.

We will have a five-minute break.

[English]

We will have a five-minute break.

•(1051)

(Pause)

•(1100)

The Chair: Good morning, everybody. It's a pleasure for us to welcome you to the Subcommittee on Fiscal Imbalance.

[Translation]

I am very happy to welcome you here, Mr. Minister, Mr. Colle, Mr. Andersen and Mr. Whitehead. You have 15 minutes to make your presentation. I imagine that it is you, Mr. Sorbara, who will be making the statement on behalf of your delegation. It is a great honour for us to have you here.

[English]

It's a great honour to have you around the table.

[Translation]

We will be listening very attentively to what you will be telling us during these 15 minutes. We will then go around the table so as to allow members from all parties to ask you questions regarding your brief. Thank you once again.

As I just said, it is a great honour for us to have you here.

[English]

Hon. Greg Sorbara (Minister of Finance, Government of Ontario): *Merci beaucoup alors, monsieur le président.* Good morning to the committee members and honoured guests.

[Translation]

I am very pleased to be here this morning. Before beginning, I would like to introduce to you the other representatives of the Government of Ontario who have accompanied me today.

[English]

On my right is my parliamentary assistant, Mike Colle. Also joining us are our Deputy Minister of Finance, Colin Anderson, and our Assistant Deputy Minister, John Whitehead.

The work this committee is doing is extremely important for the strengthening of Canada, and the subject of fiscal imbalance is indeed topical. It has raised serious concerns across the country, so I think it's appropriate that the federal parliament has a subcommittee travelling across the country holding these hearings.

But it is of particular interest to Ontario. As late as last Wednesday night, the Premier of Ontario had this to say about what we describe as the \$23 billion gap. He said, "Ontarians are proud Canadians, but we are sending \$23 billion to the federal government to support higher levels of funding in other provinces. This \$23 billion gap is restricting our ability to build a stronger Ontario for a stronger Canada."

Mr. Chairman, even outside the realm of politics, many have commented on the \$23-billion gap. David MacKinnon, a former president of the Ontario Hospital Association and former civil servant in Nova Scotia, has said, "Ontario regularly sends, through the federal government, an amount to support services in other provinces that exceeds the total amount it spends on hospitals, universities, and community colleges within Ontario." This redistribution of wealth, he says, approaches \$100 million every working day and is probably the biggest single expenditure Ontario taxpayers make.

The *Toronto Star* has called repeatedly for a royal commission to address the question of fiscal imbalance.

I don't propose to call for that kind of commission. Indeed, our circumstances are far too urgent. But the purpose this morning is to make, Mr. Chairman, the following two points.

First, we urgently need additional federal investment in Ontario. We urgently need our fair share of funding in a number of current programs. That's the first point.

The second point is that the way in which this country finances itself and its public programs is out of balance, and it is disadvantageous to Ontario.

•(1105)

[Translation]

This committee needs to know three things about Ontario's case: firstly, Ontarians are proud of the fairness and sharing that underlie Canadian values, and we expect that fairness to be extended to Ontario. This is the way it must be.

[English]

Second, Ontario is the economic engine of this great country—more than 40% of its GDP—and that engine needs to continue to fire on all cylinders.

Third, right now Ontario is disadvantaged in a number of areas of federal spending, specifically in health and social transfers, in infrastructure investments, in immigration settlement, and in labour market development. Let me begin to make the case.

Mr. Chairman, much has been said and written recently about fiscal imbalance. There are those who say that it simply doesn't exist. They point out that provinces have access to the same revenues as the federal government. So if a province needs to support a higher level of social spending, these commentators simply say, we will just raise your taxes. Our government has already asked Ontarians to do their share. We rolled back tax cuts from the previous administration, and we implemented in our first budget an Ontario health premium to help us support medicare in this great province. But we are conscious that any further distance travelled down this road might affect our tax competitiveness.

Then there are those who say that of course there is an imbalance. Responsibility for major expenditures lies with the provinces, most of which, by the way—and I think you all know this—are experiencing budgetary pressures. What I want to point out is that the federal government collects far more revenue than it needs to fulfill its constitutional responsibilities.

Now, whether or not you are attracted to such arguments, the fact remains that the federal government, according to its own numbers, has considerable fiscal flexibility. Since 1994 the federal government has consistently underestimated its own budgetary surplus and, thus, its fiscal capacity. When you add it all up the underestimation is about \$73 billion. The surplus for 2003-04 was \$9.1 billion, even though the government had projected a surplus of \$1.9 billion. Estimates in the 2005 budget project continuing underlying budgetary surpluses until 2009-10. If history is anything to go by, many if not all of these surpluses will turn out to be larger than first thought.

Now, some people have disputed the source of the \$23-billion gap between what Ontarians pay in taxes to the federal government and what they get back in programs and services. I want to clear that up right now. It comes from Statistics Canada, specifically the *Provincial Economic Accounts*, which is a federal publication. And by the way, contrary to what some federal ministers have said, it includes all federal spending in Ontario—everything.

The Toronto Dominion bank, Mr. Chair, recently issued a report confirming the very numbers that the federal government has published.

Ontario's contribution to federal revenues in 1995-96 was \$55.2 billion. By 2004-05, the year just ending, it will have climbed to \$84.9 billion.

• (1110)

[Translation]

Since 1995, Ontario's net contribution to Confederation has increased from 2 billion dollars to 23 billions dollars. In other words, there is a 23 billion dollar gap between what Ontarians pay in taxes

to the federal government and what they get back in federal investments in the province.

[English]

In pure dollar terms, the difference is equally stark. This year, the federal government will collect \$84.9 billion in taxes from Ontarians and will return \$62 billion in the form of investments, transfers, and payments to organizations and to individuals.

Mr. Chair, I have already said that Ontarians are proud of the fairness and sharing that underlies Canadian values. We're proud of helping to generate the economic wealth that benefits all Canadians, and we're proud of supporting equalization. However, as a result of changes in federal policy and as a result of special side deals such as the recent offshore oil agreement, equalization has quite simply ceased to be equal over the past number of years. Now, let me try to explain that.

Once the new side deal on revenue sharing from offshore oil is included, Newfoundland and Labrador will have a higher per capita fiscal capacity than Ontario. In the case of Newfoundland and Labrador, it will be \$7,529 per person, against \$7,277 per person for Ontario. Mr. Chair, that means the Government of Newfoundland and Labrador will have \$252 more per person than Ontario will have to spend on such programs as post-secondary education, health care, and social services.

When Ontarians see \$23 billion more going to Ottawa than they get back, this sort of arrangement looks unfair, sir, because it is unfair. Let me be clear, however, that our quarrel is not with the governments or the people of Newfoundland and Labrador or Nova Scotia. Our concern is that the federal government has allowed the equalization program to become distorted.

This should not come as any great surprise to this committee. The federal government collects much more revenue than it transfers to Ontario in particular. Specifically in certain types of programs, such as health and social services, the federal government insulates itself from growth pressures in those programs. It does so by providing short-term or time-limited funding or by investing in start-up costs but not continuing costs, and on occasion it does this by unilaterally withdrawing from or rewriting the rules for past agreements. Let me give you a recent example. The medical equipment trust will expire at the end of next year. That's \$194 million that will drop off the table in Ontario. But even after the federal contribution ends, we still have a program with associated wages and other operational costs that can fluctuate substantially and will continue into the future. This change in approach occurred most dramatically indeed when the Canada health and social transfer was created.

• (1115)

[Translation]

Mr. Chairman, there are four specific areas where we believe the federal government is coming up short in meeting Ontario's needs: health and social transfers, including post-secondary education; infrastructure; immigration settlement; and Employment Insurance funding for training.

I think we would all agree, Mr. Chairman, that investment in post-secondary education is a key element in a strong economy.

[English]

Ontario is currently in 10th place of 10 provinces in funding post-secondary education. We're planning to make some new investments to address this situation, but here again we need Ottawa's help.

In 1994-95, the federal government was providing slightly more than \$2.7 billion for post-secondary education in Ontario. Today that amount stands at \$1.8 billion. We recently received a comprehensive report on our post-secondary education system from former premier Bob Rae. The Rae report has recommended that the federal government restore funding to its historic level, and escalate it by inflation and enrolment.

We're prepared to do our part to build a much stronger post-secondary education system, but we need your help in ensuring that Ontario has the money to invest in priority programs such as post-secondary education, which is a key element, as the Rae report pointed out, in keeping this province and this country strong.

We see this pattern repeated in other areas of social programming. Under the Canada social transfer, the shortfall is \$374 million, or \$234 per Ontarian, compared to \$264 per capita for equalization-receiving provinces. The same is true in our health care system. Under the Canada health transfer, Ontarians experience a \$610-million shortfall. Federal funding is \$374 per person in Ontario, compared with \$423 per person in equalization-receiving provinces.

[Translation]

Mr. Chairman, there are four major federal programs that provide infrastructure investment. Ontario comes up short on each of them. Admittedly, capital spending is a somewhat different beast than operating spending, in that it tends to have a longer lifespan.

[English]

However, the numbers speak for themselves. Under the Canada strategic infrastructure fund, Ontario receives \$92 per person while the rest of Canada receives \$146 per person. Under the municipal rural infrastructure fund, Ontario receives \$24 per person while the rest of Canada receives \$36 per person. Under the strategic highway infrastructure program fund, Ontario receives \$15 per person while the rest of Canada receives \$21 per person. Finally, under the border infrastructure fund, Ontario receives 51% of federal funding, even though Ontario accounts for 75% of the value of goods moved by truck between Canada and the United States.

This pattern of disparity reappears again on immigration settlement. Ontario, which by the way absorbs more than 50% of all new immigrants to Canada, gets only \$819 per immigrant. Meanwhile Quebec, which gets about 18% of all new immigrants, receives \$3,806 per immigrant. This shortfall amounts to some \$400 million.

Changes announced in the 2005 federal budget will not address this issue in any significant way. The extra \$20 million provided in 2005-06 may increase Ontario's share of national settlement and language funding from 34% to 36%, assuming Quebec's funding does not change, but that still leaves us almost \$3,000 behind Quebec. Clearly that's unfair. I was pleased to note that Minister Goodale has already acknowledged that unfairness.

On unemployment insurance training for people who are unemployed, Ontario is behind the rest of the country. Current federal investment in this area averages \$1,827 per person in other provinces, but only \$1,143 in Ontario. If Ontario were funded at the same level as other provinces, it would mean an additional \$314 million to Ontario.

As I said a few moments ago, the federal government has a documented history of underestimating its own budgetary surplus. This practice is clearly demonstrated by the federal government's own numbers.

• (1120)

[Translation]

Just as distressing, though, is that the federal government, no matter how much its surplus, has not chosen to use the extra money available to address Ontario's needs.

Once again, the 2005 federal budget commits to 76 billion dollars in new spending—but again, not a mention of Ontario's need for federal investment in post-secondary education. In other health and social transfers. In infrastructure. In immigration settlement. Or in EI funding for training.

[English]

Mr. Chairman, there was a time when Ontario and Canada benefited primarily from east-west trade. It was the benefit of this east-west trade that allowed the federal government to fund equalization and transfers to provinces. But today the landscape has shifted. The majority of our trade across the country is north-south.

Now, given that Ontario represents 39% of Canada's population and 40% of its economy, we need to take into account this new economic reality. And that means to keep Ontario strong, the federal government needs to adjust the way it invests in this province so that the federal government can, in turn, continue to fund the programs and services that all Canadians rely on. We are, after all, the engine of the country's economy, and we need to make sure this engine continues to fire on all cylinders.

Ontario faces a substantial structural deficit. It's exacerbated by the previous government's flawed fiscal policies, the \$23-billion gap, spending pressures on health care at twice the rate of revenue growth, and the need for vital investments in post-secondary education and infrastructure. The federal government has the fiscal capacity to help us deal with these problems. We're doing this and we're saying this not just for the benefit of Ontario but for the benefit of Canadians.

The 2005 federal budget did not address these key areas. That said, by the way, we welcome the investments that we did get, and we are pleased to hear that Minister Goodale and others have made positive noises regarding immigration and the funding of post-secondary education. We are also encouraged at the signals we are hearing that the federal cabinet ministers from Ontario are beginning to understand the real scope and dimension of this problem.

Mr. Chairman, we will be urgently pursuing these matters, matters of utmost concern to our province and to the country. What we are asking for ultimately is fairness. We want the federal government to treat Ontario as it treats other provinces, no better, no worse. As the premier said, the \$23-billion gap is restricting our ability to build a stronger Ontario for a stronger Canada.

A strong, economically vital Ontario means more federal revenue, money that can, in turn, help every region of the country.

• (1125)

[Translation]

A strong, economically vital Ontario means more federal revenue—money that can, in turn, help every region of the country.

[English]

Mr. Chairman, in summing up, I want to just say one thing about the tenor of our approach to this issue.

We have a very strong relationship with the federal government. This is part of our history in Ontario, and it's part of the reality today. We share political philosophies, and we share the same ambitions for this country.

Those who suggest that we are approaching this problem by way of confrontation have not listened to Ontario's arguments or its approach to this problem. We will be working strongly with your

committee, with the federal Parliament and the federal government to begin to address the imbalances that are disadvantageous to Ontario and disadvantageous to the country as a whole.

[Translation]

Thank you, Mr. Chairman.

[English]

I would be pleased to answer your questions.

Thank you all very much.

[Translation]

The Chair: Thank you very much, Mr. Sorbara, for an excellent presentation. It is an excellent summary of the problems you are facing. Each of my colleagues will have five minutes to put their questions and hear your answers.

Allow me to say one thing. I did not hear your words said in a spirit of confrontation. They were more like an alarm bell. We have reached a point such that we cannot continue like this. Perhaps what is required is an in-depth reform and a move to a better method, in order for there to be less dissatisfaction from East to West in Canada vis-à-vis the federal government's actions which, in passing, even taking into account new expenditures, will be delivering a surplus of approximately 70 billion dollars over the course of the next five years.

Madam Ambrose, you have the floor.

Ms. Rona Ambrose: Thank you, Mr. Chairman.

[English]

Thank you, Mr. Sorbara, for your presentation, and thanks to all of you for appearing in front of the committee.

I want to speak to the equalization formula. I agree with you that it's obviously an important and essential part of our nation-building program in this country, and equalization, as you indicate, is not supposed to be an economic driver but is supposed to create and facilitate the opportunity for relatively equal public services to be delivered across Canada. But it should also not hinder or restrict economic growth.

I want to go back to the October equalization deal. At that time Premier McGuinty signed and supported the deal. The Conservative Party also supported the deal because we think it's very important that it set out the predictable funding for the equalization formula, something that was much needed by the provinces.

One of the other things that it did was set out a very generous fixed floor, as you know, in a formula that may result in Ontario actually paying out more than—for lack of a better word—it can afford, if Ontario's economy starts to decline. This will harm not only Ontario but also the rest of Canada as whole, because as you indicated, Ontario is one of our economic drivers and economic engines in this country.

I raised this concern during the debates in the House on the equalization bill because I am truly concerned, as are my colleagues, about the potential impact on the Ontario fiscal framework and the fallout for the rest of Canada on this issue. In essence, I see the fixed floor as...it is very generous, but I think what we have done is traded fiscal flexibility for predictability.

Premier McGuinty has also been making his frustrations known about the Atlantic accord with Nova Scotia and Newfoundland. Again, we supported that deal because we believe the non-renewable resources should be removed from the equalization formula wholesale for all provinces. But I also agree with Premier McGuinty that these ad hoc deals do have the opportunity and the potential to undermine the equalization formula. What results is pitting provinces against provinces. I was really concerned to see that you actually have a slide in your presentation that basically illustrates the fiscal capacity of Newfoundland versus that of Ontario. I think that really does not show that it's good times for federal-provincial relations right now.

But this also speaks to a larger problem with the entire equalization formula, and I wanted you to speak to this. I want to know what you think about the fixed floor in terms of concerns and the potential negative impact for Ontario if the Ontario economy starts to decline.

I want specifically to know why you are not raising these concerns about the wholesale equalization formula, changes to the formula, with the federal government instead of looking for direct cash transfers. I guess my concern is that this is not necessarily a long-term approach. Ontario is a leader in Confederation, a strong partner in Confederation, and I'd like to see you put forward some wholesale solutions that will positively impact, in the long term, all provinces, and not only Ontario.

I wonder if you could comment on that.

• (1130)

Hon. Greg Sorbara: Well, I thought this subcommittee was to find the longer and more comprehensive solution. I should say I'm going to be very interested in seeing your report.

Let me begin by responding on equalization generally. As you know, the notion of equalization is rooted in our Constitution. It's based on the principle of all provinces and territories in Canada being able to provide reasonably comparable services at reasonably comparable rates of taxation.

There's a lot of wiggle room in the notion of reasonably comparable. As one commentator said, there are probably seven people who truly understand the complexity of Canada's equalization formula, and we can't find any of them, and we rarely hear from them. We support that notion.

The unique aspect of the agreement concluded in October included, for the first time, the notion of a floor and the notion of an automatic escalator. Those were new concepts; they add, frankly, to the complexity of equalization, and move it somewhat away from the notion of reasonably comparable services at reasonably comparable rates of taxation. That being said, I hope this committee can make particular note of the fact that equalization is only one of

the mechanisms used for the overall financing of this nation and its public services.

The point we are trying to make here today is that when you look at the overall system, what you see, as David MacKinnon pointed out, is that the Ontario economy produces an extra \$100 million of wealth per working day to help finance public services in other parts of the country. Now, this wasn't created through any evil reconstruction by politicians or administrators in Ottawa or the provinces. It's where we have come to in the way our country finances itself.

What we're suggesting is really two things. First of all, there is fiscal imbalance. That is not a rejection of current equalization systems; it's an analysis of the overall financing of Canada, its provinces, and public services. That's the first point.

The second point is that within that context there is a huge gap between what Ontarians contribute in taxation to the federal government and what's returned. The federal government itself identifies that gap as \$23 billion. In order for Ontario to continue to generate the wealth that, really, it shares with the entire country, it needs significant new investments in those activities that expand economic growth.

Here we're talking about infrastructure, we're talking about post-secondary education, we're talking about an immigration agreement that allows us to integrate Ontario's arriving workforce much more quickly than we can, and we're talking about a labour-management agreement in which Ontarians generally can be more productive in their workplaces. If we can achieve that, we can continue to generate the kind of wealth that helps keep this country strong from coast to coast.

• (1135)

[*Translation*]

The Chair: Thank you, Mr. Sorbara.

Mr. McKay, you have five minutes.

[*English*]

Hon. John McKay: Thank you, Chair, and thank you, Minister Sorbara.

I would suggest you have a problem, a problem I'm kind of sympathetic to, which is that you have to balance a budget and you have to clean up a bit of a mess you inherited from the previous administration. We on the federal side actually have some sympathy, because we understand. In 1993-94 we had to clean up a mess. I respectfully suggest our mess was way bigger than your mess.

Hon. Greg Sorbara: It was pretty big.

Hon. John McKay: It was big, and we imposed some fiscal disciplines that were very painful and that actually cost us electorally in the 1997 election.

Last year you ran a deficit of about \$5 billion. This year's projections are for possibly \$2 billion, but presumably the people at this table know better than pretty well anyone else what your deficit is going to be.

Now, I would suggest to you that over the last number of years the federal government has redressed many of the problems you raise in your presentation. For instance, between 2001-02 and 2005-06, cash and tax points have increased by 41%. Cash in and of itself in the same period of time has increased 67%. In the previous decade you had a 120% increase. Our contribution to your budget—"our" meaning the federal government's—has risen from about 17.4% up to 21% and is projected to go higher, so a number of the issues you raise have been or are being addressed.

From our side of the table, however, it seems a little bit passing strange, because the premier pronounced himself quite satisfied in September and in October with both the health deal, in which Ontario is to receive \$16 billion over 10 years in increased funding, and the equalization deal, which Ms. Ambrose commented on, recognizing full well that the federal government was in effect buying the risk. No mention was made at that time of the deal the Prime Minister said he was going to cut with Premier Williams. He went around the room and he said, I am going to do this deal; does anyone have any objections? And nobody had any objections.

Now, we may quibble as to whether the deal that was mentioned at the time is the same deal that was ultimately negotiated, but that's not the point. The point is that you throw up a slide comparing Ontario's fiscal capacity and Newfoundland's fiscal capacity, but I think if you phoned up Premier Williams this afternoon and asked whether he'd accept an even trade for his problems, he'd trade his problems with yours in a heartbeat. They run a debt-to-GDP ratio of something in the order of 68%; Ontario's is somewhere in the order of 25% to 28%.

You make a significant point about Ontario contributing more to Confederation. Well, the truth of the matter is that Ontario is richer than most other partners in Confederation. Individual taxpayers and corporate taxpayers in Ontario operate at a higher margin, so the difference is readily explainable just by the progressivity of the tax system.

With respect to those issues the minister has mentioned, namely the labour market agreement and immigration, I don't think you'd get many reasonable people disagreeing with you on your points. But as to your overall point, I think you address issues of irritation, but I don't know that you address issues that are in fact reflective of a dysfunctionality of Confederation.

• (1140)

Hon. Greg Sorbara: Or it's the same whether it is federal or provincial.

Hon. John McKay: Yes, it is, indeed.

So I put it to you that in fact quite a number of those issues you have raised have been or are being addressed between the federal government and what is probably Canada's most significant partner in Confederation: Ontario.

The Chair: You have about one minute to answer the question, but I will be nice with you—because of you.

Hon. Greg Sorbara: *Merci beaucoup.*

I will just state to my friend from Scarborough and to Paul as well that I was personally very proud of the role that the Premier of Ontario played in the negotiations towards the health accord in September and on equalization, and we stand behind our commitments to that agreement.

I should point out that in the closing session of the health summit the premier mentioned that there are other problems related to the fiscal imbalance in Canada, and he referred to the \$23 billion between what the economy of Ontario transfers to the federal government and what Ontarians get back in terms of support. I am absolutely confident, given the commitment on key issues, that the federal government is going to—I hope—quickly land a strong immigration agreement and deal with labour market issues. I know personally that the federal cabinet is committed to the notion that post-secondary education is an incredibly important driver of stronger economic growth, and frankly, there are infrastructure projects in Ontario—whether it's a pan-Canadian electricity grid or better public transit in the Greater Toronto Area. God, ask my friend Alan Tonks about how far behind we are in investing in those areas, and the bridge.... I mean, there is so much to do.

When you look at the fact that, as David MacKinnon said, every day this economy provides the rest of Canada with \$100 million in operating revenue for its social services. We are saying that the burden has become too great. And it's grown fairly rapidly over the past decade from \$2 billion to \$23 billion. We support the notion that equalization and acting as a unified country are vital to Ontario's future and the country's future. What we are doing is pointing out areas that need urgent attention: firstly, investments that strengthen our economy, and secondly, a determination to work together to provide a better balance in all of those funding programs that represent the way in which we finance the country and its public services.

[*Translation*]

The Chair: Thank you, Mr. Minister.

Mr. Côté, go ahead.

Mr. Guy Côté: Thank you very much, Mr. Minister.

The Chair: You are perhaps more disciplined than the Liberal MPs.

Hon. Greg Sorbara: I would like to be, but I am a political man, Mr. Chairman. It is very difficult.

Mr. Guy Côté: Thank you very much for your presentation. It was very informative. It demonstrated quite clearly, I believe, that the fiscal imbalance is not amongst the provinces, but that its main causes are the federal government's actions in its management, among other things, of equalization, of the various transfers and of specific agreements.

Even if in certain respects Ontario did play its cards right, it is indeed facing certain problems that we are also faced with in the province of Quebec. You mentioned education. I am not certain of the numbers for Ontario, but I know that in Quebec, federal funding in the area of education is at present at 12%. I imagine that you are encountering similar problems.

You mentioned in your presentation the fact that the federal government taxes way too much considering its constitutional responsibilities, which allows it to do as it pleases. Over the course of the last few months, and more particularly today, naturally, several solutions have been looked at, for example, an increase of the transfers, the removal of the fiscal gap so as to allow the provinces and Quebec more room to manoeuvre, the transfer of tax points, specific agreements, although we are starting to see the results of these.

In your view, what might a first effective step be in attempting to correct the situation?

Hon. Greg Sorbara: It is a little bit different in Quebec: when the government says that it wants to invest in universities, for example, there is a somewhat negative reaction, and I understand that full well. The same thing happens with regard to various aspects of the health care system.

For our part, in Ontario, it is our wish to negotiate agreements only in areas such as immigration, areas that are very important for our economy. The government of Quebec negotiated a major agreement in this area. You spent a lot of money in order to help those people who immigrate to Quebec very quickly reach their goals. In Ontario, we have no such agreement, but it is our aim to get one.

In the area of post-secondary education, be it for help for students or for institutions, we can accomplish a lot of things jointly with the federal government. It is perhaps a problem in Quebec, but that is not the case at all in Ontario. Finally, I would like the federal government to invest in infrastructure, because it has the necessary fiscal capability to do so.

I will give you an example to illustrate this. In Windsor, the border is a serious problem. In order to maintain the automotive industry in Ontario, we must succeed in reaching some kind of agreement that would allow us to transform the border and to begin building infrastructure. For us, we are not interested for the moment in a major agreement aimed at completely revamping equalization or the taxation system. That might be the case one day, but for the time being, we want to begin with investments that are very important for Ontario's economy.

•(1145)

The Chair: You have one minute left, Mr. Côté.

Congratulations, you are showing tremendous discipline.

Mr. Guy Côté: Thank you very much. I will be brief.

If I understood correctly, you are thinking of more specific agreements, of an increase in the transfer payments for education or health. In your view, the solution for Ontario would be more along those lines.

Hon. Greg Sorbara: Yes. There is a lot of work to do. In the area of health, for example, it is unacceptable that Ontario receives less money per capita than the other provinces under the Canada health and social transfer.

[English]

I just want to turn it over to Michael, who understands this stuff as well as anyone in the province.

Hon. Mike Colle (MPP Eglinton—Lawrence, and Parliamentary Assistant to the Minister of Finance, Government of Ontario): One of the core problems here is that we have a total lack of transparency in understanding the transfers in equalization. It is incomprehensible. I've been told there are only seven people in the country who claim they understand these rules—

The Chair: But six are lying.

Hon. Mike Colle: Yes, and they disagree with each other.

The last thing I will tell you is that the side deal, the one-off deal in Newfoundland and Nova Scotia, illustrated that there are no rules. So as Ontarians, we're standing up for Ontarians and saying we want to know what the rules are, and we want to make sure the rules are fair for us.

[Translation]

Mr. Guy Côté: Thank you, Mr. Chairman.

The Chair: Mr. Minister, before giving the floor to Ms. Wasylcia-Leis, I would simply like a clarification with regard to something you said about immigration.

I have looked at all of the items for which you are asking the federal government for more per capita expenditures, and all of this seems fair to my mind.

But with regard to immigration, there is something I would like to clarify. In 1977, Quebec and the federal government reached an agreement, the Cullen-Couture agreement. Under this agreement, part of the responsibility for immigration management was transferred to the government of Quebec. Thus, a good part of the immigration transfers you mentioned are aimed at the administration of immigration and the integration of immigrants in Quebec.

Therefore, we should set aside the portion the government of Quebec uses to cover these costs and see if there still remains a difference.

•(1150)

Hon. Greg Sorbara: We should...

The Chair: As for the rest, I am in perfect agreement with you, but with regard to immigration, I do have certain reservations.

Hon. Greg Sorbara: It is important to compare apples with apples.

The Chair: Precisely.

Hon. Greg Sorbara: I am in complete agreement with you. However, even if we identify the programs to be compared, the reality is that Ontario gets no help from the federal government in the area of immigration.

[English]

The Chair: But you understand, Mr. Minister, that part of the subsidy from the federal government is to administer immigration by the Quebec government.

Hon. Greg Sorbara: Absolutely.

The Chair: It's not a net amount.

[Translation]

Hon. Greg Sorbara: When we talk of linguistic services, be it in French or in English, of training, of helping people enter the job market, the numbers are always out of kilter, in other words, we do not receive the same help as the other provinces in the area of immigration.

The Chair: Thank you, Mr. Sorbara.

Madam Wasylycia-Leis, you have five minutes, please.

[English]

Ms. Judy Wasylycia-Leis: Thank you, Mr. Chairperson. Thank you, Minister Sorbara and all the members of your team, for being here.

As I understand the fiscal imbalance, in my mind—and forgive me if I'm a little political here, and I'm sure John McKay will call me on this—the mess caused by the federal Liberals was in response to the mess left to them, only they used a sledgehammer instead of a more appropriate public policy tool.

So I think we're dealing now with a situation of trying to recover from the huge cuts in transfer payments on health and education; the loss of the Canada assistance plan, and a national way to deal with poverty and people needing economic security; and the cuts to the EI benefits. All of that means that when people are left without those programs and that safety net, they have to turn to welfare, social assistance. Who covers that? The provinces. So you're left with having to pick up the pieces.

So I think if we weren't so polite here, we might call a spade a spade, and that's exactly what we are dealing with. So my question to you is twofold.

First, where are you in terms of recovering dollars cut as a result of this sledgehammer that was used back in the 1995 budget? Are you, in terms of real dollars, anywhere past the 1993-94 levels or not?

Second, if you were actually a Conservative government right now, you would have heard the Liberals here at the table say, well, the problem is that we keep giving you all this money for different programs and then you use it to reduce taxes as opposed to putting it into programs. So if you have a problem with education right now—and you say you are the lowest in terms of the country in terms of per capita investment—that's your fault, because you are a Liberal government. These folks aren't going to call a spade a spade on that front, but the truth of the matter is that's what is underlying some of this.

So we need to know from you, have you taken federal dollars to cheat the system or not? You get my drift.

Hon. Greg Sorbara: Yes.

Ms. Judy Wasylycia-Leis: My third question is this. I see in fact that there is finally some movement with respect to some of the feds starting to listen to you, and there is a meeting planned. Do you know when that meeting will take place? At least as I read the papers, there is a meeting planned between your cabinet and some of the federal Liberals, starting with Mr. Volpé. When will that be and what do you expect will transpire at that point?

Hon. Greg Sorbara: That's a great question. I want to begin by making one thing perfectly clear. I think that the contribution that then finance minister Paul Martin made to this great country in getting it out of the disastrous financial circumstances left to him by his predecessors is one of the great achievements over the past decade.

As a finance minister, I am confronted with the same kinds of realities, inheriting a pretty bad financial mess and trying to straighten it out, and it's going to take some time. I think the record of moving Canada.... Remember, back in those early days the *Wall Street Journal* was describing Canada as a North American third world country, and now we are a leader amongst the G-8 in terms of our productivity.

What we are talking about is the post-recovery period and how we have to start now to direct attention to the post-recovery period. I don't want to try to go back and analyze whether or not the cuts in 1995 were 10% or 3% or 2% too much. That history has left Canada a stronger nation. It's had some fallout, and we need to start to address that fallout. One of the unintended results is what we describe as a \$23-billion gap. We work very well with and have a great deal of respect for that government. We are friends and we are political colleagues, and we are going to solve this problem. Unfortunately, I cannot tell you when that meeting is taking place, but as soon as I know, I am going to phone you.

•(1155)

Ms. Judy Wasylycia-Leis: Thank you for that answer.

I appreciate your defence of the federal Liberal government in suggesting that those were necessary actions. You point to productivity measures, but you fail to address some of the other critical indicators. For example, the most recent indicators show that when it comes to poverty, Canada, a wealthy industrialized nation, is 19th out of 26 of the industrialized countries or OECD nations. If you look at measures pertaining to unemployment or job training, to people feeling trapped in a cycle of part-time, short-term, low-skill jobs, we're not so great in relation to other countries.

I think part of the problem ties to the fiscal imbalance, in that if we're not prepared to stand up and say that the kind of offloading that occurred at one point to solve a problem has just caused another whole set of problems, then we're not going to find a solution. We're not going to find a way out of this mess in terms of at least the indicators that I think are important, those being some measure of fairness, equality, and justice between all regions and all people.

Hon. Greg Sorbara: Mr. Chairman, my colleague Mr. Colle has a brief comment in response.

Hon. Mike Colle: I just wanted to say that one of the things we're trying to do is remind you, as Canadians, that Ontario isn't just downtown Toronto. In MP Alan Tonks' area, York South—Weston, you have the second or third lowest per capita income in Canada. We have poor, struggling farmers here in Ontario. We have child poverty, as you said. We have the unemployed. We have new immigrants who need help. We have amazing challenges here. So it's not just Bay Street. Look at our small neighbourhoods throughout Ontario. Look at Hamilton and the help it needs.

All of our urban centres and our rural areas need to get some attention, and that's why we're doing this: to say that Ontario isn't just banking and financial centres. We have our working poor. Ontarians work very hard; they're proud of that, and they pay their fair share of taxes. They just want to be treated fairly by the federal government so that we can keep some of our own money here to help our poor, to help our farmers, to help our cities. That's what this is really saying in a nutshell.

The Chair: As a last question, we have two minutes for my friend Mr. Szabo, and after that we'll get concluding remarks from the minister.

Mr. Paul Szabo: Minister, you concluded that the federal government needs to treat Ontario as it treats other provinces. If I could refer your officials to slide 7, I would like an explanation on that.

Other than equalization, Ontario benefits at the same per capita level as any other province from the major transfers under the health transfer, the social transfer, and the transfers that are coming with regard to child care and cities and communities. On slide 7, I have some difficulty understanding these numbers. You're indicating a \$984-million shortfall on your share of health and social transfers when it is on a per capita basis. How could there be this shortfall?

Mr. John Whitehead (Director, Office of Budget and Taxation, Ontario Ministry of Finance, Department of Finance): The Canada health and social transfer still includes an element of the value of our tax points in the calculation. While it's true that all of the incremental changes that have been made recently are done on an equal per capita basis, in the presentation the minister referred to the actual per capita values of our Canada health and social transfer. Per person, Ontario is getting \$608 on those transfers in total, versus \$687 in the equalization-receiving provinces, so the underlying amount, before the increments, includes an element of the value of our tax points.

• (1200)

Mr. Paul Szabo: So you've basically discounted the fact that the tax points are worth more to Ontario than to other provinces.

Mr. John Whitehead: No, just that they reduce our cash transfer.

Mr. Paul Szabo: I understand that, but if you don't believe tax points have any value, could the federal government have them back, please?

Hon. Mike Colle: Do you want to explain to ordinary Ontarians what a tax point means, or what this all means?

Mr. Paul Szabo: I don't think I have time right now.

Hon. Mike Colle: That's the problem.

Mr. Paul Szabo: When the provinces sat down with the federal government and negotiated these things in terms of splitting cash for tax points, what they basically said was that tax points would allow provinces to earn a greater revenue base, depending on how well the economy does in a province. There's an incentive for the economy to do well in the province. What you're telling me is that you're not going to give any benefit to the whole equation of federal—provincial finances and transfers of tax points. Well, you can't ignore that tax points exist.

Hon. Greg Sorbara: Paul, I think you make a strong point, but the thrust of our submission here is that when you add it all up—and these numbers come from the national government—Ontario is contributing \$23 billion more in the taxes that are raised by the federal government in the province than it gets back, whether it's by way of tax points, by grants, by way of participation in programs like the one that was negotiated in September, and when you include payments made to individuals and in things like the Canada-Ontario municipal infrastructure program.

So we're not here to argue that we should renegotiate those tax points or give them back. What we're saying is that through no ill will, over the course of the past 15 or 20 years the system has put a burden on the Ontario economy that is too great.

We're not saying we need the \$23 billion back. We're saying two things.

First of all, given Ontario's circumstances, there are urgent opportunities and needs to invest in the economy—not transfer money to invest, but to invest in our schools, our infrastructure, our immigration system. That's the first point.

The second point, which is larger, is that the financing of the country's services—its provinces and its governments—is out of balance. The \$23-billion gap is illustrative of the fact that it's out of balance, and that balance needs to be addressed. We don't have a particular investment that you can make there to address that balance. It's a larger problem. It's systemic. But it needs addressing, so that the province can be stronger, so that the country can be stronger.

[Translation]

The Chair: There is one thing I am having trouble understanding. You are giving us the complete picture, in other words the cash transfers from the federal government and the value of the tax points. Usually, in order to show that Quebec receives a large contribution, as is the case with Ontario, the government tells us to take into account the value of the tax points and of the cash transfers. Here, you have just been criticized for having included the value of tax points in your demonstration.

Hon. Greg Sorbara: We have included...

The Chair: Yes, indeed.

Therefore, at your next meeting, you will have to ask Mr. Goodale to establish the facts clearly: either we take into account tax points, or we do not take them into account.

I have made note of the fact that you demonstrated that, even with the cash transfers and the value the tax points have acquired over time, you are chronically under-funded in the areas you have mentioned.

Hon. Greg Sorbara: Exactly.

The Chair: Which is why it is urgent to bring some corrections.

I would like to ask you a final question before your closing remarks. You talked about Mr. Séguin a little earlier. You stated that you found him to be very kind. But did he manage to convince you that a sustainable solution for making the provinces more autonomous would be to transfer fiscal elements, be it the administration and collection of GST monies, for example, or the transfer of tax points for taxpayers? The normal growth of these fiscal tools would allow you to keep up with the evolution of health care demands, for example. Would that be a sustainable and feasible solution for you?

Hon. Greg Sorbara: I have tremendous respect for Mr. Séguin. He is an expert in the area of provincial funding in Canada. He has very strong opinions with regard to the issue of the fiscal imbalance in Canada.

We do not, for the time being, wish to put forward concrete solutions. Today, we simply wished to underscore two important points in order to stimulate discussion and consideration by the committee.

To that end, I hope that with your help and with the cooperation of the entire nation, the provinces included, we will be able to embark upon another path for the welfare of Canada and of the ten provinces and three territories that make up this country.

The Chair: I would now invite you to lay out your conclusions and closing remarks.

● (1205)

[English]

Hon. Greg Sorbara: Well, thank you, Mr. Chairman. I know that lunch awaits you. You've been very patient and very flexible in allocating your time.

I simply want to conclude by thanking you for the opportunity to be here and wishing you well in your deliberations. These are issues that this great country visits and revisits periodically. With a new government in Ottawa and a determination by that government and the provinces to be flexible and revisit these sorts of issues, I think when all of our work is done, and the blood and sweat and tears are shed, we'll have a stronger country, and I'm sure that will mean a stronger Ontario.

Thanks very much for listening this morning.

Merci beaucoup.

[Translation]

The Chair: Mr. Minister, Mr. Colle, Mr. Andersen and Mr. Whitehead, thank you very much.

[English]

Thank you very much.

[Translation]

Hon. Greg Sorbara: Have a good day and a good weekend.

The Chair: Thank you. *Merci beaucoup.*

This meeting now stands adjourned.

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