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Chair

Mr. Yvan Loubier

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•(0835)

[English]

The Chair (Mr. Yvan Loubier (Saint-Hyacinthe—Bagot, BQ)): Good morning, everybody. I want to thank you for being here at the Subcommittee on Fiscal Imbalance.

Welcome, Mr. McMahon and Mr. Finlayson. You will have 15 minutes to make an opening statement, and after that we will have some questions from members of Parliament. Thank you very much for being here.

Mr. McMahon.

Mr. Fred McMahon (Director, Centre for Globalization Studies, The Fraser Institute): Thank you, Mr. Chairman. Let me say that I and the Fraser Institute very much appreciate the invitation. I congratulate you on your desire to hear from a variety of points of view.

When there is a first ministers conference, Canadians or their leaders tend to go through a rather odd ritual. Everyone arrives and piously says, "This isn't about the money, but about the need to reform our health care system". Having quickly gotten that statement out of the way, they break down into squabbling about money.

This may seem an unusual way to start a presentation on the fiscal imbalance, but my belief is that it's the fiscal imbalance that's behind this inability to really grapple with a number of important issues, most particularly health care, in Canada. Many others are in a better position than I am to go over the dollars and the cents, the reasons for the fiscal imbalance, its exact size, and so on. What I want to discuss is the impact of the fiscal imbalance on policy discussion and policy-making in Canada.

The unfortunate reality is that divided responsibility and therefore divided accountability create real problems with accountability in medicare. It becomes far easier to point at the other side and demand more money than to undertake reform. Reform is a difficult process. You don't see people who need hip replacements marching in the streets and insulting our politicians and demanding a better health care system. But any time there are special interests, whether they be unions or regional interests where a hospital is being closed, you will see people out in the streets marching and insulting politicians.

Reform of the health care system, with so many special interests now benefiting from it, is a very difficult business. Unfortunately, because of this divided responsibility, instead of talking about the real need for reform, other than making the pious statements at the beginning of these conferences, we tend simply to talk about who is giving enough money or not enough money. It reminds me of an old

joke from the time of Russian gangster capitalism: two oligarchs meet on the street, and one is bragging about his tie. He says, "This is a marvellous tie. I just paid \$1,000 U.S. for this tie in a shop around the street", and the other oligarch say, "You fool, you could have had that for \$5,000 in Geneva".

The point is that we don't value the output of our policies; we value the input, or how much we are spending. So medicare or health care conferences typically come away with governments, or the federal government, promising to put more money in, or the provincial governments demanding other money.

No system in the world is a pure-form system. So except in unitary states, there is always a crossover. Canada, unfortunately, is an extreme example by this measure; there is provincial responsibility, some federal dollars, and there are federal handcuffs on the few provinces that will have the courage to undertake reform.

The fiscal imbalance, I believe, is a key reason why Canada, amongst all the nations with universal health care systems, arguably has the worst health care system. We typically compare ourselves with the United States. It seems to me that in comparison with the United States, which does not have a universal system, it's difficult to know whether Canada has the worst system and the U.S. the second-worst system, or whether the U.S. has the worst system and Canada the second-worst system. But clearly, amongst virtually all developed nations with universal access to health care, and with the exception of the United States, Canada arguably has the least effective system going. Other nations like Sweden and France have managed much better health care systems than Canada.

As I say, I think the key reason we are unable to grapple with this is the lack of lines of accountability and the ease of demanding more money, due to the fiscal imbalance in tackling reforms.

My fear is that things will be getting worse, not better.

•(0840)

Ottawa is already using the fiscal imbalance to move aggressively into other areas of provincial responsibility: post-secondary education, clearly; potentially the other end of the education spectrum, with the day care system; and municipal politics, bypassing the provinces.

There are further problems with accountability in that many of these funds are set up through third parties. Not only do you have a confusion of accountability between the federal and provincial governments, you add in yet another body to create even more confusion. This too is in large measure due to the fiscal imbalance, where Ottawa has a whole bunch of money to toss around.

The provinces, at the same time, because of the fiscal imbalance and because of the escalating costs of health care, are being pushed out of these areas in some ways or are finding it very difficult to provide appropriate funding in areas like municipalities and education. It would be a true tragedy for Canada if our post-secondary education and municipal management were ranked as badly as our health care system is in international rankings.

Urban centres in a globalized world are going to be the engine of growth, and that engine of growth is fuelled by human capital. This makes municipal policy and post-secondary policy tremendously important and central to the future of Canada. If we end up with unclear lines of responsibility and accountability and problems with transparency that are, again, traceable back to the fiscal imbalance, we will really suffer.

How do we get out of this? Well, I see three possibilities.

One is reform to the existing system. Mr. Chairman, this committee is one of a long line of committees that has examined Canada's fiscal structure. Granted, the phrase "fiscal imbalance" is relatively new, but over the last 20 or even 30 years there have been a number of attempts to reform the fiscal flow of funds within Canada.

My belief is that such tinkering will in the end accomplish little. You can tune up a car to make it drive better, but you can't turn it into an airplane or a submarine. So long as there is divided accountability, divided responsibility, and confusion over money, all of which are hallmarks of the current system, you will continue to have the problems with policy-making and policy discussion I've already described.

Another solution would be to federalize these areas so the federal government becomes solely responsible for health care. This is almost certainly a non-starter. One, Ottawa wouldn't want it. I think it was clear, when the idea of Ottawa running a pharmacare system was broached, that the federal government simply didn't want the headache. I can't imagine it wanting the headache of running the health care system across the country. Not only that, Quebec and likely Alberta and other provinces would veto it. It's also not particularly good policy. What you want for good policy formation is competition between various units of governments.

"Let a thousand flowers bloom", as Daniel Patrick Moynihan famously quoted Chairman Mao when he was talking about policy-making across the United States and freeing up states and municipalities to make their own policy. The best systems are noticed by the people and are copied.

Moving to the provinces is a far better solution. It respects Canada's Constitution. It allows at least ten flowers to bloom, if not a thousand, and this sort of competition will help us develop better systems.

• (0845)

The federalization of these problems, I believe, is impossible. The provincialization of these areas is extremely difficult, but at least it has the modest virtue of not being impossible. I would hope that while this is not particularly on the table now, your committee and some other developments that I believe will happen in fairly short order will start putting this idea on the table, in order to generate a

real debate about creating clear lines of accountability for policy formation in Canada, lines that had been impossibly muddled by the fiscal imbalance and Ottawa's use of it to intrude into areas of provincial responsibility.

Thank you.

The Chair: Thank you very much, Monsieur McMahon.

Monsieur Finlayson, for 15 minutes.

Mr. Jock Finlayson (Executive Vice-President, Policy, Business Council of British Columbia): Thank you, Mr. Chair. It's a privilege to be invited to appear before you today.

To those members of the subcommittee who are not from British Columbia, which means most of you, welcome to our province. We do have a briefly sunny day here, so enjoy it. It won't be lasting beyond today.

By way of background, I'm the executive vice-president of the Business Council of British Columbia, which is an association representing about 200 large and mid-sized companies doing business in B.C. We're focused really on public policies at the provincial and federal levels, policies that affect the economy and the business climate.

For those of you from Quebec, our organization is very similar to the Conseil du patronat du Québec, with a similar mandate and a very similar governance structure.

Because of time constraints based on the invitation I received for today, we didn't have an opportunity to discuss all of the matters before your committee with our board of directors. Some of my comments this morning are therefore going to be more by way of personal observations, although I am quite certain that the views I'm going to put across are shared by most of the business organizations that are represented in my organization.

As we obviously all know, there is a fairly vigorous debate going on in Canada among both academics and politicians about the existence of a so-called vertical fiscal imbalance between the federal government and the provinces. As you're no doubt aware, the Department of Finance has claimed that there is no such imbalance, noting among other things that provinces have access to all major revenue sources; that many provinces have actually reduced taxes over the past several years; that Ottawa's debt exceeds the collective provincial debt appreciably as a share of gross domestic product; and that the aging population will put upward pressure on federal social spending in the decades ahead.

The provinces, including our own provincial government here in B.C., take a very different position, noting, as Fred indicated, that they face more extensive spending pressures than the federal government, particularly in the area of health care. I would just note parenthetically that the budget for health care in my province has gone from one-third of total provincial expenditures in 1990 to 44% of total provincial expenditures in the coming fiscal year, 2005-06. The Conference Board has projected that health care will account for over half of provincial government spending in Canada early in the next decade, so provinces are very much under pressure because of escalating health care demands, as well as the need to invest more in infrastructure.

I'm not going to try to resolve the debate between the federal Department of Finance and the provincial governments in terms of the existence or non-existence of a fiscal imbalance, but I will make a few observations that perhaps can shed some light on the topic. First, if one examines intergovernmental fiscal trends in Canada over the past decade, I think it's pretty clear that there is an important difference between what's been happening at the federal level and what we see happening among the provinces.

After a quarter-century of persistent budget deficits, the federal government did return to surplus in 1997-98, and it has been posting steady surpluses every year since then. The federal debt, as I'm sure the committee is well aware, has dropped from about \$562 billion down to roughly \$500 billion; as a portion of GDP it has dropped to a much greater extent, from close to 70% down to under 40%. Private sector economists project the federal debt will drop below 30% of GDP by the end of the decade, which is obviously a very positive trend.

Equally significant is that these past and projected federal budget surpluses and the shrinking debt have occurred at a time when federal program spending has been running up quite sharply. It's worth noting that federal program expenditures soared from a little over \$100 billion per year back in 1996-97 to almost \$160 billion in the fiscal year that just ended a few days ago. That's an increase of 55% in less than a decade. Since the current century started, in the past few years since 2000, federal program expenditures are up by roughly one-third. According to the federal budget of last February, that trend will continue over the next number of years.

• (0850)

It is also worth noting that the federal government has cut taxes at the same time, beginning in 2000, and there were significant reductions in personal and business tax rates. Many people would like to see more tax cuts, but the tax cuts that have been made are appreciable. Despite that, despite lower taxes, despite quite a dramatic run-up in federal spending, the reality is the federal government has been recording substantial budget surpluses and its debt burden has continued to drop steadily.

What about at the provincial level? Except for Alberta, which truly is an outlier on any measure of fiscal performance, all of the provinces in Canada continue to have great difficulty, even when the economy is performing well, balancing their budgets, and they remain under strong pressure to further increase spending on health care, social services, and infrastructure. The provincial debt-to-GDP ratio, adding all ten provinces together, has fallen only slightly since the year 2000, notwithstanding the distorting effect of Alberta's huge budget surpluses. So taken together, those trends suggest, at least to me, that the central government is responsible for too large a proportion of the total taxes being collected in Canada by the overall public sector.

Now, you are probably familiar with the Conference Board of Canada study done last summer, which is the major piece of independent work that I have seen on this subject, and it does highlight a widening gap in fiscal performance between the two levels of government and projects that this will continue as we move from today to 2015. I do think it is important to note that the Conference Board study was completed prior to the autumn 2004

federal-provincial agreements on health care and equalization, which will result in a very substantial jump in federal transfers to the provinces over the next several years.

If one takes these two agreements into account, as well as other measures contained in the 2005 federal budget, I think it is fairly clear that the magnitude of any vertical fiscal imbalance in Canada is going to be somewhat less than the Conference Board estimated in its report last summer. In other words, if there is an imbalance, I think it is diminishing because of the substantial spending and transfer commitments the federal government has made.

I would argue that the biggest problem with the current system of intergovernmental transfers in Canada is not really whether a fiscal imbalance exists, but it lies rather in the impact of the current system on transparency and accountability. Whatever its advantages, the current set of arrangements governing federal-provincial transfers in Canada warrants, in my view, a failing grade on these key criteria of transparency and accountability. Transparency means ensuring that voters understand where spending and taxation decisions originate; that they understand who ultimately bears the burden of providing services and programs, and also how programs actually work. Accountability involves determining whether the government that administers spending is also charged with raising the associated tax revenue.

What has evolved in Canada is a complex and I think increasingly opaque system in which the provinces deliver and manage various services for which they do not collect the necessary taxpayer dollars, while the federal government, for its part, scoops up tens of billions of dollars in taxes to help pay for services that it is not responsible for delivering or managing.

Now, whenever one government collects revenues to pay for spending undertaken by another or delivers services that it is not obliged fully to pay for, it follows, at least to me, that political accountability and public transparency are going to be diminished. I think Canadians in many respects are in a state of confusion as to the spending and taxation decisions reached by different levels of government and how these decisions impinge on the provision of and accountability for publicly financed services and programs in areas such as health care and other dimensions of social policy.

Moreover, I would argue that recent developments in the tax transfer system will, if anything, move further in the direction of increased complexity, diminished accountability, and perhaps even growing incoherence.

First, with the ten-year plan to strengthen health care reached last fall, the federal government is now committed to pouring vastly more money, over \$40 billion over the next ten years, into health care by transferring this additional cash to the provinces. While most would agree that more health care funding is required, the new plan will further muddy the waters on the basic question of who is responsible and accountable for producing the improved health outcomes and services that Canadians apparently want.

Moreover, there is no evidence that the additional truckloads of federal money will buy meaningful health care reforms at any level. Indeed, a more plausible outcome, in my view, is that the extra federal funding will delay change and make it easier for risk-averse policy-makers to defer for a few more years any need to confront long-term structural issues in our health care system.

● (0855)

Second, the recent changes in equalization promise to strain the federal budget, render the program less fair, and depart from the fundamental principle that the purpose of equalization is to provide financial support to provinces with a less robust revenue bases. Particularly with the new annual escalator clause, the federal government is now committed to ongoing future increases in transfers to equalization-receiving provinces even if some of these provinces succeed over time in narrowing the prosperity gap relative to the Canada-wide average.

The two ad hoc agreements reached earlier this year with Nova Scotia and Newfoundland will move the equalization program even further from its original design principles. Indeed, based on current federal policy, it's at least conceivable that Ottawa will continue to make equalization payments to current receiving provinces even if the latter eventually become richer than today's non-receiving provinces. It's very difficult for me to understand how this could possibly make sense in a context of an equalization regime.

To conclude, it seems to me clear that as in other areas of government policy, policies relating to transfers should promote transparency, political accountability, and good governance. For provinces as for local governments, using own-source tax revenue to fund programs and services in areas that are solely or mainly within their own jurisdiction is a better model than relying on grants and transfers from the central government.

To ensure a reasonable degree of program stability and equity across Canadian jurisdictions, it is certainly appropriate for the central government to assist provinces with less fiscal capacity. However, instead of being embodied across a range of federal programming, as has often been the case in the past 15 years, such reports should be concentrated and funnelled through equalization. In a federation like Canada there is a strong rationale for an equalization-type transfer system. It is harder, however, to come up with convincing reasons why the central government should be extensively involved with all manner of other intergovernmental transfers, particularly in areas that do not fall within federal jurisdiction.

Finally, as noted by former Ontario Premier Bob Rae, since the federal government collects far more revenue than it needs to deliver services and programs within its own jurisdiction, it does have scope to transfer tax room to the provinces and, in tandem, to reduce its direct expenditures on programs for which the provinces have primary jurisdiction.

At the same time, if Ottawa wishes to maintain visibility in certain fields that are important to Canadians and that happen to be within provincial jurisdiction, it should be looking for opportunities to assume responsibility for specific dedicated aspects of health or other social programs of broad, national importance, thereby relieving some of the fiscal pressure on provinces. This, I think,

was the rationale underlying B.C. Premier Gordon Campbell's suggestion last year that the federal government develop, deliver, and pay for a truly national pharmacare program, a suggestion that, as Fred noted, was not well received by the central government.

Thank you for the opportunity to meet with you today. I look forward to discussion and questions.

● (0900)

The Chair: Thank you, Mr. Finlayson.

Welcome, Mr. Dobell. I will allow you 15 minutes for your opening statement.

Prof. Rod Dobell (Emeritus Professor of Public Policy, University of Victoria, As an Individual): *Merci, Monsieur le président.*

I must apologize for my late arrival. Not being tied quite so much to a schedule these days, the fact of daylight saving passed me by. The hour by which I had expected to complete the revisions to this document and get you a clean copy passed. As a result, I apologize for the fact that I do not have a polished, printed version for the committee here. At your suggestion, I'll make a statement based on this document.

I will argue that there is no problem of vertical fiscal imbalance. The question is wrongly posed. The equalization program is not achieving exactly what section 36 of the Constitution says it should, but it has been increased in scale. Some further renewal and adjustment are under way. One can question the departure from a strict formula-based equalization program, but it is addressing some of the problems of horizontal imbalance, unequal fiscal capacity across provinces, through the development of what most people consider a very fundamental feature of our system of fiscal federalism.

There is an ongoing shift in the balance of expenditures between provincial and federal governments. Provinces certainly face major pressures in their health, education, and social services programs, but there's no case in my view for these expenditures in any one province to be financed to a greater extent than they are now by taxpayers resident in other provinces. Provincial governments that have cut taxes can also increase them.

Decentralization within the federation has been substantial. There seems no point in pressing for further general reduction in the relative scope of the federal government. The argument for further transfers of tax points is again a non-starter.

The long-term solution to the current transitory imbalances is greater interjurisdictional cooperation to achieve more effective subsidiarity, greater harmonization to achieve policy coherence in cross-scaled responsibilities, more responsive adaptation to changing circumstances and emerging challenges, and greater awareness among citizens of the degree of joint effort and mutual accommodation that's already built into our system. We should recognize and respect a fundamentally strong and successful federation when we see it. So in my view, we are arguing about adjustments to a basically sound system.

That's my summary. Let me go back just a little to describe my background, so you'll know why I don't have any simple solutions to propose to you.

I began my academic work as an economic theorist in mathematical growth theory. I returned to Canada after a spell of teaching at Harvard. I was a professor of political economy at the University of Toronto when I was asked to go to Ottawa to teach senior public servants how to make good decisions. I guess that was my first real exposure to the idea that the classroom has some real limitations, as far as lessons for life are concerned.

I worked as deputy secretary to the Treasury Board in Ottawa for a few years and then had an opportunity to work with an international team at the OECD. So again, I got a better sense of the differences in perspective that people bring to these issues. By the time I finished at the OECD I'd lost the faith to a sufficient extent that I didn't feel I should go back to teaching graduate economic theory, so I finished here in Victoria as a director of the school of public administration. I had a chance to see the world of non-government advocacy, as president of the Institute for Research on Public Policy for seven years, and then returned here as Winspear professor of public policy.

Maybe the most significant experience for me during all that time was the opportunity to serve as director of research for two parliamentary taskforces: the Frith committee on pensions in 1983 and the Breau committee on fiscal federalism in 1981.

• (0905)

After that, I was invited to write the section on intergovernmental finance for *The Canadian Encyclopedia*.

In light of all that experience and with exposure to all those perspectives, my daughters gave me a little plaque that reads, "Am I confused? Yes, but I believe I am now confused on a higher plane and about more important things".

The point is that when it comes to simple and sweeping solutions that are promoted with great confidence, I have real doubts and less certainty than many of the people you have no doubt heard from. Particularly, I have concerns about those based on long-term projections using complicated models. I have had too much experience with those to underestimate how particular they are to particular circumstances.

Coming to your question, with respect, I have to argue that the mandate is badly skewed. It is mis-specified. It poses the question, "What long-term solutions can be found to the fiscal imbalance between the two levels of government?" It seems to me that the premise that is implicit in that question, that there is some problem of structural fiscal imbalance, is invalid. This formulation of your

mandate violates the first rule of policy analysis, which is to get the question right—to be sure that the question is well posed and is not framed in a way that in itself rules out relevant options and important lines of analysis.

If we start from the question of whether there exists a vertical fiscal imbalance in Canada at this time, I would have to say definitely not. Vertical fiscal imbalance must be a structural feature, not simply a transitory outcome of discretionary decisions made with regard to tax and spending choices. I'll come back to that argument in more detail later.

I would also like to mention two other respects in which it seems to me the mandate established for your subcommittee is perhaps a bit unfortunately phrased. It's important to remember, as the Breau committee said, that the federal structure of Canada involves two orders of government, each autonomous and independent. They said:

The distinguishing feature of a federal system of government is that it provides for a division of governmental powers between two orders of government, the existence of which is guaranteed by a written constitution specifying the powers of each. It is in this sense that each order of government may be said to be autonomous. In a federal system, each order of government has a life of its own: neither is subordinate to the other.

In that sense, revenue is not shared between the provinces and the federal government, though powers of taxation could be reallocated. It's misleading to talk as if decisions were taken to share revenues as between a senior and a junior government.

Questions of fiscal balance relate to the consequences of discretionary decisions independently taken by autonomous governments independently accountable to their own electorates.

I want to remind the committee—no doubt the committee is fully aware—that these issues change over time. The context alters. The concerns and controversies over fiscal imbalances, both vertical and horizontal, have waxed and waned over many decades. It was a real issue in the Great Depression of the 1930s and led to the fundamental reforms proposed by the Rowell-Sirois commission. A number of measures to address the inadequacy of provincial resources and inequalities in fiscal capacity have been undertaken subsequently.

By the time of the parliamentary task force on fiscal federalism in 1981, the concern was actually the opposite. A dramatic fiscal imbalance was alleged, in which the federal government was allegedly running deep structural deficits while the provinces were enjoying substantial fiscal transfers, and substantial surpluses even, although those were confined to some provinces even at that time. Now we're back again to long-term projections of federal surpluses accompanied by provincial deficits.

The point is we have to recognize that the balance has shifted substantially with shifting times. Only 25 years ago, at the time of the parliamentary task force on fiscal federalism, the conclusion that there is no fiscal imbalance was directed against the claims and entreaties of the federal government.

●(0910)

The Breaux task force refused to recognize a mandate that would have required it to accept the constraints of a federal budget that proclaimed its need to reduce transfers to provincial governments in order to deal with the prospect of future federal deficits. In particular, the task force concluded that there does not exist a long-term structural mismatch between the revenue capacities and expenditure responsibilities of the federal government.

It cannot be claimed that the capacity of the federal government to raise revenues has reached a structural as opposed to a political or discretionary ceiling. It seems to me this committee might well find that the symmetrical conclusion could be reached with respect to the claim for a vertical fiscal imbalance that creates problems for the provincial governments.

My claim is that vertical fiscal imbalance has to arrive from structural issues. The fact that the share of total government revenues has been declining over time and that the federal government has been registering substantial deficits in recent years has prompted some to argue that there's a fiscal imbalance between the two orders of government, the Breaux committee notes, but on closer examination it appears the concept of fiscal imbalance is not so simple. The mere fact that one order of government is experiencing a succession of deficits does not imply there is a fiscal imbalance. Only if the fiscal posture of the government has deteriorated for reasons beyond its control is a fiscal imbalance said to exist; that is, there must be some structural cause to explain the situation. The concept of fiscal imbalance requires a careful distinction between a structural problem in the design of the arrangements for Confederation and a problem of budgetary imbalance reflecting political judgments on revenue and expenditure priorities.

The basic argument against a claim for a vertical fiscal imbalance seems very simple. Every province has access to all the significant tax bases and it has exclusive access to a couple of rapidly growing sources, namely natural resource rents and gaming revenues. The choice of whether or not to exercise the authority to levy those taxes is in the hands of each provincial government, and a decision to reduce tax rates must be seen to have consequences for the levels of expenditure that can be supported. Every province has the right to be different. Every province can choose the combination of expenditures and taxation it considers its electorate will support.

You no doubt have been here long enough—and it doesn't take very long—to have heard the speeches about the B.C. budget situation at the moment. Minister after minister is commenting that the B.C. government now has the resources to spend on things they were unable to spend on in the last four years. You know better than I do that governments can spend what they consider themselves able to spend in response to the perceived demands and desires of their electorate. In this particular case the move from a deficit caused by tax cuts to a present surplus available to spend is almost entirely accounted for by an increase in transfers from the federal government.

With adequate resources, the federal government will no doubt also respond to the demands of its electorate, voiced by many members of Parliament, not all of them on the government side. For an increase in expenditures on military security, human security, and

environmental security, as has recently been done in the case of health and education and other pressing priorities, it isn't sensible to predicate the discussion of vertical fiscal imbalance on the expectation that the federal government, given a satisfactory fiscal position, would not be initiating new expenditures in existing program areas or even in new program areas.

The point is that the concerns about the balance of expenditures do not rest on the structure of the federation or its present allocation of tax powers. They rest on differences of opinion about priorities in spending as between public spending and private, as between federal and provincial governments, and as between programs within either order of government. Those are legitimate public debates, but they are not about vertical fiscal imbalance.

It's often said—and has just been said—the basic principles of fiscal federalism include the principle that each government should be accountable to its own electorate and should justify expenditures on particular programs through its ability to raise the necessary revenues from its own electors. Of course, there are substantial transfers through equalization payments, putting substantial resources in the hands of provincial governments without any conditions on the uses to which the resources can be put, but they're intended to address the question of horizontal fiscal imbalance.

●(0915)

Problems with direct transfer payments have been discussed often. They distort or restrict the discretion of provincial governments if they are offering 50-cent dollars, so-called, through matching grants for cost sharing, or if they insist on specific conditions on the purposes to which grant funds can be put. The problem of accountability for those transfers to provincial governments is a difficult problem that has been addressed in a number of ways. But the fact that federal parliamentarians might have to insist on accountability to the federal parliament for the funds allocated to provinces does lead to difficult discussions about conditions, and it does suggest that increases in conditional grants, direct grants, may well be undesirable as a long-term solution to provincial revenue needs.

Actually, there is a very interesting discussion at the Breaux report site from the Rowell-Sirois commission about the practicalities of trying to put conditions on provincial spending with some implicit threat that the transfers could be withdrawn if good behaviour is not observed. The difficulties of making such withdrawals of federal support were very clearly outlined even then.

The problem with downloading of expenditures or unfunded mandates is a real problem, and it should be addressed where it exists. But at the present time, one could argue that it's not really a federal-provincial problem; it's a provincial-municipal problem.

So I remain convinced of the conclusion that the Breaux task force cites, an impression of a system of fiscal relations that's fundamentally sound but in need of some adaptation to new circumstances. The point is, one can understand the present system only as the outcome of earlier struggles to reconcile desires for a community that's national in scope with concerns for regional autonomy in the delivery of programs that are serving different cultural groups and meeting diverse needs.

I'll skip the comments on accountability, which was an issue that was very much a concern for the members of the parliamentary taskforce in 1981. It is a generic problem: federal parliamentarians are asked to authorize the transfer of federal funds for use in financing expenditures and programs that are deemed to be of national interest or concern but fall within provincial or shared jurisdiction. These parliamentarians said they saw no escape from a responsibility to monitor conditions with respect to programs in which a significant national interest was at stake. It's an interesting problem of accountability. It will come up in a number of areas—not least in the very fundamental, very challenging question of transfers to self-governing first nations governments.

So in conclusion, I would like to argue that the current structure is fundamentally strong and strikingly successful. But we have to recognize we have one of the most decentralized federations in the world. We have to recognize that everything in Canada is multiple in scale, that the cross-scale management is going to be inevitable in almost all the initiatives that we can contemplate. We are looking at problems of cross-scale management in a situation where there is inevitable uncertainty, tremendous difficulty in anticipating what the circumstances will be even in the near future. We are dealing with very complex systems, both in the dynamics of natural systems and the dynamics of social systems. So constant adaptation, constant adjustment is going to be essential. Constant negotiation is essential.

One of the things I hope your committee would consider is the argument for greater parliamentary involvement in those negotiations, and indeed greater extra-parliamentary participation in the discussions.

● (0920)

The important thing I think is to recognize that subsidiarity has to be developed within suitable frameworks for harmonized decisions. The emerging roles of city regions may require some new forms of intergovernmental transfer that will be an interesting challenge for your consideration as well.

It seems to me we should really try to forget about the idea that jurisdictions should compete. It doesn't seem to me that it's useful to talk in terms of regional associations and jurisdictions banding together against the enemy at the gate. Jurisdictions needn't compete. Tax rates needn't be subject to a continuing race to the bottom. We should recognize that the welfare of citizens is served when jurisdictions cooperate to establish frameworks within which individuals and agents can compete.

So there is going to be a need for cooperation, and that cooperation has to rest on these two requirements: recognition of the autonomy of each order of government and the need for cooperation between the two. So more than anything else, it seems to me we're talking about building a case for trust, not a case for a transfer of tax points, and it seems to me we have to live with the fact of different choices being made in different places, and different outcomes, different fiscal balances being observed, as a result.

So I'd like to make a plea that we actually do recognize that in a complex federation the outcome of intergovernmental finance is a matter of continual adjustment in a situation of vast uncertainty, and we need to address that by achieving a more positive debate, greater

trust, and goodwill. These are common problems, and they can be addressed only through continuing deliberation.

That's my statement. I'm sure there's no news in it for you, but I put it before you for your consideration.

The Chair: Thank you very much, Professor Dobell.

[*Translation*]

We'll begin with Mr. Bell, who should feel right at home here. I want to thank him for the warm welcome.

[*English*]

For five minutes.

Mr. Don Bell (North Vancouver, Lib.): Thank you.

Professor Dobell, I would refer you to page 9 of the copy that I have of your presentation. I just want to clarify if this is correct or if I'm reading it wrong. In the first paragraph you say, "The fact that the federal share of total government revenues has been declining over time, and that the federal government has been registering substantial deficits...."

Prof. Rod Dobell: I'm sorry, it was not clear in the version of the paper that this would be collapsed. It would have been clearer that this is all a quotation from 1981.

Mr. Don Bell: Oh, okay.

Prof. Rod Dobell: The point I was making was that we saw the same kind of argument, but in effect with the shoe on the other foot at that time.

I'm sorry, that whole set-off is a quotation from Breau, page 33, actually.

Mr. Don Bell: Thank you. That helps explain it to me.

For the other, I would go to Mr. McMahon. Is that how you say it?

● (0925)

Mr. Fred McMahon: Yes.

I was over to Ireland recently and found about half a dozen different ways to pronounce it.

Mr. Don Bell: The point that Professor Dobell has in here is one that with my background I somewhat share, and that is the reference to local government. In your point you talked about divided responsibility, divided accountability, in effect suggesting that Ottawa is moving into the areas of provincial responsibility. In particular, you make reference to municipal. I have 30 years' background in municipal, and my concern is—it was outlined here—I've seen provincial governments walk away and leave municipalities with responsibilities and no tax sources of income.

So the programs that I as a former mayor argued for were exactly for sharing of the gas tax. In fact, the Federation of Canadian Municipalities has argued, of course, that municipalities should be recognized as an order of government and given direct taxing authority.

I'm curious to know if you've researched that issue at all. If the premise is that we're moving ultimately to a direction of city states—and certainly that seems to be the issue in Europe, I gather—isn't it important then that municipalities be provided with some recognition directly and tax room, if you want to call it that, greater than they have?

Mr. Fred McMahon: Yes, but I think it's essential that the municipalities be given the tax room and levy the taxes themselves. I think you need, once again, clear lines of accountability. If it seems like free money coming from the federal government, you'll have the sort of thing you have now, with the municipalities getting together with the federal government, both saying what we need is reform, or infrastructure, or whatever, and then starting to point fingers at each other about who is getting money or not getting money.

I also think it is very necessary that we clearly understand when we discuss the fiscal imbalance what we are talking about. With all due respect, I think Professor Dobell's presentation actually clearly indicated the existence of a fiscal imbalance, and his history narrative showed it as well.

What is a fiscal imbalance? A fiscal imbalance is when one level of government cannot afford to fund the programs for which it's responsible. The history of federal-provincial transfers in this country exactly reflects that, going back to the Breau committee, which I covered as a young reporter in the 1980s, the provincial government were reliant upon federal money to fund programs. That's a definition of fiscal imbalance.

How does it relate to running a deficit or not? Even a rich man can get into debt. If I earn \$200,000 a year and am in debt, it doesn't mean I earn less than somebody who is earning \$50,000 a year. So yes, the federal government can run deficits even when it has greater taxing power, but that's not relevant to the question of fiscal imbalance. What's relevant to the question of fiscal imbalance is whether a level of government can afford to manage the programs for which it's responsible. The history of Canada going back to and previous to the Breau committee shows that's not the case, that we do have in fact a real fiscal imbalance.

There are actual structural reasons for that, which maybe we will pick up later. What I fear in the municipal area is that you'll begin to develop a similar sort of fiscal imbalance, where the municipalities, rather than relying on their own income, start relying on income from the federal government or the provincial government or some mix thereof, once again blurring lines of accountability.

I want to say a word for simplicity here. Simplicity has long been recognized in science and philosophy; Occam's razor is not a new invention. If anything, simplicity is more important in good governance and good policy, so that citizens can see where their money is going, who's spending it, and who is responsible for the program. Ergo, I think we need simple lines of accountability, and that applies in the municipal realm as well.

The Chair: Thank you, Mr. Bell.

[Translation]

Go ahead, Ms. Ambrose.

[English]

Ms. Rona Ambrose (Edmonton—Spruce Grove, CPC) Thank you for your presentations. I have a question for Mr. McMahon.

You talked about the fiscal imbalance being used to create opportunity for the federal government to interfere in areas of provincial jurisdiction and accountability, but you particularly talked a little about the ineffectiveness of tinkering with the fiscal framework in our country. You used the example of health care.

I want to know if you could spend some time talking about the economic impact of the fiscal imbalance, but in particular about whether the fiscal imbalance plays into the same argument you made about health care as a program as it would in the area of equalization. I know this isn't something you really talked about, but I was reading parts from your book, *Looking the Gift Horse in the Mouth*, and I was also looking at some of the articles you have published in the last little while. You've talked a lot about the offshore energy in Atlantic Canada and regional subsidies, and what I've been reading was previous to the recent Atlantic accord debate.

That's my question to you: can you talk a little bit about that and comment on the recent Atlantic accord debate and how you see it impacting the equalization formula in particular?

• (0930)

Mr. Fred McMahon: Thank you for the question, and thank you for reading some of my stuff. I appreciate that.

Actually, I don't have very much to add to what Jock has said very elegantly and briefly. He picked up on some of the absurdities of this.

The Atlantic accord and exempting oil and gas revenue, and whatever's going to happen with this new thing, is just absurd. Equalization does have problems, and has long had problems, but I agree with Jock that it should be designed ultimately to fill in the fiscal gaps of the poorer provinces. This will be particularly important if Ottawa gets out of managing health care, as I believe it should, and vacates that tax room.

But exempting oil and gas revenues is just absurd. It means that a province receiving equalization has incentives to promote primary industries, which are not part of the equalization formula, at the expense of more advanced industries. The equalization formula also penalizes good economic policy and rewards bad fiscal policy—at least it has up to this point, and who knows what's going to happen in the future. If you have bad policy and your economic prosperity suffers, equalization increases, equalization goes into the hands of the provincial government, and they have more resources to spend. So in some ways you get a perverse motivation, believe it or not, to weaken the province's growth, because it increases the power and the ability of the provincial government to reward people.

I'm also deeply concerned about something Jock mentioned as well, where it appears that you could have Ontario subsidizing a richer Newfoundland under the current formula.

I think we're facing serious problems on the equalization front.

[Translation]

The Chair: You have a minute and a half remaining.

[English]

More than one minute

Ms. Rona Ambrose: Merci.

Mr. Finlayson, I don't know if you could comment on this issue as well, but in particular, one of the issues I have been raising on this committee is the issue of this formula that's been put in place, particularly the sixth floor. It's actually quite restrictive compared with what we had in the past with the equalization formula, when there was more flexibility. There is a concern that if the Ontario economy goes into a decline, we might see Ontario paying out more than it actually needs to. So that's obviously a huge concern for Canada generally, because Ontario is an economic engine of this country.

Could you comment on that?

● (0935)

Mr. Jock Finlayson: Thanks for the question.

I read the testimony of Ontario's minister of finance before your subcommittee. I think if I had been sitting in his position, I would have made some of the same points you heard from him. Ontario is in a very difficult situation right now, and I really think that the two recent ad hoc equalization agreements, on top of some other recent changes, and particularly this floor and the escalator clause, have introduced some destabilizing elements into the equalization program.

I hope the task force appointed by the Minister of Finance to look into equalization and to recommend changes can come up with some creative proposals that will move equalization back to what I think its core mandate should be, which is really that the provinces should basically be responsible for raising the revenues to fund the programs that are within their jurisdiction, and the federal government should step in and fill some of the gaps when those arise for provinces that don't have the revenue capacity. It's a very simple concept, and I think it's become needlessly complicated by the federal-provincial agreement last fall, done under a lot of pressure from all of the provinces. Any time there's a round of negotiation, we can sit here and have an academic discussion about it, but in the real world of politics, any time there's a round of negotiations, the provinces are going to be after money, and more of it. The principles that are embedded in the program for the future are of much less concern to any given group of politicians. I think we've really seen that play out in spades over the past year, much to the detriment of fiscal federalism.

[Translation]

The Chair: Thank you, Ms. Ambrose.

Mr. Côté.

Mr. Guy Côté (Portneuf—Jacques-Cartier, BQ): Thank you very much for your most interesting presentations.

I have a few comments to make. We're looking into the whole issue of whether some kind of fiscal imbalance exists, but beyond that, there are certain realities to contend with.

I enjoyed reading your conclusion, Mr. Finlayson. Among other things, you mentioned that instead of acting through a number of

very specific programs, the federal government might do well to focus on equalization.

More interesting still —and I will read what you said because I find it accurately reflects the attitude held all too often by the federal government — you state, “if it wishes to maintain visibility”. That's the case all too often.

With all due respect for Mr. Dobell, we can pretend that there is no fiscal imbalance. However, by virtue of its policies, by failing to respect areas of jurisdiction, by infringing on municipal jurisdictions in the health field, by continually injecting money, the federal government is in fact creating this fiscal imbalance.

Mr. Dobell, you often quote the Breau committee. You state on page 16 that the fiscal relations system works relatively well, but that it is “in need of some adaptation to new circumstances”. In my opinion, the federal government has not adapted.

As Mr. McMahon was saying earlier, surpluses and deficits are not by-products per se of the fiscal imbalance, but for the past ten years or so, the accumulation of surpluses by the federal government and the fact that the latter withdrew funding to the provinces in the mid 1990s has led to a fiscal imbalance. Because it has been able to pay down its debt much faster than the provinces, the federal government has recorded surpluses, while the provinces, with the exception of Alberta which is in a unique position, have continued to post deficits.

My question is as follows: on listening to your presentation, Mr. Dobell —and Mr. McMahon almost took the words right out of my mouth — I almost got the impression that you were proving, through your objections, the existence of this fiscal imbalance. You talked a great deal about cooperation, and about the fact that there shouldn't be any competition between the various levels of government. Do you not feel the federal government is competing in a manner of speaking by continually infringing on areas that fall under Quebec's jurisdiction?

Quite often we hear about rounds of talks which often culminate in unilateral decisions on the part of the federal government. The outcome was the same during the last round of talks on equalization.

Mention is made of greater participation by parliamentarians and non-parliamentarians alike. When we see the federal government continue to invest large sums of money in various foundations and to conclude special agreements with Nova Scotia and Newfoundland and Labrador, doesn't this in fact prove that the federal spending power does exist and that it is much too broad, given what is provided for in the Constitution, and that in fact, we're witnessing the creation of a main government, and of some associate governments?

[English]

Prof. Rod Dobell: Well, the question of federal intrusion in provincial decisions on particular programs is an issue that can be debated. I think that's a separate question from the concern that somehow the machinery of the federation has made it impossible for the provincial governments to meet their responsibilities. One talks about fiscal imbalance as a situation in which the provincial government is unable to fund the programs for which it has responsibility under the Constitution. I think the case has not been made that the provinces are unable to fund those programs.

So I stick with my proposition that as far as the fiscal imbalance is concerned, it doesn't exist at the moment. The particular configuration of budgetary balances and surpluses that exist at the moment is a consequence of the decisions made by individual provincial governments. The federal government has its tax powers; the provincial governments have theirs. The structure at the moment I guess resulted from the federal government's action to reduce its deficit in the mid-1990s, which was an action being urged upon it quite strongly by most of the citizens of Canada.

The case that the transfers to provincial governments should not be insulated from that deficit reduction exercise was one that was argued. It was pretty controversial, but it's a case that I think can be made. So we had a situation in which the federal government at that time took decisions with respect to its budgetary balance. The provincial governments have for the last little while followed a track of not increasing taxes, but the power to do so is with the provincial governments.

There is a concern about the degree of federal involvement with particular programs. I think it's important to remember that Occam's razor says that complications should not be multiplied beyond necessity, which is a bit like Einstein's comment that the solutions to problems have to be as simple as necessary but not simpler. And I think one can argue the case that in Canada the notion of watertight compartments is not on, and it's not feasible. We do have to have mutual involvement in a lot of these programs. There are common interests in national concerns.

One can go a long way down the road, as recent arrangements have made clear, toward what some people call asymmetry. Not all provinces have to participate in all programs in the same way. The federal government needn't participate with provincial governments all in the same way, I guess most people would argue, provided that the opportunity is there for all provinces to elect the way they do participate.

The issue of natural resource revenues and equalization, as a particular problem, is really severe. It's part of a general problem, I guess, of how you deal with highly volatile—and in many cases highly speculative—valuations for resources that are very asymmetrically distributed across the country. My understanding of the present arrangement on equalization is that it has really been to try to bring some stability into the expenditures under the equalization program so that provincial governments have an opportunity to budget in a slightly more informed way.

The introduction of moving averages on the payment side is one step in that direction. One could argue perhaps that moving average valuations of resource revenues, or valuations of resource stocks, would be a way of treating fluctuations in tax bases as well.

So obviously I can't answer your question about whether the degree of federal intervention, intrusion, in provincial programs is excessive, but it does seem to me that the case for provincial involvement in some of these programs has been made clearly over a very long time, and that does lead to some funding that will go beyond the unconditional general purpose grant under the equalization program.

• (0940)

• (0945)

[*Translation*]

The Chair: Thank you, Mr. Côté.

You have five minutes, Ms. Crowder.

[*English*]

Ms. Jean Crowder (Nanaimo—Cowichan, NDP): Merci. I want to thank you all for your presentation today.

Professor Dobell, I have a couple of questions for you, and I am going to preface it by a very brief statement.

It is a challenge in boiling down complex issues to very simple terms, but in the simplest terms it seems to me Canadians generally want a strong federal state in terms of—let us use health care as an example—a health care system that is universal, that is accessible, and that gives people some degree of comfort that they can access health care across Canada in the same relative fashion. I think it is a challenge, in that over the last ten years we have actually seen a reduced ability on the provincial government's part to be able to deliver some of that.

Now, we can argue about the reasons for that. There have certainly been a lot of arguments about the reduction in federal transfers, and I was also a municipal councillor and suffered under cuts at the municipal government level as well.

A couple of things have been said; I wonder if you could comment on them. One was that Mr. McMahon talked about simplicity... simple lines of accountability, and how we really need some mechanism easier and more transparent for Canadians to understand. I would argue it would be a big challenge, because too many of our programs and services cross too many lines. It is often opaque, and I am not clear you could make it simple.

I wonder if you could comment on that particular thing, and I also wonder if you could comment on the statement from Mr. Finlayson on...the equalization could be the provincial responsibility for raising funds for programs for which they are responsible, directly, so provincial governments would raise funds solely for the programs they were responsible for; we wouldn't see things like transfers for health care, for example.

Could you comment on those two?

Prof. Rod Dobell: Again, the question of simplicity, it seems to me, is how simple do things have to be? The mesh of intergovernmental financing is pretty complex, and it's probably the case that there's no way that one can make that simple. On the question of accountability and visibility, the Breaux committee made some interesting comments about how federal parliamentarians and the federal government, if not visible, can't properly be held accountable by the citizens, that citizens do have to be aware of the roles being played by the governments in all program activity.

So I think the one thing one can argue is that when the questions are put to groups of citizens, with support for their participation in the discussions, the results are surprisingly good. The work that's being done on deliberative processes these days suggests that citizens do come to a remarkably astute understanding of the essential issues involved even in these very complex relationships. In British Columbia I think a lot of us have been impressed at the way in which the citizens' assembly has delved into a very complex question of voting schemes and has come up with a report that seems to me at least astonishing in its grasp of the issues. I think the same thing is true in lots of other participative settings.

So I would argue that obviously you go for as much simplicity as possible. You go for as clear lines of accountability as possible, but you face the fact, as you have said in the second part of your comment, that Canadians do have an interest in programs that are national in scope. There are going to be pressures for the national government to be involved in those programs, which seem to have to do with basic questions of access and equity and the rights of citizens wherever they may be in Canada.

So those national programs will be there. Can they be financed only on a general purpose grant? It doesn't seem to me that this is feasible. We do need to ensure that the equalization program is coming as close as is possible to the goal it sets out in section 36: reasonably comparable levels of services at reasonably comparable levels of taxation. But when that's done there will still be areas in which as a national government there's a desire to encourage development in particular directions or ensure satisfaction of particular conditions, and it seems to me that in this situation it's natural for federal parliamentarians to vote for additional financing.

I would add that it doesn't seem to me that the motivations and the incentives that are created by these transfers are quite as stark as has been suggested. It has been suggested that the presence of the equalization program encourages bad policy decisions because it teases out more money. It doesn't seem to me that this is a particularly strong driving force behind provincial decisions. Likewise, the notion that there is more money doesn't necessarily defer decisions that have to be taken. In some cases you have to be up against a hard wall, but the incentives are not quite so starkly monetary, it seems to me.

• (0950)

The Chair Thank you, Professor Dobell.

Thank you, Madam Crowder.

[*Translation*]

Before I turn the floor over to Mr. Bell, I would like to ask you a question, Professor Dobell.

In your submission, you state that government should not compete with one another. You make frequent references to the 1940 Rowell-Sirois Report which I had the honour of analyzing and studying during my university days a number of years ago. The Rowell-Sirois Report talked about stringently upholding the respective jurisdictions of the two levels of government. Today, the federal government is wading into many fields of provincial responsibility such as education and health. The question has already been put to you, but I did not hear an answer. Even though the government is not the

main purveyor of health or education funding, given that 75 or even 80 per cent of the funding is provided by the provinces, it still manages to dictate its views and often, to hold the provinces hostage, as we saw last fall. Out of respect for the principles of the Rowell-Sirois Report and given that the two levels of government should not be competing with each other, do you not think, contrary to one of your statements, that at this point in time some major adjustments are warranted to the respective fiscal capacity of the provinces and of the federal government?

My second question pertains to the reality that there is still only one taxpayer. You're asking one single taxpayer to face the prospect of provincial tax hikes to finance essential services. The federal government, on the other hand, continues to amass large surpluses. How do you respond to that?

[*English*]

Prof. Rod Dobell: Again, it seems to me that the present circumstances are transitory. They are balances of the moment, not a structural feature of the taxes to be paid by taxpayers as provincial residents and taxpayers as federal residents. I would not place so much emphasis on the present or even the short-term future fiscal situations of the federal and provincial governments.

If I've understood your question correctly, the Rowell-Sirois commission established the very strong principle that governments should raise their own revenue and that the jurisdictions should be very clearly established as well. We certainly see in the case of education, for example, the federal government moving into the field in a number of ways. The Millennium Scholarship Foundation is one various research undertaking or another. Those might be seen as legitimate national concerns, I suppose, rather than as matters of post-secondary education as such.

It seems to me that the balance in these matters is a matter of political judgment. I don't really have anything to contribute on that question.

• (0955)

Mr. Fred McMahon: Mr. Chair, could I make a brief comment?

The Chair: Yes.

Mr. Fred McMahon: I think if we're actually concerned about the well-being of our citizens, we should in fact want to see competition among various governments to provide the best possible services to the system. If one province devises a program that's better than a neighbouring province, it is copied to the benefit of the citizens.

We'd be much better off in Canada if we viewed ourselves right now, for instance, in a competition with Sweden or France to provide the best possible medical services to Canadians. We could learn a lot from the French system, from the Swedish system, from other continental European systems, and from Singapore, for that matter. But because we don't view ourselves in competition with those nations, we tend to become frozen into a system that is clearly not functioning in the way that it should and causing hundreds of thousands of Canadians to suffer for unnecessarily long periods of time, things you don't really see in Sweden or France.

The Chair: Thank you.

Mr. Bell, for one minute.

Mr. Don Bell: Mr. Finlayson, you made reference on page 3, I believe, to provinces having difficulty balancing their budgets and to their remaining under tremendous pressure to boost spending on health care, social services, and infrastructure. You said taken together these trends suggest the central government is responsible for too large a share of the taxes being collected by the overall Canadian public sector.

Mr. McMahon gave the definition that a fiscal imbalance occurs when one level of government cannot fund programs for which it's responsible, and the reference to the Breau report from Professor Dobell said it cannot be claimed that the capacity of a federal government to raise revenues has reached a structural as opposed to a political or discretionary ceiling.

Isn't it really up to each level of government to determine politically what its taxpayers will stand, and isn't that what elections are all about? Therefore, unless responsibilities are being dumped onto them, as was done to municipalities, how can one level claim there is an imbalance?

Mr. Jock Finlayson: I agree to some extent with what Professor Dobell said. Ultimately, within the constraints of maintaining a functioning economy, governments do have some scope to choose to raise or lower taxes, so in that regard one has to view the provincial claims of fiscal imbalance with a degree of skepticism.

My problem with the current system of intergovernmental fiscal transfers in Canada has less to do with whether there is an imbalance and more to do with what I see as increasing complexity, very weak accountability, and an opaque system that is not understood by the citizens and taxpayers of the country. It would work better on those dimensions if the federal government were less involved in raising tax revenue but rather turned around and transferred some of that to other levels of government. Those other levels of government, which are the ones delivering the services—the federal government delivers very few services—would instead tax their own citizens to provide the services and programs they want.

To me, that whole system has gotten unnecessarily confused and muddied as a result of the evolution of federal-provincial transfers in an era of large federal budget surpluses, which is the era we've been in for the past six or seven years.

[*Translation*]

The Chair: Thank you, Mr. Bell.

[*English*]

Madam Ambrose, for one minute.

Ms. Rona Ambrose: I have a question for Mr. Finlayson. I was reading some articles you were quoted in over the past years, and you were talking particularly about what you just brought up, actually, which is the current federal tax and transfer system.

I wanted to talk about economic cycles, in particular in reference to British Columbia in the short term. One of the quotes is that the current system is not particularly sensitive to short-run economic problems like the one British Columbia is experiencing, but beyond that the system is unfair and the distributions are uneven. In particular, you ask why a low-income family in B.C. should be treated so much less generously than a low-income family in another province; you talk about uneven taxation.

Can you talk about that?

• (1000)

Mr. Jock Finlayson: Yes. I dimly remember making that comment; I'm not sure exactly how far back it was.

What I had in mind in that observation was the following question. If the role of the central government is to try to even out income distribution, for example, or to address inequality of circumstances and incomes in Canada, is it best to do that by targeting other jurisdictions, like provinces or cities, or is it more appropriate to do that through a tax transfer system that's focused on the welfare of individual families and households?

I would tend to prefer the latter as a model, actually, if I was remaking Confederation, which I certainly am not going to be doing, but that was the origin of the comment I made that you referred to.

I think it's an interesting sort of academic question to some extent but not really something we are going to be moving toward in Canada these days. For better or worse, we have a system in which the federal government is transferring tremendous amounts of money to other levels of government. I don't happen to think it's evolved in a way that is optimal, but it's the one we have. Whatever comes out of your committee's deliberations will perhaps be to modify and tinker with that system as it's evolved, rather than go back to first principles and design something else.

If we were to go back and redesign the status quo, I would lean toward a system where the federal government is focused more on the circumstances of individuals and households and less focused on other levels of government in the design of its programming, but that is most definitively not the world we're in today.

[*Translation*]

The Chair: Thank you, Ms. Ambrose.

You have one minute, Mr. Côté.

Mr. Guy Côté: This is more in the way of a comment than a question.

I'm thinking about my friend Mr. Bell who often talks about the cuts imposed on municipalities by the provinces. The provinces had no choice but to take this action in the face of massive cutbacks by the federal government in 1995 and 1996. In order to maintain an acceptable level of services, particularly in the health and education sectors, they too had to pass the burden on to the municipalities. Federal government cuts had a ripple effect and the provinces were forced to cut funding to other areas, specifically to municipalities.

In my opinion, this is a good example, when one talks about transparency and accountability. Some provincial governments paid the price for the actions of the federal government. Quebec wasn't the only province affected by this situation.

It's all well and good to speak of cooperation, but we need to know for certain who is accountable and in what area. Moreover, if services are not offered or if taxes are too high, the average citizen, who is the sole taxpayer, as Mr. Loubier was saying earlier, likely thinks that that if his municipality provides fewer services, the reason is the funding cuts imposed by the provincial government, not reductions in federal transfers to the provinces. The average citizen tends to get a little confused by all of this. I know we often talk about municipalities and health care, but there is always a ripple effect at play. The clearer the issues, the better I feel.

The Chair: That's good, Mr. Côté. You're a very disciplined person.

You have one minute, Ms. Crowder.

[English]

Ms. Jean Crowder: That is a very, very good comment.

Mr. Dobell, you talked about the way to go with more cooperation, and I agree with you that the citizens' assembly is a very good example of putting together 160 citizens in British Columbia who, with great deliberation, came up with a recommendation. And I think it speaks well of the capacity of citizens to engage in very complex issues.

I wonder if you could comment specifically on what kind of vision you would see down the road around how we might want to engage people, and what kinds of questions we actually might want to put to them, since you said it was the wrong question the committee is asking around vertical fiscal imbalance.

•(1005)

Prof. Rod Dobell: Well, the question of vertical fiscal imbalance, I think, is the wrong question. Priorities, of course, are the issues that are debated in elections. Always, there is the question of expenditure priorities, but I think there is clearly an ongoing debate about the balance between public and private expenditures; the social wage versus the market wage, and issues of that sort; the question of priorities between provincial programs, obviously; and then the question that came up with respect to federal priorities and provincial priorities—where do the citizens want to see the balance there? I would argue that the globalization, as it's called, increases our concerns with some of the service delivery responsibilities the federal government does have with respect to expenditures on military, for example, on security, on environmental security or environmental quality issues, and so on.

So it seems to me those questions can be debated more effectively. I make reference briefly to community-based management. I do see the need for a lot of the issues around resource management as one example, but many others are being addressed through the devolution of authority to communities on the ground, small communities, not just local governments, but cross-government communities.

As an example, in British Columbia, on the west coast, one has the federal government, the provincial government, the regional government, and the Nuu-chah-nulth First Nation all involved with government representatives and an equal number of community representatives to address issues that are really best interpreted as management issues on the ground. Much of the funding, it seems to

me, in the future might be seen as flowing to those sorts of intergovernmental community-based management structures, and in that case the questions addressed are really questions of responsibility for local actions, with some recognition of their spillover across jurisdictional boundaries.

The Chair: Thank you.

Mr. McMahon.

Mr. Fred McMahon: I just want to make a very quick comment on the fiscal imbalance and whether it exists or not.

When I was in school way back when, I remember reading in the science textbooks that bees couldn't fly, under current theories of aerodynamics. But those science textbooks didn't say at the same time say that it was an illusion that bees could fly. We have the same problem with the fiscal imbalance. It's there, it exists. For 30 or more years the provincial levels of government, without federal support, have been unable to fund their own programs. Just like a flying bee, this fiscal imbalance exists, whatever arguments we make claiming it's not there.

Unfortunately, we have not had time in this committee meeting to get into the various structural and political reasons why that fiscal imbalance exists. But the raw fact is that it's there, it's been there for a long time, and bees fly.

The Chair: Mr. McMahon, Mr. Finlayson, Mr. Dobell, thank you very much for your contributions.

We will have a ten-minute break. Thank you.

•(1009)

(Pause)

•(1022)

The Chair: Good morning everybody.

Welcome, Mr. Doyle and Madam Miller. I will allow you 15 minutes for your opening statement. After that we will have a question period with members of Parliament.

Mr. Doyle, welcome.

Mr. Dan Doyle (Deputy Minister, Transport, Government of British Columbia): Thank you. Welcome to British Columbia and welcome to Victoria. Thank you for coming here; we appreciate the opportunity. I bring greetings, of course, from our premier and my minister, both of whom are out trying to win an election that is upcoming in B.C.

I think we have an extraordinary opportunity to benefit from the increased economic activity through our Pacific gateways, connecting to a vibrant Asian economy. Our ports, airports, rail, and roads all facilitate international trade and tourism. But to realize these opportunities we need to take a different approach to federal infrastructure financing. We need to change our traditional outlook on funding, which is based on population or regional dynamics, and move to an approach that recognizes the national benefits that can be derived.

On the second slide I outline what we want to talk to you about today. I'll get right to that to stay within the timeframe you've given me, Mr. Chair.

Although it may not seem at first that transportation gateway policy is an important part of the fiscal imbalance debate, we think it is. The transportation infrastructure fiscal imbalance is an example of vertical fiscal imbalance where, despite national benefits, our province invests more in gateway infrastructure than the federal government.

Our message is that Canada needs to recognize gateway infrastructure as an economic enabler and not just as a revenue source. In addition, Canada needs to allow gateways the flexibility to raise more funds for infrastructure investment. There's been some positive movement in this direction. The Prime Minister has spoken very strongly about the opportunities that are available in the Asian market. We couldn't agree more, but those opportunities are short-lived and need to be taken advantage of quickly.

Yet while Canada is making improvements by investing heavily in U.S. border infrastructure, other transportation gateways such as ports still need vital federal assistance. And while Canada provides substantial ongoing and one-time funding to improve the competitiveness of passenger rail services, airport development is hindered through high federal rents.

The Vancouver International Airport pays an outrageous amount annually in rent to Canada, yet suffers in comparison with other Canadian centres when it comes to access to international travellers. Vancouver has paid over \$600 million in rent to Canada since its inception. Right now they're paying over 25% of all the national rents for airports collected in Canada; it's around \$73 million projected for 2005. So we obviously have more work to do.

I think it's obvious to say that British Columbia is Canada's only Pacific province. We very much see ourselves as part of Canada. Our transportation facilities provide Canada a specific trade gateway to what I have said before are the rapidly growing economies of Asia. Our transportation assets have a great geographical advantage in their proximity to Asian cities.

British Columbia's major airport in Vancouver, and the key trading ports of Vancouver, Fraser port, and Prince Rupert, are national transportation assets. These facilities, when combined with the supporting road and rail networks, enable the realization of economic benefits for all of Canada. Their competitiveness and future growth are in the national interest.

We have a once-in-a-generation opportunity to access an Asian economy that is moving ahead at warp speed. Significant infrastructure expansion of these transportation assets must take place almost immediately if we're going to take advantage of it. By 2020 China will be the second-largest economy in the world.

Over the next 15 years our estimates are that there will be a 300% increase in Asia-Pacific container traffic between Asia and North America. Right now, British Columbia is only getting 8% of that. We have projected ahead that we think we should get 17% of it, which will quadruple over the next 15 years the number of containers that would come through British Columbia's ports.

But we're not the only ones who are looking to that advantage. We are in competition. We're in competition with Seattle, Tacoma, Portland, and Los Angeles-Long Beach on the American west coast. We're also going to be very quickly in competition with Mexico,

who are also eyeing enviously the great number of containers, the great number of goods, that will be transported between North America and Asia.

Together with our port system partners we have set a target for Canada's Pacific port gateways. We have developed a British Columbia west coast port strategy. It has been endorsed by all our partners, including departments of the Government of Canada. As I said, we want to capture 17% of the Asia-North America west coast container traffic.

•(1025)

If we act now, Canada's Pacific port gateways could generate 45,000 new direct jobs for a total of 71,000 direct jobs. Those jobs are not only in British Columbia, they are throughout Canada. If we act now, Canada's Pacific gateway port system could generate \$10.5 billion in economic output, an increase of over \$6 billion from where it was in 2003. The contribution to the country's GDP would rise from \$1.7 billion to \$4.8 billion.

The last economic impact study done on YVR in 2000 found that the airport generated about 60,000 direct and indirect jobs. Every time a Boeing 747 lands at Vancouver, it leaves behind about \$80,000 in terms of money being spent in Canada. Yet there is a huge imbalance in terms of the air agreements that Vancouver has access to. Particularly now with the Asia-Pacific market opening up and with China opening up, and with China giving Canada status with respect to travellers, we really need to look at the Vancouver International Airport as a place to land those airplanes. If we act now, we can bring benefit not only to Vancouver but to the rest of Canada.

Once again, folks, the opportunities are real. If we fail to act immediately on transportation investments and providing a good policy environment on Canada's Pacific gateway transportation facilities, trade and travel benefits will flow to the United States or to Mexico. Inaction on our part will have a big negative impact on the well-being of future generations of Canadians.

The risks are real. Our competitors have more flexible federal government fiscal policies towards transportation infrastructure. U.S. ports and airports have direct federal government financing, as well as fewer borrowing restrictions, and they have more flexible local mechanisms to raise capital. Our competitors, as we speak, are actively looking at that market that we so enviously are looking at as well. We need to act now.

The province, the region, gateway industries, and the federal departments have identified a comprehensive program of investments in transit, road, marine, and rail infrastructure. Together these programs will help us alleviate congestion and make us the preferred route for Asian traffic. These investments will balance the need of greater Vancouver's littoral region with its responsibilities as the primary international gateway for Canada's Pacific trade. These investments will create \$24 billion in direct and indirect economic benefits over ten years. We have talked about the jobs.

We also have another jewel on the west coast in terms of ports, and that's at Prince Rupert. Prince Rupert is ready for development. Prince Rupert needs to be developed. And we are not talking here about an opportunity that takes away from the rest of Canada. This opportunity is only available to Canada's Pacific coast, because the opportunity is coming from Asia. We are talking about developing an opportunity, though, that will benefit all of our country. We can't do this alone. We are looking at the federal government to help build transportation infrastructure that we believe is the key for the future growth of the Pacific gateway and Canada's economy.

I have already indicated that YVR, in our view, is paying far too much rent, certainly relative to other airports in Canada. We need to address that. That is a fiscal imbalance.

Every region of the country has chosen its key priorities regarding fiscal imbalance. Our key priority on the west coast is the gateway. I want to emphasize that this isn't just our issue. It's a national issue with widespread national implications.

In British Columbia we have enjoyed building a new and constructive relationship with Ottawa. We want that relationship to continue. At the same time, we want to ensure our Pacific gateway concerns are heard and that any incremental resources from Ottawa go not only to where they are asked for but to where they can bring the greatest advantage for all of Canada. We are getting on with the job of building a strong national economy. We need more of Ottawa's help.

So we look forward to your deliberations, and we also look forward to addressing any questions you might have. Thank you.

• (1030)

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

Mr. Bell, for five minutes.

Mr. Don Bell: Thank you.

Mr. Doyle, I presume we'll get a copy of your presentation in addition to the slides, because it would help.

Mr. Dan Doyle: Yes.

Mr. Don Bell: First of all, as a member of Parliament from B.C., I agree with you in terms of the issue of the gateway. This is a point that those of us from British Columbia from virtually all the parties have made. I know that the Liberal caucus has spoken very strongly in terms of the airport rents on the part of Prince Rupert and taking advantage of the potential Asian market.

What I really hear you saying in this particular case is that you want the federal government to invest more in an area that you see as

a federal responsibility, which is the ports and international trade. Is that correct?

• (1035)

Mr. Dan Doyle: We want them to invest fiscally, but we also want them to invest in terms of policies that will allow us to take advantage of the situation and to be again, as I said earlier, the preferred route for containers from Asia to North America.

Mr. Don Bell: I'm trying to get this in as a category. Earlier today we heard a definition of fiscal imbalance, which is when one level of government cannot fund programs for which it's responsible. Whether it cannot or politically chooses not to are two different issues. For the imbalance on the airport rents that you made reference to, you're really talking about a disparity between rents charged as opposed to an imbalance. The Vancouver airport pays a much higher rent, for example, than almost any other airport in Canada. Is that correct?

Mr. Dan Doyle: That's correct. Vancouver pays more rent than any other airport in Canada.

Mr. Don Bell: Victoria is another one.

Mr. Dan Doyle: Victoria is another one that pays, but it's way less than Vancouver.

Mr. Don Bell: On page 8 of your slides, under "Shared Interests, Shared Benefits", you say that the federal government policy changes on gas tax revenues help alleviate fiscal infrastructure imbalance. So you're supportive, then, of the federal government's move in this area in terms of the sharing of the gas tax revenues with municipalities through the provinces.

Mr. Dan Doyle: We certainly are. I think it's very beneficial. We know it will help all of our municipalities, particularly in the greater Vancouver area, in moving people and transit. That will allow the movement of goods to be freed up on the road and rail systems.

Mr. Don Bell: You're looking at \$173 million for the expansion of the port of Prince Rupert. My understanding is that the federal government has been asked for \$40 million.

Mr. Dan Doyle: That's correct.

Mr. Don Bell: So you're looking at the total package. What is the provincial government committing toward that?

Mr. Dan Doyle: Right now we have committed \$17.2 million, which is actual cash in the bank, and we have been asked for approximately \$13 million more.

Mr. Don Bell: We're talking about the Fairview port. We're not talking Ridley at this point.

Mr. Dan Doyle: We're talking Fairview.

Mr. Don Bell: I'm pleased to see that the thrust of British Columbia's presentation is around strengthening the value of the gateway. The container capacity of the Vancouver port is limited by the rail infrastructure, the ability to move the goods from the port, as I understand it.

Mr. Dan Doyle: It is to some extent. I might suggest, though, that it's about the efficiency of the rail infrastructure more than the actual quantity of it. There is a problem with the CPR line in British Columbia, particularly in the Rocky Mountain section, where it needs more capacity. Within the greater Vancouver area, we need to make better use of the facilities we have now.

Mr. Don Bell: Okay. Thank you.

The Chair: Thank you, Monsieur Bell.

Madam Ambrose, for five minutes.

Ms. Rona Ambrose: Thank you for your presentation, Mr. Doyle.

You talked about key priorities in key strategic areas for infrastructure, but you made mention of investing fiscally and also policy-wise. I know you brought up the issue of airports and the port of Prince Rupert. I agree with you. I think it is very important to have leadership at the federal level in the area of these key strategic infrastructure issues, such as ports and also border crossings. You are referring particularly to specific areas of need in B.C.

Could you talk a little more about how you see this as a national issue? It is something that we see being brought up over and over again by not only provincial governments but also municipal governments. Could you talk a little bit about that?

Mr. Dan Doyle: I think it is a national issue, because when we are talking about trade from the Asia-Pacific, both export and import, it is very much leaning towards the imports, but the goods are not coming to British Columbia. Very few of the goods are coming to British Columbia. Most of the goods are coming to the rest of Canada and to the midwest of the United States.

The rail systems that go through the rest of Canada support this. In your province, certainly a lot of containers find their way from our ports into your province for distribution, for stuffing and unstuffing. The economy that comes with the increased Asia-Pacific trade is going to find and manifest itself right across the country. For example, a lot of containers go to Toronto and Montreal out of Vancouver.

Ms. Rona Ambrose: Because this is something that would have an impact on your department, can you comment at all on the latest budget? I was reading a little bit about what your Minister of Finance, Colin Hansen, was referring to. What are some of the things in the budget that he was happy to see?

On the latest pine beetle funding for B.C. particularly, could you comment at all in terms of how it might have an impact on infrastructure and transportation and on the issue of the Kyoto provision within the Budget Implementation Act?

Mr. Dan Doyle: Actually, I prefer not to comment because I probably would not give anything that was very intelligible. I'd need to have some of my colleagues here to do that.

Ms. Rona Ambrose: No problem. I have another question for you.

I wondered if you—

The Chair: You're not in an election.

Mr. Dan Doyle: I'm not.

• (1040)

Ms. Rona Ambrose: Neither are we, actually.

The other question I have for you is on the bilateral agreements your premier has talked about in regard to the latest Atlantic accord. Could you comment at all on the moratorium for offshore oil energy and how that obviously would have an impact on the ports, infrastructure, and transportation?

Mr. Dan Doyle: Certainly, we are very interested in developing our offshore oil and gas resources, as well as more of our onshore oil and gas resources. We think that is part of the economy not only for this region but for the rest of Canada in the future.

Those are issues that our politicians, in my case, with you, will have to resolve.

Ms. Rona Ambrose: Are there any policy initiatives outside the political context to pursue, looking at lifting the moratorium in a staged way, or, if that does occur, looking at any type of bilateral agreement between Ottawa and the Province of British Columbia?

Mr. Dan Doyle: We are certainly open to that. There are other areas, though, where bilateral agreements among countries would greatly benefit British Columbia.

We have a very small percentage compared to other major cities in Canada, Toronto and Montreal, for example, with respect to the air bilaterals. Canada is in the process of starting negotiations right now with China on new air bilaterals. We think Vancouver is a natural, as do the Chinese airlines, for a landing place.

There is something called fifth freedom rights, which is the ability to land in a Canadian city, pick up passengers, and move them on to an American city, for example. Vancouver has the least of those in Canada with respect to the big cities. We think that's something else we should be looking at.

There are certainly international bilateral things in the transportation area. We think, from a policy perspective, the Government of Canada needs to understand how the west coast works and it needs to pay more attention to our needs out there.

Ms. Rona Ambrose: Do I have more time?

The Chair: You have 55 seconds.

Ms. Rona Ambrose: Thank you. That's fine.

[*Translation*]

The Chair: Mr. Côté.

Mr. Guy Côté: Good afternoon and thank you for your presentation.

We travelled to Halifax, Toronto and Regina, and then here. We've come to realize — and this is one of the interesting aspects of this subcommittee's work — that the fiscal imbalance means different things in different provinces.

Your presentation is interesting in that it helps us to realize that beyond fiscal considerations, the imbalance is reflected in a series of policies that have a major impact on the provinces and on Quebec. As I understand it — and you can correct me if I'm wrong — British Columbia does not have the financial resources needed to develop unilaterally major infrastructures such as ports and airports. Yet, the federal government attaches considerable importance to development in areas of provincial responsibility such as health, education, child care and municipalities. Perhaps this is a good illustration of the meaning, in concrete terms, of the fiscal imbalance.

Earlier, you mentioned the sum of \$173 million in reference to the port of Prince Rupert. If I understand correctly, over the next few years, the federal government is set to invest a total of \$40 million in that particular infrastructure. At the same time, you're requesting \$40 million from the federal government. I assume, although I can't be certain of it, that the balance of the funds will come from private sector contributions.

Wouldn't you have an easier time of it if the federal government focussed on its mission, that is on managing areas under federal jurisdiction, such as ports and airports? Presumably, it would then invest more money on the development of this particular port. Is that in fact what you were trying to illustrate in your presentation?

[English]

Mr. Dan Doyle: First of all, to answer specifically about the port of Prince Rupert, there are private sector dollars, and the port itself is putting in dollars to make up the \$173 million. The federal government has not committed money as of this point for the Prince Rupert port. We're just anticipating it coming any day, like we anticipate everything else.

On whether we should all just fall back to our jurisdictions and spend money where we're supposed to, that's a very complex question. I don't know how to answer it right on.

On federal government infrastructure, the federal government is responsible for ports. The federal government does collect a lot of gas tax every year in British Columbia. It would be very nice to get some of that back, as Mr. Bell indicated, for municipalities, for transportation and other infrastructure that requires improvements there.

I'm not sure I'm going to suggest to you—I'm not the Ministry of Finance here—that we would want to see everybody looking after their own business and let the money go to the priorities along the line that we're responsible for.

•(1045)

[Translation]

Mr. Guy Côté: Mr. Chairman, since the presentation was very clear, I won't use up all of the time allotted to me.

The Chair: Thank you, Mr. Côté.

Ms. Crowder.

[English]

Ms. Jean Crowder: Welcome, and thank you for your presentation.

I am also from British Columbia, Nanaimo—Cowichan. My riding has Nanaimo Airport and some commercial ports out of Nanaimo as well. Of course, like many other transportation areas across the country, they're struggling.

The Auditor General released a report specifically talking about airport rents. She recommended that the government proceed expeditiously with its plan to review airport rents. My understanding is that process is in the works.

I wonder if you have had any involvement with that. They were talking about looking at the market value of those holdings because of all the transferring that happened. There was some question about whether the value that was transferred was actually the value of the actual.... Were you involved in that?

Mr. Dan Doyle: No, I wasn't, but my colleague here was with Transport Canada when some of those things were happening.

Kathy, do you have any comments on that?

Ms. Kathleen Miller (As an Individual): I wasn't part of the negotiations for the transferring of Vancouver Airport, thank goodness.

We have not been widely consulted, as a group of provinces and territories, on federal option development for how to restructure airport rent. We've certainly been heard on the matter, in that the ministers of transportation and the deputy ministers of transportation across Canada from provinces and territories gather several times a year. This is a number one policy issue, and we do talk about the need for review.

I understand that the work Transport Canada has done in Ottawa on this really does show that substantial reform to the rent is required, but I'm having a great deal of difficulty getting support from colleagues in central funding agencies in Ottawa to make these revisions.

We've made our best cases. We're just looking for fairness, a rent cap perhaps. We're not necessarily trying to arrive at a number. A lot of work has been done, but it has just stalled and we don't understand why.

Ms. Jean Crowder: That's part of the concern that's been raised. Some of the regional airports currently aren't in that mix, but there is some fear that at some point they will be in that mix, and they're watching us very closely.

Have you heard any more rumours about concentration around regional airports? There's a real fear out there that what we're going to see is some of our regional airports closing, and in British Columbia you know what a huge issue that is.

The second question has nothing to do with airports. Can you comment on what's happening with Rogers Pass and whether the federal funds for upgrading that highway have been committed? My understanding is that there was a commitment after that last terrible accident that there was going to be an upgrade to that section of the Trans-Canada Highway.

Mr. Dan Doyle: First of all, with respect to the regional airports, the provinces got together with the territories and did a study on all the airports in Canada, the regional airports and the smaller airports. We invited the federal government to be a part of that, but they chose not to. They have now done one themselves using the information that we have, and nothing very conclusive has come out of that. So the Province of British Columbia has a program of transportation partnerships in which we are helping airports like Nanaimo and Comox on the island and right throughout the province.

We don't have responsibility for airport policy in British Columbia, although we see ourselves as being the collective representative for all the airports in B.C. As we spoke today about the Vancouver Airport, we have been speaking to Ottawa about all the airports in British Columbia with respect to trying to be sure they stay viable. We, like you, are very concerned that no airports get shut down. I've had the opportunity of living in most communities in B. C., and I truly firsthand appreciate the importance of the airports to those communities.

With respect to Rogers Pass and the Kicking Horse Canyon section of it, we've got very strong support from the Government of Canada with respect—

• (1050)

Ms. Jean Crowder: With money?

Mr. Dan Doyle: Yes.

Ms. Jean Crowder: Okay, just checking.

Mr. Dan Doyle: We're just now concluding some agreements, and we're very pleased with the help we're getting there.

Ms. Jean Crowder: Do we have any timeframe as to when that construction might actually start to happen? Because, of course, we're coming up to tourist season again.

Mr. Dan Doyle: It's under way.

Ms. Jean Crowder: Great.

Mr. Dan Doyle: Yes, we have one project that's under way, and we have another project that's out to tender right now. They're both very big projects and will make substantial improvements to that section of the highway.

Ms. Jean Crowder: That's great news.

The Chair: Thank you, Ms. Crowder.

Mr. Bell.

Mr. Don Bell: Earlier, you raised the issue of ports and how the United States deals with them differently. It's really an apples and oranges situation. I've been down and visited some of the U.S. ports. In Seattle and some of the others, they have taxing authorities themselves, which takes it away from the municipalities. So rather than pay taxes to the municipalities, they collect taxes within their own geographic area. There's a levy against the surrounding municipalities. But there are bigger federal programs that provide assistance.

So it's very difficult to do a comparison, would you not agree, between the U.S. system and the Canadian system?

Mr. Dan Doyle: I guess we could do a comparison as to the competitive advantage they might have because of those differences.

We have two competitive advantages: the Canadian dollar, and the efficiency of our ports. We have a wonderful asset in our railways as well. The Canadian National Railway is one of the most cost-effective railways in North America and gives us an advantage out of the port of Vancouver and will out of the port of Prince Rupert.

So we do have some advantages, but those advantages are ones that others can mimic easily. They don't have to get legislative changes or anything else. They can look at making their railways and their transportation systems more effective. We have to be cognizant of all of the areas in which our competitors—because we are in competition for this additional economic opportunity from Asia—have the advantage and try to counter it.

Mr. Don Bell: The other issue is capacity. You spoke earlier of containers that were a point of first call for Costco, for example, from Chinese overseas shipping. The Vancouver port is loaded. Rupert, if it goes ahead, will assist in that. The potential of container growth to North America and through the port of Vancouver, which is the second busiest port in North America after Louisiana, is somewhat limited by the rail capacity.

Mr. Dan Doyle: It is limited, but it is limited on two counts: first, it's limited in actual physical capacity, in terms of land and port; second, it's limited just by efficiency.

One of the most efficient ports you're going to see is the port of Tacoma. There is a direct correlation between the container that leaves somewhere in China, gets to Tacoma, is put right on a train, and finds itself in the marketplace. We have to get to become that kind of agile port.

The ports in China, for example, are sometimes two and three times more efficient in loading and unloading their boats than we are, in terms of the time it takes for the containers to find their way onto the boat and out to sea. We need to find out why, and we need to be able to take advantage of it.

So there are some areas where we can gain in efficiencies; there are other areas where we have to gain by fiscal investment. We also have to look at our policy areas.

There is another one, though, I failed to mention, and I think, Mr. Chair, it should be put on the table. That's security. The majority of the increase in traffic we want to bring to Canada's west coast ports will find its way to the American midwest, and in some cases the American Atlantic coast. We want to be able to sustain that; we are going to need a very secure system. The federal government is leading the way in that, and certainly the Government of British Columbia is wanting to participate in setting up that level of security, which will ensure our future.

• (1055)

The Chair: Thank you, Mr. Bell.

Madam Ambrose.

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

In slide 8 you talk about shared interests and shared benefits, but specifically you just make a mention—you talked about it a little bit in your presentation—of federal government policy changes on gas tax revenues, which will help alleviate fiscal infrastructure imbalance. I think you have support from all parties in the House of Commons on this issue, as you will.... All the provinces and the municipalities have been talking about this for a long time.

Could you just talk about gas tax revenues in light of...not necessarily the CEPA provision in the Budget Implementation Act, but the issues around Kyoto implementation for your own province. I know this is an issue in Alberta in terms of how it affects gas tax revenues, infrastructure funding, and some of the federal government projects associated with Kyoto implementation.

Mr. Dan Doyle: Well, again, you ask me challenging questions outside my field, and I am reluctant to give you a direct answer because I'd probably lead you astray, but I can tell you a bit about gas tax in British Columbia.

The federal government collects just slightly more gas tax than the province does. All of the province's gas tax, plus some, goes into transportation infrastructure. We are the only province in Canada that has dedicated gas tax directly to transportation infrastructure. I'm the chief executive officer of an organization called the British Columbia Transportation Financing Authority, and we get, I think, upwards of 6¢ a litre of gas taxes from British Columbia sent directly to that organization.

Three years ago our government increased the gas tax by 3.5¢. That was not through the consolidated revenue fund, but sent directly to the Ministry of Transportation for implementing transportation infrastructure. So when you think of the \$700 million or \$800 million a year that goes to Canada from British Columbia from gas tax, there are lots of opportunities there, if that were reinvested.

Now, you have to know that's an old song of all provinces across Canada, and I appreciate that. When I first became a deputy minister, that was the first thing I heard in Ottawa at the deputy ministers' table—it was to get all this gas tax back. I know it's not that easy, but we should think about it in terms of the opportunities it allows us to have.

Ms. Rona Ambrose: If I understood you correctly, you said \$700 million or \$800 million goes...? That's what British Columbia pays out?

Mr. Dan Doyle: It's what British Columbians pay out, yes.

Ms. Rona Ambrose: Right, and how much comes back in the form of infrastructure funding?

Mr. Dan Doyle: It was, for a while, very low. It was in the \$5 million and \$10 million range. It's very much better now. We are getting hundreds of millions of dollars back over the course of several years, so it has improved dramatically. It's not anywhere near the ratio of the dollars that go back.

Ms. Rona Ambrose: I didn't realize you are the only province that had a dedicated gas tax. Can you talk a little bit more about that?

Mr. Dan Doyle: Sure. We have a dedicated gas tax in several senses. We dedicate—and don't quote me on these—11¢ for the transit system of the greater Vancouver area gas tax; that's directed to

transportation. We dedicate the 3.5¢ that was a special increase in gas tax province-wide to transportation and about another 6¢ province-wide that goes directly into the transportation financing authority to pay for it. That's the vast majority of the gas tax collected from British Columbia. Very little of it actually finds its way to the consolidated revenue fund.

Ms. Rona Ambrose: Thank you.

[Translation]

The Chair: Thank you, Ms. Ambrose.

Go ahead, Mr. Côté.

Mr. Guy Côté: It's still an improvement over the federal government which imposed a gas tax to eliminate the deficit, but then neglected to lift the tax.

You explained how the tax imbalance affected transportation in your province. Aside from a direct injection of federal government funds, do you see any other solutions that could make your job easier, particularly in the transportation sector?

[English]

Mr. Dan Doyle: Thank you. That's a good question.

The one thing we have been doing a lot in British Columbia is entering into public-private partnerships to achieve our ambitions in transportation. We have three big public-private partnerships that are now under way and in the final phases in terms of transportation. We think there's a tremendous opportunity for public-private partnerships.

I had somebody internationally come to me the other day and say they had a billion dollars they wanted to invest in transportation infrastructure, and they have \$10 billion invested worldwide in transportation infrastructure. So we do need to look at policy approaches, and certainly it's my impression that the Government of Canada is now re-looking at public-private partnerships to borrow possibly.

The Kicking Horse Canyon approach that we're talking about is a public-private partnership where they are investing. Yes, we have to pay them back over time, but it at least allows us to get the infrastructure today. So this is one policy area I think it's very important that we look at.

● (1100)

[Translation]

Mr. Guy Côté: Thank you.

The Chair: Thank you, Mr. Côté.

Go ahead, Ms. Crowder.

[English]

Ms. Jean Crowder: I don't know if it was under your watch, but I know over a number of years there has been devolvement to the municipalities of highways that the provincial government used to take responsibility for. I know the old Lake Cowichan highway is a really good example of that. It has cost the municipality over a million dollars to do upgrades. And of course that devolvement happened without any funds attached to it.

I wonder, was that as a result of lack of transfers from the federal government?

Mr. Dan Doyle: First of all, I've been in this ministry 36 years, so I can't escape any blame for anything that's been done in the last 36 years and—

Ms. Jean Crowder: I'll send your name on to the mayor.

Mr. Dan Doyle: The mayor has already been talking to me a lot.

Yes, that was done because we had a fiscal problem. I wouldn't suggest to you that it was because we weren't getting enough money from Ottawa. Others might make that argument. Our budget during the last government was reduced considerably, and it was a real challenge of us to be able to look after all the road system. And indeed, many of those roads, or the majority of them, only served a municipal purpose, not a provincial purpose. I lived through all of that, and I really appreciate the perspective others have brought to it, the mayors and so on, in terms of the downloading.

Ms. Jean Crowder: It's an interesting dilemma, though, because as we were reminded earlier, we only have one taxpayer. So when you talk about it only being a provincial responsibility, it's interesting, because unfortunately it's not just North Cowichan citizens who travel on that road, that old Lake Cowichan highway. So how is it that we reconcile paying for roads that multiple levels of citizens use? How do we make sure they are maintained and kept up to standard, and who gets to pay for it when we do only have one taxpayer?

Mr. Dan Doyle: I think that's a really good point.

What we've done in British Columbia is we have drawn some lines, and they are arbitrary, in terms of how much external traffic there is on roads before it would become a provincial road. So we've set a policy framework where we divide up which roads belong to who.

Ms. Jean Crowder: So some of that devolvement was not as a result of the federal fiscal policy?

Mr. Dan Doyle: I can't lay it directly at that—

Ms. Jean Crowder: Too bad. No, I'm kidding.

The other question I had for you is around the 2010 Olympics. I know there's a significant amount of infrastructure going to be required, whether it's the Sea to Sky Highway or whether it's rail transit, whatever that might look like. Has that conversation happened with the federal government?

Mr. Dan Doyle: Oh, absolutely. The federal government has come forward in a very big way to fund the rapid transit line in Vancouver. We didn't make application for the Sea to Sky Highway because we thought that was our responsibility. We are very close to a very good public-private partnership on that, and the road will be finished and upgraded for 2010 and the Olympics.

You can look at the border crossing infrastructure in British Columbia, and the federal government has contributed in a big way to that. That's going to be very helpful for us for moving traffic in and around the greater Vancouver area during the 2010 games. There have been a lot of indirect things the Government of Canada has done to help us with transportation for 2010.

Ms. Jean Crowder: You talk about money going into transportation with the new deal around the gas tax, but there's a lot of concern from smaller municipalities and first nations around how they will get access to that gas tax in a way that has some relevance to their communities. For smaller communities, if it's done on a per capita basis, it really doesn't make a difference. What's your comment on that?

Mr. Dan Doyle: Again, I would have to defer to my colleague who has set up the policy on this issue, but she is not here with me today obviously.

I think British Columbia did try to recognize that there was a differential between Vancouver and Duncan, for example, in terms of the needs of the community, and you couldn't just base it on population. Otherwise, greater Vancouver would get everything.

• (1105)

Ms. Jean Crowder: I'll just follow up, and I'm glad you mentioned Duncan. I think it's a really good example. I can't remember what percentage of the population lives in Vancouver, but there was a study done a few years ago that talked about the importance of our rural communities, and the city of Duncan is a really good example. It's a city of less than 5,000 people and its infrastructure is in desperate shape. They have water lines that are 90 years old, which I know is not a transportation issue, but they have huge problems with some of their roads as well.

Again, we have this struggle to make sure these smaller rural communities have adequate access to resources in order to maintain their livability and viability. I don't know if you are aware of the Cowichan transportation corridor study that's going on right now. It's trying to get all the various levels of government to look at that nightmare of a highway right now because of the traffic congestion. Go through there on a Friday afternoon and it's just bumper to bumper. We have a rush hour in Duncan; it's incredible.

You talk about these bigger problems around rural communities, but how are you addressing that with the federal government, getting adequate resources to make sure their roads are maintained?

Mr. Dan Doyle: There are two points here. The Government of British Columbia is spending a huge amount of fiscal resource working on what we call a side road system, which is all the way from the main highway. We had not invested in those side roads for decades. As a matter of fact, if you look at our appraisal of them, you see only about 37% of them are in good shape. We are moving that up to 50% in the course of the next three years or so and we want to move on higher. We see that as being our responsibility and we are investing in a big way.

I think the gas tax arrangement from the federal government is also going to help smaller communities.

The province also has other programs through our municipal affairs area to help with sewer, water, and the like, so there are things happening. It is improving.

[Translation]

The Chair: Thank you, Ms. Crowder.

Before we go to closing remarks, I would like to ask you a question, Mr. Doyle. After 36 years in the public service, you have acquired extensive knowledge of all facets of public sector spending and investment. From what I've seen, you like things to be very clear and to the point. Therefore, I will ask you a clear, direct question.

The Canadian Constitution recognizes federal and provincial government jurisdiction over certain areas. In practice, over the past 50 years, further to Supreme Court rulings and changes to Privy Council and Parliament policy, additional responsibilities have been assigned either to the provinces or to the federal government.

One of the goals of our subcommittee is to ensure that jurisdictions are spelled out clearly. Where transportation is concerned, particularly transportation linked to international trade, federal government jurisdiction is very clear. Do you not think that if the federal government focussed strictly on those areas for which it has responsibility, including transportation, airports and ports, there would be far more federal accountability in the face of challenges such as the ones confronting the ports of Prince Rupert and Vancouver? The situation would be clearer, the challenges more transparent and public. The federal government would be better able to assume its responsibilities.

I agree with you on the Asian question. When we look at countries like China, where the GDP has increased by 11% per year in each of the past three years, or even Vietnam, which has experienced an increase of almost 10% in its GDP, we can see that this is where growth will occur in future. Airports would be handling 20% of the traffic, not 7%, if the proper investments were made. If the situation were clearer, if there was more open accountability and if provincial jurisdiction was upheld more rigorously, would this not improve the situation in terms of the development of the ports of Prince Rupert and Vancouver and investment linked to growth in Asian countries?

• (1110)

[English]

Mr. Dan Doyle: Yes, it would. But I want to give you a real-life example, and I think it comes back to your question.

Sometimes in the highway transportation system for which I am responsible, I could make a huge investment in a highway to get the capacity. And the reason I would have to get the capacity is that the municipal street system has not been kept up. I could make a smaller investment by helping the municipal street system and save myself the investment in the highway.

I prefer to make the more logical choice. To come back to Ms. Crowder's question, we have in the past made investments in municipal systems—and we continue to invest in them—where it saves us an investment in ours.

So I think to some extent there are those opportunities, and we should also look at the opportunities in terms of the return on them, in terms of what economic development they can bring. More and more in the province we're looking at this. All of my projects, for example, have to have a very strong business case that shows what the economic return is going to be.

So the short answer is yes, but I think it has to be able to be modified. You should be able to look outside of your jurisdiction if you think you can make investments there that will be a saving for you in your jurisdiction.

[Translation]

The Chair: Thank you.

[English]

You have three minutes for your concluding remarks.

Mr. Dan Doyle: Well, I'll save you two and a half minutes.

I really appreciate the opportunity to be here today. I thank you so much again for coming to Victoria.

I just want to leave you with a perspective that we have a great opportunity in Canada with respect to the Asia-Pacific region. We have a very short time in which to be able to take advantage of it. We need our policies and our fiscal arrangements to come into place really quickly for that to happen.

Thank you again for allowing me to be here.

[Translation]

The Chair: Thank you very much, Mr. Doyle and Ms. Miller. I remind you that the airport minibus will be at the front entrance to the hotel at noon.

[English]

Thank you very much, Mr. Doyle and Madam Miller.

The meeting is adjourned

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