



House of Commons
CANADA

Subcommittee on Fiscal Imbalance of the Standing Committee on Finance

SFIS • NUMBER 012 • 1st SESSION • 38th PARLIAMENT

EVIDENCE

Monday, April 11, 2005

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Chair

Mr. Yvan Loubier

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• (1405)

[Translation]

The Chair (Mr. Yvan Loubier (Saint-Hyacinthe—Bagot, BQ)): We're going to start. It's my honour to welcome Mr. Gilles Taillon, President of the Conseil du patronat du Québec, and Mr. Guillaume Lavoie, Vice-President, International and Federal Affairs at the Quebec Federation of University Students. We're lucky to have you with us. He would have been on the picket lines today if the dispute between the students and the Government of Quebec had not been resolved.

I would like to welcome you.

Our subcommittee's mandate is to report to the House of Commons by June 2 on the issue of fiscal imbalance and recommendations for sustainable solutions to that problem.

You have 10 minutes to make your comments and recommendations on the subject. Then my colleagues from each of the parties represented in the House of Commons will ask you questions.

Mr. Lavoie, you have 10 minutes.

Mr. Guillaume Lavoie (Vice-President, International and Federal Affairs, Quebec Federation of University Students): Good afternoon. I'm the Vice-President for International and Federal Affairs at the FEUQ.

First, I'll say a few words about FEUQ. The Federation is an independent organization representing 19 university student associations from all regions of Quebec, Anglophone and Francophone associations representing 172,000 members across the province. FEUQ is celebrating its fifteenth anniversary this year and describes its actions in defence of post-secondary education as political but not partisan.

I want to thank the committee for the invitation. Thanks as well to Parliament for taking the initiative of addressing an issue as fundamental as fiscal imbalance.

In 2001, when all of Quebec was engaged in a similar exercise, FEUQ, which is the largest group of young people in Quebec, took part in the work of the Séguin Commission at the time and presented its brief entitled, "For the Survival and Integrity of Social Programs". Its main vision remains the same today, and an updated version of that brief will be forwarded to you shortly.

At the outset, FEUQ wants to clarify its position on the funding of social programs and post-secondary education. The provincial governments have a responsibility for establishing spending priorities. However, increased transfer payments don't always mean

improved university budgets. The provincial governments, whose budgets depend in part on federal transfers, have some flexibility, although it is limited.

First, it is true that they exercise control over their revenues through direct and indirect taxation. Furthermore, they can waive tax cuts, which, in our view, in addition to being nonsensical within the present intergenerational framework, do nothing to help them in the context of this committee. In short, we can attribute all problems to the federal government.

That said, each party has its share of responsibility. The fact that the federal government is accumulating surpluses is symptomatic of its withdrawal from the funding of the major missions involved in the social services sector.

The governments of Quebec and the provinces must bear an increasing share of funding of those programs, in addition to growth in spending which is largely attributable to an aging population and, in Quebec, to the demographic shock. Therein lies the essence of fiscal imbalance.

In short, the real objective here is to ensure that the Canadian federal system and its fiscal and budgetary interrelations enable the governments of Quebec and the provinces to carry out their missions and ensure that they do. FEUQ can see that the status quo is unacceptable and not viable.

Let me cite an example of fiscal imbalance which, we think, is quite apparent in the case of post-secondary education. There are two types of imbalance. First, there is obvious imbalance in the federal government's shirking of its responsibilities toward the provinces with regard to transfers. There's also a more insidious form of imbalance, which appears in the form of an invasion of provincial jurisdictions.

First, let's talk about transfer payments. After years of unilateral cuts — and here's the major issue — the small increases, or rather adjustments that have been made to transfer payments have brought us back to 1993 levels, but in absolute dollars. Adjusting for inflation and population growth, federal transfers for post-secondary education today are half of what they were 10 years ago. The bottom line is that the provinces are short \$1.5 billion a year in funding for post-secondary education.

Furthermore — and here's another part of the problem — there isn't enough predictability in the present funding system. Consequently, the governments of Quebec and the provinces never know with enough certainty the size of future transfer payments. It's even worse for universities: not only do they depend on federal transfer payments, but this also has an impact on the other choices that provincial governments make, which impacts on their budgets.

In short, there must be a substantial increase in transfer payments, through either a transfer of tax points or cash transfers.

The main underlying problem is that, paradoxically, the decline in transfer payments has been accompanied by greater federal government intervention in post-secondary education. While, on the one hand, the federal government has cut general funding for post-secondary education programs, over the past 10 years, it has tripled its direct and indirect spending on a host of dubious, if not simply discriminatory initiatives.

•(1410)

I'm going to cite two well-known examples: the Canada Foundation for Innovation and the Canada Millennium Scholarship Foundation.

First, the federal government allocates approximately \$1.3 billion a year in tax credits for education expenses. Second, we have the Registered Education Savings Plan, for which \$600 million a year has been set aside, along with an additional \$1 billion over 10 years under Bill C-5. So we're talking about \$2 billion a year.

Provinces like Quebec, Newfoundland and Labrador and Manitoba, which have elected to make their post-secondary education systems more accessible by charging lower tuition fees, are clearly put at a disadvantage by tax credits for education expenses. The Registered Education Savings Plan is also under-utilized by citizens of provinces that have made post-secondary education a priority, all the more so for those of Quebec, where a college education is quite inexpensive. This means that there's something worse than the spending power, and that's the misspending power. That's the main problem.

FEUQ believes that the federal government's extensive intervention must absolutely stop. We recognize that the other provinces can decide to do things differently. Consequently, the only solution to this problem is a right to opt out with full financial compensation.

There's a third type of imbalance, which I think is probably the most structural imbalance in the fiscal imbalance issue, and that's intergenerational imbalance. What FEUQ calls the demographic shock of the aging of the population makes the provinces' financial situation even more critical. Whether the provincial governments are good or bad, the increase in spending is increasingly beyond their control. Demographic trends suggest that the proportion of persons 65 years of age or more will increase from 12% to 29% over the next 50 years. That will have a direct impact on health expenditures.

In addition, job growth mainly benefits university and college graduates. Between 1990 and 1998, the number of jobs requiring a university education rose 53%, whereas the number of jobs requiring a college education rose 32%. Conversely, jobs requiring no degree or high school diploma declined respectively by 30% and 15%. That means that the provinces will have to allocate more resources to

post-secondary education if they want to maintain their growth rates. And yet the need to address the aging of the population and to see to manpower training, and thus to growth, cannot be mutually exclusive.

Thus, in view of expected growth in health costs, FEUQ proposes that a social program protection fund be established to absorb the financial impact of rising costs and to protect post-secondary education from new budget cuts. In no case should the government or the public have to choose between education and hospitals.

The problem is quite simple. In Quebec, a sharp increase is forecast in the number of seniors suffering from loss of autonomy, which will result in a significant increase in health spending. If nothing is done, future governments will have no choice but to implement major tax increases and cut spending in public sectors such as education, or simply privatize present systems.

These kinds of scenarios are unacceptable to us, of course, and that is why FEUQ has made a social programs protection fund a priority, even if that isn't part of present governments' plans. Instead of arming ourselves with the financial resources to meet the challenge of the demographic shock, governments are lowering taxes and thereby undermining their financial capability to address future problems. In the context of fiscal imbalance, it would be entirely appropriate for the federal government to become one of the major contributors to this capitalized social services preservation fund.

In conclusion, FEUQ believes that the fiscal imbalance between the federal government and the provincial governments is only part, although a major part, of the problem of under-funding of the provinces' missions. It is nevertheless true that the division of tax resources between the two levels of government results in a major imbalance to the detriment of the provinces, including Quebec.

Quebec has established a high-quality, accessible public education system. That was its prerogative, in the context of its jurisdictions. It should not have to suffer for its choices as a result of fiscal imbalance.

•(1415)

Fiscal imbalance has already caused a number of problems in the education system, particularly in the universities. By establishing a series of programs without considering the priorities of the Quebec education system or those of other provinces, the federal government has increased system overlap.

In short, the federal government has three options: restore transfer payments to their previous levels; provide for a right to opt out with full compensation; and take part in the creation and funding of a capitalized social programs preservation fund.

Thank you.

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

I believe there's going to be a bit of a debate on tax increases with Mr. Taillon, the President of the Conseil du patronat du Québec.

Mr. Taillon, the floor is yours.

Mr. Gilles Taillon (President, Conseil du patronat du Québec): Thank you very much, Mr. Chairman.

I hadn't intended to discuss that issue here today, but, if you raise it, I definitely will.

Thank you very much for your invitation, Mr. Chairman, and thank you committee members.

It's a pleasure for me to accept your invitation because we think it's important to solve the fiscal imbalance issue in a sustainable way. You asked how it could be resolved in a sustainable way. That's a question we attempt to answer in this brief.

So I've prepared a brief paper to outline our position. First, I'd like to remind you that we believe this is an old issue and that it is time to find a sustainable solution to the problem.

Allow me to provide some brief background, then we'll move on and address the issue raised here from a different angle.

Fiscal imbalance isn't a recent issue in Canada. A brief retrospective shows that it is more a political than a technical question. In the early 1980s, the federal government, burdened by budget deficits at the time, eyed the provinces and claimed there was a fiscal imbalance in their favour. The issue gradually faded, largely as a result of the provinces' arguments at the time that there was no fiscal imbalance. In this 1982 budget, the Province of Ontario moreover cited, in support of its argument, a study conducted by the Economic Council of Canada:

In order to say there is a structural economic problem of fiscal imbalance, it must be claimed that one of the levels of government does not have access to the revenues it needs to discharge its responsibilities. The mere existence of deficits at one level of government does not mean that such structural imbalance exists and that a solution must be found for those deficits at the expense of the other level of government.

In the mid-1980s, the federal government decided, after years of deficits and the cumulation of an astronomical national debt, to put its fiscal house in order. That didn't come without its problems, since personal and corporate taxes were rising at the same time, and, more especially, transfer payments to the provinces were declining. The debate on fiscal imbalance resumed as a result of those cuts, this time in the opposite direction. Fiscal imbalance now favoured the federal government.

Quebec sounded the charge with the Séguin Commission in 2001, arguing that Quebec did not have access to revenue sources that would enable it to discharge its responsibilities more effectively. All the provincial capitals soon adopted the same attitude. The provincial premiers demanded and obtained two conferences of first ministers. Despite the additional resources invested by the federal government as a result of those conferences, the provinces remained unsatisfied, and the Premier of Ontario took up the torch again a few

weeks ago, this time taking a different tact. The present federal government does not subscribe to the concept of fiscal imbalance or appear to believe in the virtues of a more decentralized system.

We think that, once that observation is made, we must move on to another issue, and we suggest a new approach.

At the heart of this conflict is the inadequate nature of the federal government's involvement, mainly through the Canada Health and Social Transfer, in funding for health, education and social programs. What can be done in the context of fruitless disputes and constitutional battle that in no way help to improve quality of service? Through my brief historical remarks, I want to emphasize that this is roughly what has been going on for 20 years in Canada. What can be done about an endless issue that delays the reorganization of services and predictable funding for health care, post-secondary education and certain social programs?

When we appeared before the Fiscal Imbalance Commission in November 2001, we had anticipated the present situation, that is to say a situation that we consider one of endless disputes. We called for reasoned negotiations between the two orders of government, but, failing mutually satisfactory agreements, we offered a proposal that might provide a lasting solution to the problem.

We took the liberty of reproducing an excerpt from our brief at the time, which I won't quote, because you have it. In particular, we should come to a sustainable solution, which would be to make a clear division between federal powers and responsibilities and those of the provinces. The federal government should also completely vacate the areas of provincial jurisdiction of education, social programs and post-secondary education, and leave them to the provinces.

• (1420)

For that purpose, we propose a transfer of tax points.

In today's dollars, this proposal would mean the following: based on the figures in the government's 2005 Budget Plan, \$29.3 billion should be transferred in addition to the transfers of tax points already in effect. I'm obviously talking about all of Canada. This amount corresponds to the cash transfers planned for 2005-2006. In total, the transfer of tax points would thus amount to \$47.8 billion. The base points would subsequently be discounted annually to add an indexing factor. The provinces would be exclusively responsible for managing programs, and the federal government would stop spending in those areas of jurisdiction. The equalization system must of course be maintained to provide the provinces with a tax base that can be managed in the context of a tax point transfer system. There will be more discussions on this, but I think it would be important to set out this system so that things are predictable and known in advance. The system should also be fair. Then it would be reviewed periodically to correct any fiscal disparities that might arise among the provinces, based on changes in their collective wealth.

We believe we've gotten to the stage of transfer of tax points. We must stop fighting over the amount that should be transferred under the Canada Health and Social Transfer. We must adopt a much more clear-cut approach and give the provinces responsibility for managing these activity programs, and ask the federal government to focus on managing its responsibilities in its areas of jurisdiction.

Mr. Chairman, committee members, this is a simple proposal that we think is easy to implement and that would be very sustainable.

The Chair: Thank you very much, Mr. Taillon. You're incredibly disciplined and efficient: seven minutes and two seconds. I can't thank you enough.

We'll now go to the first round of questions, starting with Ms. Ambrose of the Conservative Party. You have five minutes, Madam.

Ms. Rona Ambrose (Edmonton—Spruce Grove, CPC): Thank you, Mr. Chairman. Thank you for your presentations, Mr. Lavoie and Mr. Taillon.

You've raised some interesting points. Fiscal imbalance is an issue that I'm very concerned about that I raise in the House of Commons whenever I get the opportunity. The Leader of the Conservative Party, Stephen Harper, has argued that the widening gap between the federal government's budget and those of the provinces prevents the latter from making long-term plans and forces them always to be dependent on transfers to the provinces for their post-secondary education programs. My party also notes that this dependence on federal transfers enables the federal Liberal government to intrude in areas of provincial jurisdiction.

I have a question for Mr. Lavoie. Can you give us more details on all the harm caused by fiscal imbalance to Quebec's ability to meet its social responsibilities and on the way fiscal imbalance affects post-secondary education in Quebec?

• (1425)

Mr. Guillaume Lavoie: The most shocking aspect of fiscal imbalance is that, on the one hand, the federal government cuts general funding for the post-secondary education program in Quebec. How? By making unilateral cuts to transfer payments. This simply undermines Quebec's ability to fund post-secondary education. This has serious consequences.

Universities in Quebec are under-funded to the tune of \$375 million. Our universities are short 1,000 professors. The same is true in our libraries. These are real consequences. The finger must be pointed at those who are truly responsible for this situation. Today, funding for post-secondary education stands at 50% of what it was 10 years ago, and expenditures have not fallen. That's the first thing.

The worst isn't the federal surpluses, which in a way prove what's already obvious. The worst is that, in areas of jurisdiction that are not its own, the federal government is investing the flexibility it obtains by making cuts to transfers. On the one hand, it prevents program funding in general, and, on the other hand, it invests in areas of jurisdiction that are not its own, either through foundations or through the tax system. In acting this way, it winds up punishing provinces that make choices based on their areas of jurisdiction.

Tax credits, whether they're for an education savings plan or for education expenses, are unfair for the provinces that choose to make post-secondary education more accessible by charging lower tuition fees, thus increasing public investment. That's how I see the situation.

As regards the fund, since Quebec will be facing a greater demographic shock than other provinces, it must be able to maintain the social programs it has today. To that end, the federal government must co-finance a fund that will make it possible to capitalize revenues now in anticipation of increased spending that will occur approximately in one generation.

The Chair: Ms. Ambrose, is that all right?

Ms. Rona Ambrose: Thank you.

The Chair: Mr. Bell.

[*English*]

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

Mr. Lavoie, I was interested in your comment that Quebec will face more severe demographic shifts. I'm wondering if you could amplify that.

Secondly, you mentioned the need for about a thousand new teachers. I'm just curious, is the school population predicted to grow? In British Columbia it's declining, so I'm just curious about the need for more teachers, just to compare it against the figures I know from my province.

To both of you gentlemen, are there areas, in your opinion, in either health care or post-secondary—and you both suggested the federal government should vacate these areas—where in fact a national perspective, that can come through funding by having dollars associated with it, as the carrot or the stick, however you want to put it, in terms of ensuring that there is some kind of national standard? Or should it be up to potentially a vulcanization of some of these services, where you have different provinces with different levels?

In other words, should there be a degree of portability, for want of a better term, to allow a person to move from one province to another and expect to have the same level of service? The argument I've heard for the federal intervention in some of these areas is to ensure that, in certain key areas, whether it's post-secondary or health care, national standards would apply wherever you are in Canada, to any income group.

Time permitting, Mr. Lavoie, at some point we might be able to get to the issue of the Millennium Fund—we've talked about this in the past—and whether there are changes in funding for post-secondary that you think would be appropriate. It may be another time, but I'd appreciate your comments, just for information, on whether or not the school population is predicted to grow or fall, and the need for teachers. Secondly, perhaps you could define the Quebec demographic shifts that you said were more severe than in other provinces.

Finally, for both of you, I'm interested in whether you think there's a value in national influence, if you want to call it that, in both health care and post-secondary education.

• (1430)

[*Translation*]

The Chair: Mr. Taillon.

Mr. Gilles Taillon: Our proposal is quite clear. If we really want to divide things so that the Federation works well, the provinces' areas of jurisdiction must be managed by the provinces. Education and health, in our view, are areas of provincial jurisdiction. There may be national standards in the country, but they don't have to be implemented through funding. The parties to the Federation could agree to set common objectives, to measure those objectives and to have a common legal system, but the way of doing that or of exercising jurisdiction should be the responsibility of the provincial governments. Once the provinces have their tax points, it will be up to them to manage them, to decide how much money they need to get along.

Second, the equalization system must be maintained so that the provinces with less fiscal capacity can receive compensation. Equalization contributes to the implementation of national standards in areas of activities such as these, in particular. That's what we believe.

As regards Quebec's demographics, the population of Quebec is aging faster than those of all the other provinces. So it's clear that, in demographic terms, Quebec will be having more trouble than other provinces, unless there is a significant change in immigration levels. We know we have trouble retaining our immigrants, who generally have more children, are more fertile. Unless we improve our immigration policies, aging will clearly be a serious problem that will affect primary and secondary education first, then post-secondary education.

The Chair: Mr. Lavoie, do you want to add anything?

Mr. Guillaume Lavoie: Mr. Taillon did say that the demographic shock will be greater in Quebec than elsewhere in Canada, but it will also appear in the rest of Canada.

The fact that they're short 1,000 professors is symptomatic of two situations. First, a large part of the university teaching staff in Quebec, and no doubt in the rest of Canada as well, is about to retire. So there will be a big hole to fill. Second, we don't necessarily have the required budget to replace all those people because university budgets are increasingly being cut. Post-secondary education is chronically under-funded in Quebec and that's attributable in particular to cuts to transfer payments. That's quite clear.

As regards national standards, it seems to me that's a very slippery slope. The post-secondary education system already differs from province to province. It's not the balkanization of Canada; it's not that at all. The last time I checked, education was a provincial responsibility. It's up to provinces and the electors of provincial governments to make choices accordingly. If the choices made in one province or another don't suit the electors of that province, the provincial governments will have to bear the consequences. It's not up to the federal government to manage post-secondary education programs indirectly. The federal government's role is to support the general mission of the provinces, in particular through transfer payments, while respecting the management capability of the province through overall program funding.

If you want to talk about specific programs, particularly financial assistance programs, I'll tell you there are virtually no financial assistance programs in the country. The federal government developed one, enabling the Quebec government, among others, to

opt out with full compensation. The Quebec government developed its program the way it wanted, and that program is more generous than elsewhere in the country.

It's a right to opt out with full compensation that enables the provinces to manage programs soundly, while enabling the federal government to get involved if it wishes.

• (1435)

The Chair: Thank you, Mr. Bell.

Mr. Côté, you have five minutes.

Mr. Guy Côté (Portneuf—Jacques-Cartier, BQ): Thank you, Mr. Chairman.

Thank you, Mr. Lavoie and Mr. Taillon.

Mr. Lavoie, you clearly explained to us how, for many years now, the federal government has withdrawn from transfers to the provinces and Quebec and is now acting like a saviour, to a certain degree, by offering to reinvest, on certain conditions, in the areas of jurisdiction of Quebec, among others.

You mentioned three possible solutions. You may accuse me of being somewhat pessimistic, but that's not normally in my nature. You recommend restoring transfer payments to their previous levels. We see that, despite some victories by the Quebec government here and there, the federal government has managed to set conditions on its transfers, particularly in programs that aren't always consistent with Quebec's specificity. You referred to the Registered Education Savings Plan and education tax credits, which aren't consistent with Quebec's situation. Can we continue to have trust in this process, which, to date, hasn't been efficient, somewhat in the same way as the right to opt out with full compensation? The management of parental leave was a hard-won fight that the Government of Quebec had been conducting since 1997. We can unfortunately assume that efforts of that kind will continue in the interminable disputes and discussions.

A capitalized fund for social services seems to be a good idea. I don't think that has been tried yet. It might be worth the trouble to do it.

I put the following question to various witnesses this morning. To a certain degree, shouldn't we admit that the efforts made to change the Canadian tax system, as regards transfers and equalization, have failed?

Mr. Guillaume Lavoie: With respect to transfers, there's nothing preventing the federal government from playing the role it previously played. However, to avoid having the parties blame each other, equivalent transfers of tax points could be made. Quebec or the provinces would then manage those amounts.

That raises the entire problem of conditions. To avoid that, we can consider a capitalized fund for social programs. The federal government would invest in a fund knowing generally what the funds would be used for: they would be used for post-secondary education and other social programs.

Having said that, I think there has to be enough maturity to recognize that there's a problem. When the federal government cuts funding for the provinces' general programs and invades areas of provincial jurisdiction, while accumulating enormous budget surpluses, there's obviously a fiscal imbalance.

The federal government says that fiscal imbalance doesn't exist. Like in the Harry Potter books, this is the problem whose name cannot be spoken. Ultimately, however, if it walks like a duck and if it quacks like a duck, it must be a duck. If the government continues to strangle the provinces, it shouldn't wonder whether it should call that fiscal pressure or fiscal imbalance. What's fundamentally important is that it's a structural problem.

Mr. Guy Côté: You both agree that transfers of tax points would resolve the situation in large part. That's no doubt true in the case of Quebec. Some have said that transfers from the GST tax field could also solve a good part of the problem.

Mr. Taillon, can you briefly tell us about the advantages and disadvantages of the two solutions?

• (1440)

Mr. Gilles Taillon: For Quebec for the 2005-2006 reference year, we arrive at roughly the same result in terms of cash.

We prefer transfers of income tax points to the transfer of the GST field. We think it would be harder for the government to get out of one field of taxation, the GST, than to retain it. It would be easier to transfer income tax points for social programs, health and post-secondary education. We think it would be more convenient for it to transfer tax points. It would make for an easier debate. The federal government, regardless of the party that forms it, would have a lot of trouble giving up a hard-won field of taxation that is profitable. In practical terms, I think it would be better for the federal government to transfer tax points, and that would yield the same result in financial terms. Of course, we'd have to ensure that it indexes the tax points.

The Chair: Thank you, Mr. Côté.

Ms. Wasylycia-Leis, you have five minutes.

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

Thank you, Mr. Lavoie and Mr. Taillon.

It seems to me that, if we want to resolve the fiscal imbalance in Canada, we have to increase transfers to the provinces for post-secondary education, health and social programs. This morning, the CSQ showed us that the division was very much a problem: it's now 73% for health and only 27% for education and social policies.

My first question is for Mr. Taillon. Do you think, like Mr. Lavoie, that investment in education would be beneficial for the private sector later on? In your mind, is that a good reason to increase funding for education?

Mr. Gilles Taillon: Madam, we've been saying for a long time that education is fundamentally important in economic development today. Education is one of our major priorities.

The current problem of all governments is unbridled growth in health spending, which, given budgetary limits, is being done to the

detriment of other government spending. Health expenditures increase each year by approximately six percent, in Quebec and elsewhere, while our collective wealth rises by three percent. Every year, we have to make up three percent elsewhere, and other spending has to be reduced by the same amount.

We're saying that this is a health management problem. Health has to be better managed in order to reduce spending growth. Money obviously has to be invested in education. However, we say in our proposal that this is a provincial choice. The federal government must hand over the resources to the provinces, and they'll make their choice.

The Chairman invited us earlier to take part in a debate. I don't want to get involved in that debate, but we could have said, for example, that, if there were a national standard for tuition fees, that would help close the \$375 million gap in Quebec: that's the amount of the shortfall in post-secondary education. On average, tuition fees bring in approximately \$325 million in Canada. I don't want to debate this. There are choices that the provinces must make. To resolve fiscal imbalance, which has led us from one fight to another over the past 20 years... From time to time, the provinces say that it's the federal government that has too much, and the opposite happens. When the federal government was poor because it had budget deficits, it accused the provinces of being too rich. That has to stop because we no longer believe in anything about decentralization in those areas of jurisdiction.

• (1445)

Ms. Judy Wasylycia-Leis: Thank you.

Mr. Lavoie, would it be possible to establish an education system for the entire country using Mr. Taillon's solution? Would you prefer direct cash transfers or transfers of tax points?

Mr. Guillaume Lavoie: As the Government of Quebec clearly showed this morning, the federal government wanted to look good by isolating the health transfer so that it could say it was the one investing the funds. That increase is directly attributable to cuts in transfer payments for education and social services. There's not necessarily any more money; they've made cuts into other services.

On the other hand, we prefer — and this reflects the spirit of the Constitution — that budget choices be made at the government level responsible rather than at another level of government. Since that's the system that currently exists, we favour increasing transfer payments, or if not a transfer of tax points. I know there's a \$375 million deficit for our universities. It should also be noted that there's a shortfall of \$1.5 billion a year in federal transfer payments. Student tuition fees would have to be quintupled in order to reach that level. Before talking about all the benefits of a freeze on tuition fees, we have to fight to have federal transfers increased.

Ms. Judy Wasylycia-Leis: Is it true that Paul Martin promised \$8 million for education in the last election?

Mr. Guillaume Lavoie: Yes. Here's proof that FEUQ and the Government of Quebec didn't make up the lack of funding for post-secondary education. There was a debate on the program, The Great Canadian Job Interview, in Newfoundland on June 4, 2004. This was in the middle of the election campaign. There was Mr. Layton on one side and Mr. Martin on the other, and it was broadcast live on Newsworld. I rose to ask the present Prime Minister, who was campaigning, what he was going to do to increase transfer payments for post-secondary education. He answered: "You're right; it's a problem, and I'm going to increase the transfer payment so it eventually reaches \$7 or \$8 million a year." That would mean an increase of \$3.6 to \$4 billion: that's roughly what we're seeking. When he was campaigning, he said he would do it "eventually". I imagine he meant he would do it once he was elected. We're still waiting. It's a bit of the same old song. Mr. Pelletier said that a major equalization reform had been promised in the Throne Speech. We're still waiting for it: a promise made, a promise not yet kept. That's clearly an identified, recognized problem, but Mr. Martin and the party in government have not yet kept their promise.

Mr. Gilles Taillon: I'd like to clarify a point, Mr. Chairman.

The Chair: Go head, Mr. Taillon.

Mr. Gilles Taillon: You have to beware when you look at the 2005 Budget Plan. Mr. Martin could say he has achieved \$8 billion in 2010-2011. That's for Quebec.

Mr. Guy Côté: That's Mr. Martin.

Mr. Gilles Taillon: His budget plan is for five or six years. He could answer you that the \$35 billion in 2010-2011 yields approximately \$8 billion in cash transfers for Quebec, and that includes health and education.

The Chair: Thank you, Ms. Wasylycia-Leis.

I have two questions to ask you, Mr. Taillon. The first concerns the text of your presentation. On page 5, you say: "The base points would subsequently be discounted annually to include a factor of indexation." What would they be indexed on? The cost of the programs?

Mr. Gilles Taillon: In fact, I left that open, but, since the government has already committed to indexing cash transfers by six percent, it seems to me indexing should be at six percent. That would correspond to the increase in health costs that all experts are predicting for the future.

The Chair: All right, but indexing would be done by the Government of Quebec, which would have received tax points, wouldn't it?

Mr. Gilles Taillon: Indeed. However, since there's another tax system in the other provinces, the two systems should be taken into account. We have our own tax system. The other provinces go through the federal government.

• (1450)

The Chair: You're in the habit of talking about the federal debt. I'm going to talk to you about two debts, that of the federal government and that of the Government of Quebec. You want effective management of scarce resources, that is of citizens' direct and indirect taxes. When you see, on the one hand, that the federal government accumulates surpluses and applies a large part of those "unanticipated" surpluses to the federal debt and, on the other hand,

that the Government of Quebec is struggling, is required to make last-minute cuts of \$750 million for the current fiscal year, is unable to establish a management plan for its debt because of the urgent needs in all sectors, in health and education in particular and is unable to start repaying its debt, what do you think of that as a manager? We know perfectly well that, since the federal government's credit rating is much better than that of the Government of Quebec, the federal debt costs less to manage and declines more quickly, whereas the debt that is more expensive to manage, that of the Government of Quebec, is constantly increasing. I know you're very concerned about efficiency. In your mind, isn't this a factor in favour of another transfer in addition to the transfer for social programs, a transfer that would strike a better fiscal balance and give the governments of Quebec and the provinces increased capacity to repay their own debt.

Mr. Gilles Taillon: First, the federal government should be encouraged to continue its good management of its debt. As its debt falls, increasing funds are at its disposal. Will there be any reason to review the provision and transfer of tax points in the course of the debate? Perhaps, but I'm telling you that it's important that the federal government continue.

On the Quebec side, choices have been made. We demand that the Government of Quebec address the debt, which it has made little effort to do for a number of years now, according to those in power. It's important that it do so. The government has made budget choices. Perhaps it should review them, allocate one part of its resources to the debt and another part to tax cuts, review its spending structure — we have costly programs in Quebec — and take advantage of a good division of the tax base to obtain additional resources and make the necessary budget choices. I think it's possible to find ways of putting together a debt reduction plan in Quebec without regard to what the federal government is doing, in the hope that the federal government will say yes to a division of responsibilities that guarantees success for both levels of government and enables the provinces to do their job.

The Chair: Thank you, Mr. Taillon.

Mr. Bell, you have two minutes.

[*English*]

Mr. Don Bell: Thank you, Mr. Taillon.

I just wanted to follow up on your reference to the historical irony of the reversal we've seen between the federal government being in a deficit position and the provinces being in a surplus. Your point was at that time the provinces said there was no fiscal imbalance, and now it sort of seems to be the reverse.

To Mr. Lavoie, on your reference to the promises made and promises kept, the only thing I would remind you—and I'm saying this as a new MP—is that we're nine months into what would normally be a three- or four-year term. It's a minority government, which is a double challenge, as I understand it. Not having been in a majority, but having been in a...knowing how hard it would be, if I were in the same situation in a municipal government with a minority status, somehow, with a party system, to advance your agenda.

[Translation]

Mr. Gilles Taillon: In fact, you claim that the fiscal imbalance is not technical, but that's it related to political choices. It should be borne in mind that the federal government had a \$40 billion deficit every year in the 1980s.

[English]

Mr. Don Bell: By choice.

[Translation]

Mr. Gilles Taillon: Budget choices were made, and we're now starting to spend. It's important that prudent choices are made by the provinces as well. It's possible to make those kinds of choices from the moment the federal government is well balanced. It wasn't balanced after the massive cuts to transfers. The situation is being re-established, and the idea now is to have a system that provides some permanence so the provinces can manage programs in the context of accelerated spending growth.

• (1455)

[English]

Mr. Don Bell: Mr. Lavoie.

[Translation]

The Chair: Mr. Lavoie, go ahead.

[English]

Mr. Guillaume Lavoie: Just very quickly, are you telling me that there is hope after those nine months?

Mr. Don Bell: I'm saying, as a new member of Parliament, in terms of the commitments we've made that I'm aware of, and the ones I've acted on in my riding, I think we're making progress. Normally the plans unfold over a longer period of time, over the expected term of office. I'm just saying—

Mr. Guillaume Lavoie: I know, I know. But it would be the first time a representative of the Liberal Party of Canada...saying there was not enough majority government to achieve it. If I may say, with no malice at all, these past Liberal governments have been the fathers of fiscal imbalance in this country. Actually asking back this extra money for transfer in post-secondary education—that's money that's been cut, significantly, by successive Martin and Chrétien budgets.

So I'm not saying that this is a new problem, I'm saying that we all know who created it. Quite frankly, we're looking at the same people now to solve it.

Mr. Don Bell: And some new people.

[Translation]

The Chair: Thank you, Mr. Bell.

Ms. Ambrose.

Mme Rona Ambrose: Thank you, Mr. Chairman.

The Chair: You have three minutes.

[English]

Ms. Rona Ambrose: To Mr. Lavoie, you talked about libraries really quickly, and indicated that there's also a need, and a deficit of infrastructure, here in Quebec in the post-secondary system. So it's not just about the delivery of post-secondary education.

Just speaking in terms of my home province of Alberta, funding is a big issue, but it's not as much of an issue, because the Alberta government is spending more per capita on education than any other province, trying to make up for some of the shortfall that you're actually speaking about in terms of transfers from the federal government. One of our larger problems is actual spaces in infrastructure.

I wonder if you could comment on the situation here in Quebec in terms of the actual spaces and infrastructure available for post-secondary students.

Mr. Guillaume Lavoie: I'm not sure I have an answer for that specifically right now, but I'd be happy to look into it.

It's very interesting that the Alberta government...well, Alberta being richer, from its own revenues, than most of the other Canadian provinces. Actually, saying that, it's because of that extra wealth that the Alberta government is able to make up for the shortcomings of the federal money, while the rest of the country and all of the other provinces, Quebec being one of them, doesn't have that luxury, doesn't have that margin of manoeuvring to make up for the shortcomings of our money going to the federal government and not coming back, or coming back through new initiatives that are actual misdoings in public policy.

That is a core problem that we face here in Quebec.

[Translation]

The Chair: Have you finished, Ms. Ambrose?

[English]

Ms. Rona Ambrose: Yes, thank you.

[Translation]

The Chair: Thank you very much.

Mr. Côté.

Mr. Guy Côté: I'd like to go back to management of the federal debt, Mr. Taillon, and to Quebec, if necessary. Since 1997, enormous sums have been allocated to debt repayment, which has made it possible to appreciably reduce the ratio of debt-to-GDP, which is still falling.

Going back to the question Mr. Loubier raised, since the ratio of federal debt-to-GDP is constantly declining, while the debt of the Government of Quebec and the provinces that still have debt continues to grow, at what point will Canada have an amount of debt that can be considered reasonable? Let's not forget that debt often doesn't exist in some kind of void. Often, when there is debt, assets are attached to that debt. You can manage debt in a very concrete way.

I don't believe the federal government's purpose is to eliminate its debt completely while the provinces continue to go into debt. At what level could the debt become reasonable?

Mr. Gilles Taillon: A 25% ratio of debt-to-GDP would be reasonable. The federal government's ratio is approximately 40%, while that of Quebec is 55%.

Mr. Guy Côté: Thank you.

• (1500)

The Chair: Mr. Taillon, I've worked in finance for a long time, and I remember that your predecessor and you said that, once we had a balanced budget, that is to say a zero deficit, we could think about managing the debt and choosing other priorities.

Mr. Gilles Taillon: That's a prerequisite.

The Chair: Precisely. Then you stated various debt objectives. At one point, I was joking with the Clerk. I told him that the ideal debt-to-GDP ratio for Mr. Taillon would be zero percent.

Mr. Gilles Taillon: I believe that would be impossible.

The Chair: What would be your next step?

Mr. Gilles Taillon: We've been saying for a number of years that the debt-to-GDP ratio should be 25 to 30%. The percentages haven't varied greatly, Mr. Loubier. That's what we've been saying for a long time. When I appear before the Standing Committee on Finance, I always refer to a debt-to-GDP ratio of 25 to 30%.

The Chair: I'm going to check that. We have to go back 12 years.

Mr. Gilles Taillon: It's written in our briefs. I can't speak on behalf of my predecessor, but I can talk about the last seven years: we're still recommending that debt-to-GDP ratio.

Our debt can't be completely eliminated, since there are capital assets, but the lower the debt, the less it costs to service the debt and the more resources are available for program spending. If debt service costs 20% at the federal level, 20 cents on every taxpayer dollar is used for nothing but paying our old debts. We currently get 80 cents worth of services. It's a little less in Quebec, but not much less. Debt service currently costs us 17 or 18%.

The Chair: Exactly.

Ms. Wasylycia-Leis, you have three minutes.

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

My question is for Mr. Lavoie.

During the budget consultations, you and other witnesses described problems related to specific programs such as the Registered Education Savings Plan and the Education Savings Bonds. The government was saying at that point that these were good universal programs and

[English]

replacements for the cuts that had originally taken place in the education field since then. Just this past couple of weeks, there were documents released through access to information showing that the government itself acknowledged what you were saying in terms of the selective nature of these programs, the way in which they were truly band-aid efforts, and only helping probably the more affluent members in our society.

Have you seen that information? What do you make of it? Has the government been just pulling one over the eyes of Canadians all along? Do you feel vindicated? What should we do now with this information?

Mr. Guillaume Lavoie: Well, I'm saying we were right.

[Translation]

We created a twofold imbalance by introducing programs like those. First, there's an imbalance because money that is supposed to improve access to education goes to more fortunate people, those who need less assistance to gain access to post-secondary education. Second, it's unfair to the provinces that choose to make education more accessible. They lose the investment that the federal government was making in all the programs that were removed from overall funding. That's absolutely unacceptable.

My mother told me when I was young: "If each sticks to his own trade, the sheep will be watched." That's what the governments have to do.

The Chair: My mother told me that too.

Mr. Guillaume Lavoie: It's the governments of the provinces that are responsible for post-secondary education. No one has asked the federal government to deal with it other than through transfer payments, which constitute its share of the partnership program.

As I said earlier, there are worse things than the spending power: there's the misspending power. That's backdoor fiscal imbalance. You reduce funding to the provinces, then you create a twofold imbalance with the same programs. I can't believe it. It's a disadvantage for the poorest families, and it's also a disadvantage for the provinces that decide to make sacrifices in other budget areas in order to invest more in education.

The Chair: Thank you, Ms. Wasylycia-Leis.

It remains for me to thank you, Mr. Lavoie. Say hello to your president from me. Tell him I have a great deal of admiration for him and for what he did during the student demonstration.

I'd like to thank you too, Mr. Taillon. It's always a pleasure to meet you. We should see each other more often. I'm allowing myself to be drawn a bit toward the left wing of my party. You could bring me back to the centre from time to time. That's always a good thing.

• (1505)

Mr. Gilles Taillon: It'll be a pleasure.

The Chair: Thank you very much for your contribution to our work.

We'll take a brief 10-minute break.

• (1505)

(Pause)

• (1515)

The Chair: Please take your places.

Mr. Legault, I want to thank you for accepting our invitation. You're here with Jean-François Gibeault, Political Advisor to the Parliamentary Wing of the Parti Québécois. I want to welcome you to the Subcommittee on Fiscal Imbalance, and I remind you that the subcommittee has a very clear mandate: to table a report and recommendations in the House of Commons before June 2 outlining sustainable solutions to the fiscal imbalance. I thank you for being here to contribute to the subcommittee's work. You have 15 minutes to make your presentation. Then we'll go around the table for clarification on your presentation or to make certain comments.

Members from all the political parties present in the House of Commons are seated around the table.

Mr. Legault, please proceed.

Mr. François Legault (MLA and Official Opposition critic for economic development and finance (Parti Québécois), Quebec National Assembly): Thank you very much.

I in turn would like to thank you, Mr. Loubier, and all the committee members, for inviting us. I'm representing the Parti Québécois today. It's a pleasure for me to come here to discuss a very serious problem, the fiscal imbalance.

As you know, the Parti Québécois and I are sovereigntists. We believe that the only way to make all the budget choices on the basis of Quebecers' priorities is for us to have all our revenues in one place, that is to say in Quebec City. However, while awaiting sovereignty, I believe that all political parties in Quebec, including the Parti Québécois, have a duty to minimize the effects of the dysfunctional operation of the Canadian federation, in particular those of the fiscal imbalance.

Why do we refer to dysfunctional operation and fiscal imbalance?

First, it was shown by the Séguin Commission, which was established by the Parti Québécois in 2001, that there is currently a problem of fiscal imbalance. When we look at what is needed to properly fund programs in the areas of jurisdiction of each of the governments, you realize that the federal government currently collects too much in direct and indirect taxes relative to its responsibilities and the necessary funding for its programs, whereas here in Quebec — and I would say virtually the same is true in most of the provinces — we don't collect enough direct and indirect taxes to properly fund the basic services we offer to the public in the areas of Quebec's jurisdiction.

This situation has two very serious consequences. First, here in Quebec City, needs are rapidly outstripping revenues. This means that spending, if only on system costs, is rising faster than revenue.

When I was Quebec's minister of health and social services, I had occasion to prepare a paper that we presented in 2002 entitled "Pour faire les bons choix" [Making the right choices]. In that paper, we clearly established that financial requirements in health to maintain services being offered were increasing by 5.2 percent every year. In other words, the Government of Quebec every year has to increase its health budget, which is its biggest budget, by at least 5.2 percent in order to be able to preserve the services it provides. However, as you know, and as you've probably heard and read on a number of occasions, not only do we have to maintain services currently being provided, we also have to improve them. In health, there's some catching up to do, and that was assessed at \$1.6 billion a year.

Of course, the problem of faster growth in health needs than in total revenue means that the Government of Quebec not only underfunds the health system, but also underfunds its other essential mission, education. So we wind up in a situation in which Quebec must underfund its health and education systems. We've had a striking confirmation of that in recent years in Quebec: out of a budget of \$52 billion, the Government of Quebec has been unable to find the \$103 million necessary to restore the cuts made to student scholarships. This means we've had to rely on the federal

government and the Canadian Millennium Scholarship Foundation to reimburse a program that was already in place. That's definitely an additional and recent confirmation of the fiscal imbalance existing in Quebec and Canada.

•(1520)

The second consequence of fiscal imbalance is this. We've shown on a number of occasions that Ottawa's revenues were increasing faster than expenditures. In addition, the federal government has not increased its transfers to Quebec in recent years at the same rate as increases in its revenues, which is even more odious.

When you look at the latest available figures, which concern the period from 1993-1994 to 2003-2004, you see that revenue collected by the federal government in Quebec rose 58 percent. However, federal government transfers to Quebec rose only 5.8 percent, that is one-tenth the growth in revenue collected in Quebec by the federal government. The federal government thus winds up with enormous surpluses, which we think leads it to make two mistakes.

It's first mistake is to choose investment priorities that are less important than those of Quebecers, but using Quebec money. Consider the last federal budget. In it, the government announced an additional investment of \$12 billion in national defence, whereas the consensus in Quebec is that the top reinvestment priorities should be health and education. I don't think it's normal for Quebec not to be able to fund its health and education systems adequately, when the federal government chooses to increase the military budget using our money.

The federal government's second mistake is to constantly invade the provinces' areas of jurisdiction using its spending power, which is inefficient simply from the point of view of management. In 1995, we estimated the cost of overlapping programs between the federal government and Quebec at \$2.7 billion. We believe that amount has only increased in recent years.

Here then are our recommendations.

We think the federal government should limit its spending growth to the rate of inflation, that is to say approximately two percent, and should spend only in its areas of jurisdiction.

I want to take this opportunity to recall the findings of the study that was conducted with Mr. Loubier, among others, and which was called the Léonard Report. It stated that, between 1995 and 2000, the number of federal public servants had increased an average of 4.2 percent per year, that the federal payroll had risen by an average of 8.2 percent per year over those five years, that spending on legal services had risen 129 percent in five years, that the Justice Department's payroll had jumped 141 percent in five years, that federal government spending on opinion polls had risen 334 percent, an annual average of 67 percent and that the federal government's spending on office furniture had grown 215 percent in five years, an average of 43 percent per year. I believe this is evidence that the surpluses in Ottawa lead to management inefficiencies. I obviously won't be talking today about everything that could be said about sponsorships.

Now we believe that the surpluses in Ottawa, the growth rate of which exceeds normal growth in inflation, should be entirely distributed to the provinces, on a sustainable, structural and permanent basis, not every year based on a difficult calculation.

• (1525)

Obviously, as the Séguin Commission recommended, we would like the surpluses to be distributed in the form of transfers of tax points or, even better, GST transfers. Why? Because GST revenue growth is closer to the rate of growth in health needs than that of revenue from tax points. We also believe these transfers permit greater accountability; that is to say that the governments collecting money would also be responsible for spending that money themselves.

We also think this would make it possible to have more predictable revenues. When you look at the changes in the federal government's transfers to Quebec in recent years, you see we've had years with variations of 20 percent and even 30 percent. For the sake of good management, good planning and good governance, it would be preferable for revenues to be transferred permanently to the provinces.

Now how much should we request? How much should Quebec request in transfers of tax or GST points from the federal government?

Last year, Quebec's former Finance Minister, Yves Séguin, published a paper entitled "Corriger le déséquilibre fiscal" [Correcting the Fiscal Imbalance] published at the same time as the Quebec government budget. That paper clearly stated that the fiscal imbalance for the coming year, 2005-2006, would amount to \$3.3 billion. That's what they said last year. Since that report, the Quebec government has reached two agreements with the federal government. One agreement for 2005-2006 provides for additional health revenues of \$500 million, while the other would bring in additional revenues of \$279 million in equalization. So if we update the paper, we can estimate the fiscal imbalance at \$2.7 billion.

The problem is that the new Minister of Finance, Mr. Audet, whom you heard from this morning, refused to support a motion in the Quebec National Assembly setting the fiscal imbalance at \$2.7 billion. Observers who were in the room this morning confirmed for us that, unlike Mr. Séguin, Mr. Audet has not made any request for a particular figure to resolve the fiscal imbalance. We

believe this is a serious strategic error by the Government of Quebec because most of the other provinces have put a figure on the fiscal imbalance, including Ontario, which has requested a settlement of \$5 billion. So we believe that, in refusing to put a figure on the fiscal imbalance, the Quebec Finance Minister is weakening the government's bargaining position.

In conclusion, I would say that you'll have occasion in the coming weeks to table a paper proving beyond a doubt that Quebec is currently sending more money in total to Ottawa than it receives, even considering equalization payments. This situation deprives Quebec of funding which is urgently needed in the education and health systems, among others.

By the admission of Mr. Séguin, the former Finance Minister, the fiscal imbalance today amounts to \$2.7 billion, more than what the Séguin Commission announced in 2002, when the short-term fiscal imbalance had been estimated at \$2 billion.

We haven't managed to resolve the arrival of a federalist Liberal government in Quebec City, thus one of the same stripe as the one in Ottawa. On the contrary, the total amount of the fiscal imbalance has risen, which is having increasingly serious consequences. We believe it is becoming urgently necessary to resolve the fiscal imbalance. I would add in closing that sovereignty would enable Quebec to solve a number of problems, including the fiscal imbalance.

Thank you.

• (1530)

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

We'll now move on to a question period. Before that, I'd like to congratulate the Parti Québécois. I'm not engaging in partisanship. In any case, everyone knows my sovereigntist allegiance. Three years ago, the idea of setting up a commission to document the issue of fiscal imbalance, the Séguin Commission, came from Bernard Landry and the Parti Québécois. Had it not been for that, we wouldn't be talking today, right across Canada, as you have seen, about the problems related to fiscal imbalance. I believe that's entirely to your credit.

Ms. Ambrose, you have five minutes.

Ms. Rona Ambrose: Thank you, Mr. Chairman, and thank you, Mr. Legault, for your presentation.

My party, the Conservative Party of Canada, has long recognized the existence of a vertical fiscal imbalance between the federal government and the provinces.

In the last election campaign, the Leader of the Conservative Party, Mr. Stephen Harper, promised that our party would work with Quebec and the other provinces to resolve this situation, which has gone on for far too long.

That promise was reaffirmed at our national conference, when the party passed a motion stating that a Conservative government, together with Quebec and the other provinces, would solve the problem of fiscal imbalance by increasing amounts allocated to transfers to the provinces and by reducing the tax burden or transferring tax points to the provinces.

The Conservative Party also understands that the fiscal imbalance gives the federal government the power to intervene unilaterally in a number of areas of purely provincial jurisdiction and that this federal intrusion raises the fiscal pressure on the provinces by establishing priorities in provincial policies.

The federal government has stated — and I quote — that “the distribution of taxation powers in Canada is unique — both levels of government do in fact have full access to all current major revenue sources, and therefore the traditional concept of a vertical fiscal imbalance does not apply to Canada.”

The federal government also asserted that, if the provinces wanted more revenue, they only had to raise direct and indirect taxes.

My question is for Mr. Legault. In your view, what would be the economic impact on the provinces if they raised their direct and indirect taxes?

Mr. François Legault: The current problem is not that taxpayers won't pay enough tax. The problem is they don't pay their taxes to the right place.

Quebeckers currently pay too much tax to Ottawa and not enough to Quebec City.

If Quebec taxpayers were asked to pay additional income tax to Quebec without reducing the taxes that are inflating Ottawa's surpluses, they would be doubly penalized. It's therefore clear that, to resolve the fiscal imbalance, we also need a transfer of tax points, that is to say reduction of tax paid to Ottawa.

I don't know whether I can put a question to the Conservative Party. I know that it admits there is a fiscal imbalance. However, I have never heard it estimate how much it represents. It would be interesting for the Conservative Party to evaluate the fiscal imbalance and to take a position on the total transfer that should be made from the federal government to the provinces as a whole.

• (1535)

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

Ms. Rona Ambrose: Mr. Legault, what would be your recommendations for correcting the fiscal imbalance in all the provinces, across Canada?

Mr. François Legault: As I explained earlier, the increase in federal government spending should be limited first to its areas of jurisdiction, and then add a rate that represents the cost of inflation, that is to say approximately two percent.

That would free up surpluses of more than \$10 billion a year, which should be transferred to all the provinces.

So I think it's important that this flexibility be transferred to the provinces, which manage citizens' priorities, that is to say health and education.

Ms. Rona Ambrose: Thank you.

The Chair: Thank you, Ms. Ambrose.

Mr. Bell.

[English]

Mr. Don Bell: Thank you.

Welcome. I enjoyed hearing your points of view.

You talked about two things. One, you made a statement, as an example, about the government's investment decisions. I think you referenced it saying that some of these are not important to Quebec. You were talking about money into defence rather than into health and education.

One of the areas that became clear to me was that defence, for example, needed more money, with the state of our military, not in terms of the U.S. kind of model of an offensive force but as both a crisis force—peacekeeping, if you want to call it that—and a force with the ability to serve Canada in the case of a civil emergency.

It's a question of priorities. Anybody who does a family budget knows that you have to provide for a variety of things. I'm just asking, do you not feel that defence is something that's clearly in the federal government's area of responsibility? You've been suggesting that the feds stick to their area of responsibility. Then I hear you saying, well, they shouldn't be putting money into defence but into health and education, which, on the other hand, you're arguing are provincial areas of responsibility. Therefore, I am assuming you're suggesting that we just transfer more money: rather than putting money into defence, we should just give more money to the provinces.

Is that a fair statement?

[Translation]

Mr. François Legault: I'm not saying national defence is of no interest. I'm saying that, if Quebeckers had the choice tomorrow morning between investing more money in health and education and investing more money in national defence, I'm convinced the vast majority of Quebeckers would prefer to invest in education and health. Obviously, that doesn't mean we'd ask the federal government to come once again and invade an area of Quebec's jurisdiction. As I said earlier, we'd ask that the fiscal flexibility in Ottawa be transferred to the provinces, including Quebec, so that it could invest in the top priorities of Quebeckers. I firmly believe that the priorities for Quebeckers should be health and education first, well ahead of national defence.

The problem is that Quebeckers are unable to choose their priorities because of the fiscal imbalance, because of the fact that the Quebec government has no fiscal flexibility and that all fiscal flexibility is in Ottawa. Ottawa establishes its priorities based on the priorities and values of Canadians as a whole, not those of Quebeckers.

[English]

Mr. Don Bell: I'd suggest that what I've seen is that clearly the priorities of health, education, and child care have been identified by the federal government, and are being addressed. I think you're suggesting that those priorities are better addressed by the provinces, but they are the high priorities: the health accord, the money into child care particularly. I think there's more we could be doing in the area of post-secondary education, with maybe a different approach to dealing with it, but certainly child care and health care are top priorities of government. I've heard that in the committees—

• (1540)

[Translation]

Mr. François Legault: The health and education systems are currently under-funded. Quebec's health spending is rising faster than the Quebec government's revenues as a whole, and, despite increased health transfers from the federal government last fall, the total increase in federal government transfers is distinctly inadequate to enable the Quebec government to fund health properly. As long as health and education are not properly funded, I believe the vast majority of Quebecers would prefer that their money, half of which is sent to Quebec City and half to Ottawa, be used to fund health and education properly before investing in defence.

[English]

Mr. Don Bell: Do I have more time?

The Chair: Thirty seconds.

Mr. Don Bell: Okay.

You talked about a 2%, or rate of inflation, cap in terms of spending. Are you suggesting that as a general...? Clearly, there are areas that because of changing circumstances—an aging population, the demographics—require a shift in spending, and at times a government has to spend in certain areas greater than it might choose to spend otherwise, to meet the needs of the people.

Would you not agree with that?

[Translation]

Mr. François Legault: If I remember correctly, total federal government spending has increased by five to seven percent per year, which is greater than the inflation rate. In my opinion, that's poor management, in view of the fact that Ottawa doesn't have the structural problem of increasing health expenditures, since health is a provincial jurisdiction. I believe it's only transfers to the provinces that haven't experienced sharp growth. In the past 10 years, transfers to Quebec have risen only 5.8 percent in total, while Quebec's needs have increased much more.

The Chair: Thank you, Mr. Bell.

Mr. Legault, before handing over to Mr. Côté, I'd like to point out to you that Mr. Audet told us this morning that the federal government's health contribution would represent more than 20 percent in the next two years. We've previously had a contribution in the order of 50 percent of health costs. You were also Minister of Education. You referred a little earlier to the catch-up for health, but not for education. This morning, however, we learned that, according to the Department of Finance, the federal government is funding only 11.5 percent of the costs of the post-secondary education system. Consequently, I imagine there must also be some catching up to do in education. In your view, what should that contribution be so that enough catching up can be done to restore the system?

Mr. François Legault: First, you have to understand that, in education, the annual increase caused by inflation is approximately 3.5 percent, due in part to growth in the universities and increased occupational training needs. With regard to system costs, it's about 3.5 percent.

As regards the necessary catching up and development in education, no documents have been prepared, as was the case in

health. In my humble opinion, the necessary catch-up figure would undoubtedly be between \$500 million and \$1 billion. We agree that \$375 million a year must be added to fund the universities in a manner that is competitive with what's being done in the rest of Canada. If we want to wage an effective fight against dropping out at the primary and secondary levels, \$400 million or \$500 million should definitely be added. If you add that to continuing and occupational training needs, approximately \$1 billion would be necessary for catch-up or development purposes.

So there are major education and health needs, and they take priority over the sectors where Ottawa is choosing to spend.

The Chair: Thank you, Mr. Legault.

Mr. Côté, you have five minutes.

Mr. Guy Côté: Thank you, Mr. Chairman. Thank you for your presentation, Mr. Legault.

You unfortunately witnessed the federal government's withdrawal in its transfers at first hand, and you experienced its effects as Minister of Education and Minister of Health and Social Services.

In the past two months, the subcommittee has conducted a cross-Canada tour which is almost over. In all the provinces we've visited, the fiscal imbalance is a reality, which is experienced in various ways, but which definitely exists. If there's one common point in the majority of presentations that were made to us, it is an admission of failure. Of course, many of our witnesses haven't come to that conclusion, haven't cross the Rubicon and aren't talking about failure. They talk about the need to continue these often fruitless negotiations. You'll hardly be surprised to hear that, like you, I believe that sovereignty is ultimately the solution to fiscal imbalance. We often heard that — although it wasn't named — in the various testimony we received.

That said, as you mentioned, Quebec is still a part of Canada and we must ensure that Quebecers' taxes are managed in the best and fairest way possible. That's why we're looking for short-term solutions to this imbalance.

Apart from the two percent increase limit, you mentioned the GST transfer to Quebec, saying that's undoubtedly the way to go because it would permit more accountability and greater income predictability for the government.

This morning, Mr. Taillon said — perhaps out of political realism, if I can use that expression — that transfers of tax points would provide the Quebec government with appreciably the same amounts of money and that that would be a more realistic solution in political and bargaining terms. I'd like to have your impressions on that subject.

• (1545)

Mr. François Legault: Thank you, Mr. Côté.

First, I absolutely agree about this admission of failure. Since a federalist government entered office in Quebec City two years ago, the fiscal imbalance has risen from \$2 billion to \$2.7 billion. We're not headed in the right direction: the fiscal imbalance is increasing instead of decreasing.

As regards the choice between GST and tax points, the Commission's work on the fiscal imbalance was highly revealing. When you look at revenue increases over the next few years... We have a problem of fiscal imbalance today, and we know that this fiscal imbalance will increase in the coming years. Why? Because revenues are increasing faster than expenditures in Ottawa, while the opposite is occurring in Quebec City. As a result of health, expenditures are increasing faster than revenue.

Some way has to be found to maximize the growth of income recovered. I believe that all specialists will say that the forecast growth in GST revenue is greater than that of income taxes. This is one of the advantages of the GST. The other advantage is that Quebec is already collecting the GST. When you add the amount of current transfers made by the federal government to the fiscal imbalance — which we want to resolve — you arrive at a total very close to the amount of GST remitted to Quebec City, but sent to Ottawa every year. You would thus be killing two birds with one stone. That's why we think it would be preferable to transfer the GST rather than income tax.

Mr. Guy Côté: I'd simply like to mention that the subcommittee will have to table its report no later than June 2, 2005. In the meantime, I hope we can examine your paper on the balance between what the Quebec government receives from the federal government and what it pays to the federal government. That could be highly instructive.

Mr. François Legault: I can't wait either. That document should be tabled in the next few weeks. We'll be able to analyze, in a highly detailed manner, the revenue that Quebecers send to Ottawa every year and the spending done by the federal government in Quebec, as well as the share of the federal debt that would be assumed by a sovereign Quebec. I believe that will result in very interesting discussions that will confirm that Quebec sovereignty would resolve the fiscal imbalance and that Quebecers could then rely on additional fiscal flexibility to better fund the health and education systems, among other things.

● (1550)

The Chair: Thank you, Mr. Côté.

Ms. Wasylycia-Leis, you have five minutes.

Ms. Judy Wasylycia-Leis: Thank you, Mr. Chairman. Thank you for your presentation, Mr. Legault.

First, I want to address the issue of equalization because that program is really in a situation of crisis. This problem must be solved immediately because we've just learned that the federal government is negotiating a special agreement with the Province of Ontario. I think that may aggravate the problems of this program.

Today it was recommended to us that the existing agreement be abandoned and that we return to the standard of 10 and include income from all sources, particularly from natural resources.

Is the Parti Québécois also recommending that? Is there a difference of opinion between the parties here in Quebec? Has the National Assembly adopted a unanimous position on this?

Mr. François Legault: I believe that our greater concern in the Parti Québécois is to monitor changes in transfers as a whole, in respect of health, in respect of equalization and in other respects. We

had a painful experience in 2003, when, in particular, the election was held here in Quebec. On the one hand, we reached an agreement with the federal government that increased health transfers, but, for 2003-2004, transfers in respect of equalization declined from \$5.1 billion to \$2.9 billion. The increase in health transfers that we negotiated with Ottawa was thus more than nullified. The reduction in equalization transfers was larger than the increase we were granted for health.

So I think that, next time, we'll have to agree on transfers as a whole. There's no point in giving us something with one hand, then taking more away with the other. In that way, Quebec loses out. In 2003-2004, we thus found ourselves in a situation in which total transfers from the federal government to the Quebec government were reduced, despite the new agreement on health that Bernard Landry had negotiated.

So we need to look at all transfers. The federal government currently sends the Quebec government some \$9 billion a year for all items; those transfers should be increased by \$2.7 billion.

I think piecemeal negotiations are too dangerous. We have to look at all transfers. In my opinion, whether it be one item or another, the important thing is that total transfers be increased.

As I said, the ideal would be for total current and requested transfers to be permanently handed over to the Government of Quebec by means of a GST transfer instead of being renegotiated every year.

Ms. Judy Wasylycia-Leis: I understand your answer, but how can we make changes to the equalization program? We have a committee of experts, and the federal government says it's looking for a solution. The Council of the Federation is also looking for a solution.

How can we come up with a solution?

● (1555)

Mr. François Legault: I'll repeat my answer.

We of the Parti Québécois believe that total transfers must increase and even be permanently transferred to the GST. We don't believe we should have to negotiate each part of the equalization calculation method on a piecemeal basis. We think the entire GST taxation field should be transferred from Ottawa to Quebec City. That would resolve the fiscal imbalance and enable the Quebec government to fund its basic health and education services properly.

Ms. Judy Wasylycia-Leis: Thank you.

The Chair: All that's left is for me to thank you, Messrs. Legault and Gibeault, for your presentation. Thank you for your contribution to our work.

We are hoping to find recommendations that will resolve this issue. Of course, we're doing a tour of Canada. Everyone to date has agreed that there is a fiscal imbalance, but recommendations to correct the imbalance are not entirely the same. There may be a common thread. We saw that in 1964, at the Conference of First Ministers, where there was a transfer of tax points to the provinces that wished it. Quebec was the only one that accepted. A similar solution might solve the problem. Your remarks have enlightened us further.

Thank you very much.

Mr. François Legault: And I thank you.

The Chair: You've made a very good contribution. Thank you and goodbye.

We'll now take a 10-minute break.

• (1620)

The Chair: I want to thank Mr. Dupuis, Vice-President of the FTQ, and Ms. Audet, Advisor to the FTQ, for contributing to the work of the Subcommittee on Fiscal Imbalance.

As you probably know, we have to prepare a report before June 2. It will be tabled in the House of Commons. The report will have to make recommendations to the federal government to correct the problem of fiscal imbalance on a sustainable basis.

You have 15 minutes to make a presentation, then we'll go around the table with representatives of all the political parties represented in the House of Commons. Thank you for being here, Mr. Dupuis. The floor is yours.

Mr. Pierre Dupuis (Vice-President, Fédération des travailleurs et travailleuses du Québec): Thank you. I want to thank the committee for inviting the FTQ to express its point of view. As you said, I'm here with Ms. Monique Audet, an economist at the FTQ, who did a lot of work on this issue last year, and who is still monitoring it closely today.

On behalf of the 550,000 members represented by the FTQ, I want to thank the committee for this opportunity to address a question that seems, at first glance, reserved for tax experts, but that in fact has a major impact on everyday life.

It won't be news to you that the governments of the provinces, and that of Quebec in particular, are less and less able to bear the financial burden of their constitutional responsibilities with regard to health, education and social services. Need you be reminded again that our organization is concerned with the defence of public services, and their quality, accessibility and universality?

We can't continue much longer down the dead-end road the federal government has taken of always further reducing its share of funding for the provinces' social expenditures, encroaching on their jurisdictions and displaying uncommon arrogance by imposing standards and conditions of all kinds on its cash transfers. That's not including its improvisations, piecemeal action and botched work.

When you know that the federal government funded 50 percent of social spending scarcely 25 years ago, and that it funded less than 12 percent in 1999, you may think that, behind all that, there is a clear will to strangle the governments of the provinces, all of which are facing exploding social program costs at the same time.

We wouldn't want to take advantage of the fact that the federal government is enjoying exceptional economic conditions and accumulating major surpluses to demand a substantial, ad hoc increase in cash transfers. That would resolve nothing over the long term. It would leave us open to the economic consequences of unforeseeable events.

A stable and sustainable solution must be found. In our view, under the present constitutional framework, it can only take the form

of a transfer of tax points. I'm going to come back to this in a few moments, but I'd first like to return to a historical point that has struck us.

We were used to thinking that sovereigntists were the only defenders of Quebec autonomy and specificity. In the brief that we submitted to the Séguin Commission in 2001 — I gave a few copies to the Clerk — we took the time to do a fairly lengthy historical review to remind our members that all governments were unanimous on this issue and that the federal government was continuing to intrude in our affairs.

Quebec has managed some hard-won progress in the past, such as the creation of the Quebec Ministry of Revenue, the loans and scholarships system, the Quebec Pension Plan and the Quebec health insurance plan. Since 1970, however, gains have been rare, federal encroachments have multiplied and the fiscal imbalance has worsened, to the point where, as journalist Michel Vastel has put it, the provinces are gradually becoming “regional service distribution centres”, and their fiscal flexibility is simply disappearing. We must therefore take serious action.

First, we should recall our historical principles. The Government of Quebec must, once again, reassert its autonomy and demand that the federal government respect the exclusive areas of provincial jurisdiction and recognize Quebec's unconditional right to opt out of any new or amended program with compensation in the form of tax points.

Second, we must find a sustainable solution to the problem of fiscal imbalance. We at the FTQ think that the Canada Health and Social Transfer must be restored to the level where it stood before the 1984-1985 cuts, when the federal government's funding share was 23 percent. We're still far from the 50 percent level of the 1970s.

The provincial premiers have unanimously requested that the Canada Health and Social Transfer be restored to 1993-1994 levels, that is to say approximately 18 percent, but, with the coming explosion of costs, particularly in the health field, we don't think that will be enough.

We want a stable and sustainable solution. With a realistic schedule, we can demand that the Canada Health and Social Transfer be restored to 23 percent of the provinces' expenditures and that the transfer be made in personal income tax points. We think it is up to the Government of Quebec to collect the necessary funds for high-quality social programs through direct taxation.

•(1625)

Health care costs in Quebec increase by some seven percent a year. That's more than the increase in this province's revenues, which is roughly three or 3.5 percent. We don't see how this percentage can fall in future. We're aware of the generational curve; we know that there will be increasing numbers of seniors and that that will hurt workers. We acknowledge that seniors may be better off than our parents or than people who are currently retired. We nevertheless think we must have the resources to introduce programs, not necessarily to hospitalize these individuals, but to enable them to stay at home and receive home care. The most economic arrangement for the provinces should be considered. To achieve these objectives, we should have funding equal to that of 1984-1985, which would absolutely require tax transfers.

As regards equalization, we know that a number of studies are currently under way and that various specialists have outlined their position on this point. For the moment, we don't want to take a position on this issue, but, in light of what we know, we obviously agree that the equalization ceiling should be raised and that payments should be raised in accordance with real GDP growth. We also think that a redefinition of standards should take into account the relative poverty of the provinces.

Lastly, the work we have done thus far has shown us the extent to which the issue of the areas of jurisdiction and taxation of the provinces and federal government is complex. Legal, economic, budgetary and administrative issues are involved. We think that the appropriate authorities should develop a detailed picture of the respective fields of taxation and of what the federal government has taken over, so that we can define what should fall within Quebec's field of taxation and make the necessary recommendations.

For example, I believe that nearly 50 percent of federal revenues come from personal income tax. In Quebec, that percentage is much lower. Its field of taxation is much more focused on corporations. Furthermore, when we request a tax transfer, it applies to personal income tax in particular. In view of the demographic situation that is already developing and that will be accentuated in future, we are defending these positions before your committee in the hope that you'll be able to make the appropriate recommendations to your colleagues in the House of Commons.

•(1630)

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

We'll now do a first round.

Mr. Bell, you have five minutes.

[English]

Mr. Don Bell: Thank you.

Welcome. One of the issues I asked some of the other presenters about was the role of the federal government, and you talked about moving into areas of provincial responsibility.

In the area of health, for instance, or in the area of child care programs—Quebec's program is exceptional, and I acknowledge that it's in fact above the standard—do you think there is value in having national standards that are encouraged, if you like, by federal participation, or federal bonusing, I guess, for meeting minimum

standards across Canada for various provinces? You may be speaking from strictly a Quebec perspective, but I'm wondering about the broader picture.

Finally, you mentioned 550,000 members. Are these small businesses, or SMEs, small and medium-sized enterprises? Who are your members?

[Translation]

Mr. Pierre Dupuis: The FTQ represents workers from all economic sectors. Most of them are in the private sector: metallurgy, aircraft plants and numerous manufacturing industries, including textiles and clothing.

[English]

Mr. Don Bell: These are workers, then? I'm sorry, I'm getting the translation wrong. This is union...?

Mr. Pierre Dupuis: Yes.

Mr. Don Bell: Okay. That answers my question.

[Translation]

Mr. Pierre Dupuis: We also represent people from Quebec's public and para-public sectors and federal public servants living in Quebec.

[English]

Mr. Don Bell: All right.

My other question to you was on the role of the federal government in sort of encouraging minimum national standards, that there be a floor rather than a ceiling in certain areas.

[Translation]

Mr. Pierre Dupuis: On this point, we're saying that we think the federal government should transfer tax points so that we can shoulder our responsibilities. Furthermore, we don't want to be restricted by standards to the point where we're unable to meet real needs. Although needs may be relatively similar from province to province, there are distinct characteristics in each. The provinces must have the resources to adjust to the real needs of their populations. Quebec is definitely one of the provinces with the lowest birth rate in Canada. A great number of baby-boomers will retire here in a few years. We think action has to be taken in that regard. Our responsibilities are increasing.

There are committees in Quebec that are trying to determine how to react to this. They include representatives of the provincial government, unions and the world of business. People from all groups in society are working on them. I, for example, represent the FTQ on the task force for the sustainability of Quebec's health and social services system with the Charest government. We're trying to find ways to adapt the health system. We've carefully studied federal health standards. We don't agree with those standards; we disagree with the restrictions they may place on us. I believe the federal government can establish goals and objectives, but we think that, from the moment it normalizes matters, it creates restrictions. We entirely agree that there should be measures to ensure that money is used for the purposes for which it is intended, but not with excessive restrictions.

•(1635)

[English]

Mr. Don Bell: The other issue is with the workers that you represent. Can you tell me, with the shifting demographics, are you finding there is a shift towards less educated workers, or towards less pursuit of academic professions, and a need for skills training assistance? And do you think that should be coming from the federal government?

[Translation]

Mr. Pierre Dupuis: The federal government clearly has a role to play at a number of levels. Last week, the FTQ asked the federal government to intervene to ensure that transition measures were taken in the clothing and textile industry. If no measures are taken now, that industry will disappear. Quebec has 55,000 workers in this sector. We're aware of the Asian competition in the industry.

The United States, which is enormous and powerful, has set protection standards. There are no standards here. We think the federal government should intervene in this area. Making speeches isn't enough to adapt to the new realities of globalization. We also have to find concrete ways of getting people to act.

I won't tell you about other sectors where we've lost a lot of jobs. I'm not saying it's the federal government's fault, on the contrary. We're thinking of softwood lumber. People who work in forests have lost a lot of jobs. How could we take action with the Americans? I think you're in a better position to answer that question than I. Once again, that's a field where the federal government could exercise pressure.

Unfortunately, I recently read that, although Quebec is a major aluminum producer, there are fewer and fewer processing businesses. What can be done? We have to think of ways so that this material, which is produced in Quebec can also be processed here.

There are lots of areas. When you help workers, you help society. The more people work, the more taxes they pay.

As you know, 42 percent of people of working age in Quebec do not pay taxes. We think that figure is very high. It's rising from year to year, not falling. We especially don't need employers that pay such low wages that their employees don't pay taxes, or employers who get their supplies from Asian countries and don't produce goods in Canada or Quebec.

The Chair: Thank you.

Mr. Guy Côté: Thank you, Mr. Chairman. Mr. Dupuis and Ms. Audet, thank you for your presentation.

You referred to regional identity and service suppliers, particularly when you cited Michel Vastel. In so doing, you outlined a certain dynamic that exists within the federal government. You often get the impression that, in the federal government's view, the provinces are in fact governments of a lower order, and that's why it's important to ensure there are standards that must be met. In the federal government's logic, those standards must be set by the government of a higher order.

In the past two months, the subcommittee has been touring Canada and looking for solutions to the fiscal imbalance. Thus far, a certain number of solutions have been advanced: tax transfers, GST

transfers, increased transfers in health and education, an in-depth reform of equalization, and so on. Your brief refers to the importance of the right to opt out with compensation in the form of tax points.

I'd like to get a clearer understanding of what you're proposing. Let's imagine, for example, that the federal government is preparing to invest a certain amount of money in social housing. Let's suppose, for the purposes of this example, that this action is not consistent with Quebec's needs. We could ask, in this specific area, that there be a transfer of tax points corresponding to a certain amount. Subsequently, perhaps in two months, six months or a year, we would repeat the same process in another field, such as health.

Do you prefer that we operate on a case-by-case basis or that there be a comprehensive transfer of tax points? For example, we could waive the health transfer in favour of tax points of a certain value.

•(1640)

Mr. Pierre Dupuis: I'll let my colleague add her remarks, but first I would say that we theoretically want fairness to be restored based on what previously existed in health care. Without reaching 50 percent of expenditures, we would like the federal government to grant at least the equivalent of 23 percent of the cost of health care or transfer tax points. This shouldn't be renegotiated every year; we should subsequently be able to survive. That's our first request.

Our second request concerns specific programs. Your example is a good one. I can even file it under the heading of health care, since social housing includes families and seniors. One of the ways of containing the gradual increase in health costs is to have social housing for seniors enabling them to remain independent for longer periods of time. That housing can include, for example, a cafeteria and an infirmary, with a nurse. People are not left to their own devices. Rather than go to the emergency ward, they call a nurse, who is on site. There are enormous possibilities.

I think there must be a transfer of tax points. We're developing these promising solutions, not just to extract money from the federal government, but, on the contrary, to try to rein in increasing health costs. From our experience, when you leave people alone in their homes, often one of the spouses disappears. We are aware of many cases in which drugs are mixed up and so on. Some are suffering from depression as a result of a lack of motivation or stimulation. On the contrary, when these people are in a better organized residence, they maintain their private lives by having an apartment, but they can consult a nurse and meet their peers in the common rooms. If they don't have enough energy to make their meals, they can nevertheless go and eat.

I believe there can be transfers of tax points related to these specific programs, but I still come back to my initial idea. Monique, I don't know whether you want to add anything.

Mrs. Monique Audet (advisor, Fédération des travailleurs et travailleuses du Québec): I don't know whether this is clear, but the 25 percent portion we're claiming should cover health care, education and social programs, as it used to be.

It's understood that ad hoc programs would be studied on a case-by-case basis. We don't think we need a few more tax points for each little program, points that would have to be given back once the program was over.

We're seeking a return to stable funding in the order of one-quarter of provincial revenues, changing on the basis of economic conditions. Subsequently, as has happened in the past, for example in the case of the Canada Millennium Scholarship Program, Quebec could demand a right to opt out. I think the important thing is that Quebec have the power to opt out of each of these programs with compensation. What form should that compensation take? That would have to be defined on a case-by-case basis.

The Chair: Thank you.

Ms. Wasylycia-Leis, please.

Ms. Judy Wasylycia-Leis: Thank you, Mr. Dupuis, Ms. Audet and members of the FTQ. This presentation is very important in the context of our discussions.

The question that interests me is the question of resolving the cash transfer imbalance. On this point, you recommended that the government restore the 1993 level...

•(1645)

Mrs. Monique Audet: We were talking about 1983.

Ms. Judy Wasylycia-Leis: But the Quebec government's documents state that the level that year was 26.8 percent. Is that what you want to achieve as soon as possible?

Mrs. Monique Audet: Yes.

Ms. Judy Wasylycia-Leis: You stated 23 percent in your document, but that's the 1993 level, not the 1983 level.

Mr. Pierre Dupuis: With your permission, I'll try to clarify that.

The first ministers have requested 18 percent, which was the 1993-1994 level. Our approach is more realistic. We feel that we should go back to the 1984-1985 level of 23 percent in order to cover the actual costs of health and education so that Quebec can develop in that area.

Ms. Judy Wasylycia-Leis: All right, but whatever the case may be, it appears here that we have to re-establish a more balanced level on both sides.

Mr. Pierre Dupuis: Yes.

Ms. Judy Wasylycia-Leis: Perhaps we should arrive at a 50-50 distribution. That's the long-term goal.

[English]

That's the long-term goal, right?

At any rate, how do you get there? That's the question.

[Translation]

Are you in favour of the idea of increasing education and social programs transfers, in addition to raising health transfers, or do you recommend a transfer of tax points, GST or something like that?

Mr. Pierre Dupuis: In our opinion, it should be done in the form of tax points. Based on the data we have for 2001-2002, we can calculate that, with a figure of 23 or 24 percent, the transfer would be \$2.5 billion. So we're talking here about \$50 million a week, which represents approximately one dollar per taxpayer per day.

The federal government has surpluses far bigger than that. We don't think this would require it to borrow; we'd only have to transfer points. As a result of that, its surpluses would not be as large at the end of the year. We're not asking the federal government to go further into debt, but rather to transfer points. Without wanting to be sarcastic, I'd say it can afford to do so.

[English]

Ms. Judy Wasylycia-Leis: Let me ask my second question in English, because it gets a little difficult for me at this hour of the day.

Mr. Pierre Dupuis: Okay.

Ms. Judy Wasylycia-Leis: I might end up saying something like "put more money into patronage", which would be a big mistake, wouldn't it, especially today.

So your emphasis is on the transfer of capacity in tax points as opposed to the actual transfer of cash.

Mr. Pierre Dupuis: Yes.

Ms. Judy Wasylycia-Leis: I hear where you're coming from, but it's a position I have some concern with, just because of the ramifications it has for some semblance of national programs in the areas of health and education and social services. I'm wondering if we could convince the federal government to significantly increase its cash transfers and earmark them in terms of a specific education investment program, a health investment program, with acknowledgment of the uniqueness of Quebec and the distinctiveness of this province, allowing for separate arrangements vis-à-vis the administration of those funds. Could you see yourself supporting such an approach?

•(1650)

[Translation]

Mrs. Monique Audet: I don't think we would, in principle, support that kind of approach because the history of the past 50 years has shown us that, when the federal government decided to act that way, it proceeded unilaterally. For example, it decided to transfer health and education payments into a single, block amount determined unilaterally.

Earlier you mentioned that the last amounts granted equalled 26 percent. These things might ultimately be short-lived. They might change from one year to the next depending on how the federal government sees fit. We're saying that health, education and social programs belong to the provinces. So it should be left to them to spend the tax money as they wish on health, education and social programs.

The federal government has defined the major principles for health. In Quebec, at the FTQ in any case, we share those major principles. Furthermore, we've requested on a number of occasions that the Quebec government itself include these major principles of universality, accessibility and so on in the Quebec legislation. However, once these principles are recognized, it remains for us, as a responsible province, to take the necessary measures to ensure they are applied. For us, that means a minimum of 23 percent of revenues translated into tax points.

The Chair: Thank you, Ms. Wasylycia-Leis.

Ms. Ambrose, you may ask one final question.

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

[*English*]

I just want to apologize for missing your presentation, but I can assure you that I did a great deal of reading about your organization and the things you've said in the past.

In particular, I want to raise the fact that last March, in 2004, the FTQ argued that the budget didn't do enough to address the fiscal imbalance. You noted particularly that, while the federal government demonstrated fiscal prudence, in your words, it was at a time when the provinces had enormous needs, especially in the areas of health care and education, and that Ottawa was not doing enough to help the province of Quebec. I note also that you criticized the equalization program, and this year, in your critique of the budget, you said many of the same things. You also were critical of the fact that the federal budget did not go far enough to address employment insurance.

I wonder if you would comment on some of these aspects, in particular the employment insurance aspect, from your perspective.

[*Translation*]

Mr. Pierre Dupuis: As regards employment insurance, we believe that the employment protection system has been eroded in the past few years. Benefits have been cut and requirements raised. Without going back to the old days, we think there should be a return to the past.

Whether we like it or not, we're in a society where groups hold seasonal employment. The program isn't at all adapted to this right now, or else it is so demanding that people receive very little. In our view, the first principle should be that employment insurance money should be used solely for employment insurance. Second, we should ensure that employment insurance is accessible to the largest possible number of unemployed workers for the longest period of time.

The Chair: Three reports have been signed in the past five years by all the members of all political parties, recommending changes, not in order to go back to the old system, but at least so that more than 40 percent of workers can receive unemployment insurance, when everyone is contributing to it.

Ms. Ambrose, pardon me, I simply wanted to make a comment.

Ms. Rona Ambrose: Thank you.

The Chair: Have you finished?

• (1655)

Ms. Rona Ambrose: Yes.

The Chair: Thank you very much.

Do you have any other questions? No?

Thank you, Mr. Dupuis and Ms. Audet. I'm having trouble with your name because we heard a Mr. Audet this morning.

Mr. Pierre Dupuis: That's the minister.

The Chair: Yes.

Mrs. Monique Audet: We're not related.

The Chair: Thank you very much for the FTQ's participation. Thank you very much for providing us with some food for thought. Have a good trip back, and be careful.

Mr. Pierre Dupuis: As I told you, our presentation was brief, but we gave the Clerk the full report, the one we presented to the Séguin Commission. It contains all the background and a lot of potentially relevant information for your committee.

The Chair: Thank you very much.

Mr. Pierre Dupuis: Thank you.

The Chair: We have two final witnesses.

I'm going to ask you something.

We're a little ahead of schedule. I know we have planes to catch, but Pierre-Laval Mathieu, a sociologist who has come specially from Montreal, has spent the entire day here. He had asked to appear, but our heavy schedule made it impossible to hear him. He is accompanied by Miss Cadieux-Mathieu, who is not yet a sociologist, but could well become one.

I gave them 10 to 15 minutes in all to tell us about a project that is dear to them, and they even presented their project to Paul Martin, the Prime Minister, in a private interview. Don't ask me how she managed to do that. With your permission, we'll allow them 10 minutes.

Welcome, Mr. Mathieu. Thank you for your patience and thank you for being here.

Thank you too, Léa. I believe you want to become an interpreter.

Mr. Pierre Laval Mathieu (As an Individual): Thank you sir. Thank you everyone.

We won't waste your time. We've all had a long day and we know you're very busy. We only want to instill a desire.

The Chair: We're listening.

Miss Léa-Cadieux Mathieu (As an Individual): Good afternoon.

The Chair: Good afternoon.

Miss Léa-Cadieux Mathieu: Thank you for receiving us.

We're here to present a project which is a solution to the fiscal imbalance.

It is a group health fund that could address the problem of Funds Canada. I would like to introduce my father, Pierre-Laval Mathieu, who will explain the rest to you.

Mr. Pierre Laval Mathieu: That's me.

Miss Léa-Cadieux Mathieu: He'll explain to you how the fund could eventually resolve the problem of the fiscal imbalance and improve the situation.

Mr. Pierre Laval Mathieu: The work instrument we've developed is the Fiscal Balance Card. We've been working on this for two years, with our limited resources. My older, 71-year-old sister signs the cheques every month. We're doing this reluctantly.

We went to see the Prime Minister of Canada last year, on February 16. This young lady had spent a day in an ophthalmic emergency room in Montreal. At the end of the day, we were told that we would be given a prescription and to come back in two days. We went home in silence, and we said to ourselves it wasn't a good idea.

The following Monday, the Prime Minister of Canada met with the social economy network, and Ms. Neamtam. This young lady was on a school holiday and we thought we should go.

So we wrote a letter to the Prime Minister and his director of communications, and we went to his office. The RCMP officers told us we weren't on the agenda and to stay outside. I answered that we were going to approach the Prime Minister's car and that, when we got there, this young lady would ask him a question.

So we were allowed five minutes with the Prime Minister, without a camera or protocol, and she asked her question.

You can ask it again if you want.

Miss Léa-Cadieux Mathieu: I asked him why we waited so long in hospitals. He told me it was a question of time and money.

Mr. Pierre Laval Mathieu: We're working on the money question. Why? You talked about tax points, the GST. We came to tell you about health points. It's no more complicated than that. We have our points too.

Mr. Audet appeals to the imagination; we have a little of that. The idea is to build a bridge between the generations, to enable this child to be able to afford to keep her father in a seniors home once I'm there so that I'm not completely dependent on her.

How would that work? It would be a health investment loyalty program. How long have taxpayers in Canada been told to save in order to be happier?

What we're proposing to you is that, each time a person spends \$100 in Canada with his health points card, \$3 would automatically be deposited in his name in a collective fund. The total amount in that fund would then be invested to improve public health care services.

Health Points Canada would be the first private company to make a massive investment in public services and to be held by Canadian taxpayers, because each person would have a share in the group fund.

As regards your problem in the process that has led you to listen to people across Canada suggests possible solutions to the fiscal imbalance, I suppose you never heard anyone suggest that fiscal

balance should first be achieved in taxpayers' wallets. Perhaps it could start there.

You're looking around you at what's going on right now. I figure it would be a good idea if money taken by Ottawa and Quebec City came back to us. If we want to improve things, we can do it fairly.

What does that mean? We need to repair and renovate the collective health care home we've been given. We're going to contribute to it. The group manager says there are repairs to be made, that we have to pay \$1 more in rent this month, but that he's going to give us back \$2 in rent that we're already paying to capitalize in order to renovate our collective health care building. We're going to have a piece of the health system. We won't take it to the grave; we're going to hand it over to our children when we die, without tax.

I wanted to give you an image. It's the end of the day. Take this image with you and ask yourselves whether it might not be a valid approach.

Mr. Loubier, Mr. Côté, this would work in any country: in Quebec, in France, in England or in Canada. It's the same. France has a \$13 billion health deficit. The cultural context is different, but, if the French adopted a savings solution such as this, it would work. We're prepared to sell them this idea, if you want.

We spoke to Mr. Ménard, Mr. Dupuis' colleague. Like you, he's supposed to propose to us a sustainable public service investment solution. In fact, that's what it's about. We're trying to decide who should have the tax base. This is nonsense! Can we stop for 30 seconds and ask ourselves whether we can work differently? This isn't a tax, Mr. Laurin. It's savings.

● (1700)

The Chair: You've already started the debate.

Mr. Pierre Laval Mathieu: It isn't a voluntary tax like the one before Loto-Québec, sir. It's genuine savings by individuals. Consider Mr. Legault's example. If the federal government limits its spending increase to two percent, which is the inflation rate, there will be \$10 billion. If the federal government is a cooperative, it will have a \$10 billion rebate to give us. Would it be possible to get that money back into our wallets, please? That in a way is what we've come to tell you.

The Fiscal Balance Card means fiscal balance in the wallets of Canadian taxpayers first. If that were possible, tomorrow morning, the provinces and the federal government would call all of Canada's financial institutions and tell them they have \$11 billion worth of tax rebates to give them to manage for the next 35 years. They would ask them if that suited them. They would answer: "Wait a minute. You're going to give us an additional \$5 billion a year in savings that Canadian taxpayers want to give you to manage to generate annual growth in the health budgets." There are figures: four or six percent, depending on how you see matters.

For the provinces, that would represent twice what they're currently requesting from the federal government in the form of repatriation of the GST, for example. Use whatever formula you want; that's not a problem. The idea is that, by adopting this model, we'd increase savings, we'd increase investment in health and we'd share the surplus with the federal and provincial governments in order to renovate our collective health care home. That's what this project means.

On September 15 last, we held a parallel conference in Ottawa while the first ministers and the Prime Minister of Canada were meeting. This child was with me. We held a conference at the House of Commons, and we invited those people to adopt an innovation like this one.

We continued our effort and have just invited Minister Audet, who appeared before you today, to found with us the Community of the Private-Public Partnership of Health Points Canada. Either building a private-public partnership means nothing, or it means something.

If the service is provided to the community, where is the problem on the left or right wing of knowing how pay increases will be offered or not or where the money will go? That's completely beyond the scope of the debate. The essential point is to show this child that we aren't swindlers, that we're here to give her the financial support she needs to take care of us, who have given her life. This girl isn't just \$31,000 worth of public debt. She is human potential, economic potential, that pays our wages, that pays for your energy. In addition, in the health points arrangement, you could see her as representing \$344 a year for 35 years. We're going to see a bank manager about this and ask him what she's worth.

• (1705)

Miss Léa-Cadieux Mathieu: One hundred and forty million dollars?

Mr. Pierre Laval Mathieu: Yes, perhaps. We have a figure here.

The Chair: How much?

Miss Léa-Cadieux Mathieu: Three hundred and forty thousand dollars?

Mr. Pierre Laval Mathieu: Perhaps. You can toss out figures. There were a number here as well.

Miss Léa-Cadieux Mathieu: Three hundred and forty thousand dollars. Who wants more?

Mr. Pierre Laval Mathieu: I was speaking with Glenn Roberts, of the Conference Board of Canada, on Friday night. He called me to see where we'd get the money. We're going to get it in Alberta, Madam, incidentally. We're going to call Ralph Klein and ask him to give some. Glenn Roberts came up with exactly the same figures as I did. We need \$5 billion to keep the Canadian health care system afloat. We take it out of our pockets. It can be one Canadian Tire point or one new dollars. I don't care. There are 700 billion uncashed air miles in frequent flyer programs around the world. Do the calculations to see how many there are in Quebec, and you'll see that I can invest in Health Points Canada instead of buying myself a toaster. You need 260,000 points for a coffee-maker at HBC.

I hope we've amused you. If you have any questions, we'll answer them.

The Chair: I have one to ask you, Pierre-Laval and Léa.

Mr. Pierre Laval Mathieu: Be careful with the figures.

The Chair: Excuse me?

Mr. Pierre Laval Mathieu: I told her to be careful with the figures.

The Chair: You made me lose my train of thought. I look a bit stupid, don't I?

Mr. Pierre Laval Mathieu: We're all tired.

The Chair: Earlier you started a debate with Alexandre.

Mr. Pierre Laval Mathieu: Yes.

The Chair: I agree that it's not really a tax levied by the government, but rather a kind of tax you levy on yourself each time you make a transaction.

Mr. Pierre Laval Mathieu: If you will. It's a contribution that can be a real saving. It depends on how you rationalize health management, incidentally.

The Chair: Yes, Léa?

Miss Léa-Cadieux Mathieu: I asked the same question too. He said we weren't forced to invest a dollar if we didn't want to, but that if we wanted to save in the health fund, we were entitled to do so.

The Chair: So you make yourself individually responsible for the future?

Mr. Pierre Laval Mathieu: We'll continue. Suppose the federal government has \$5 billion in tax credits or tax rebates to devote to this. The same amount is remitted to those who pay all the taxes and those who don't pay them all. Those who don't pay all the taxes may have an interest in selling us tax credits because you want to save on your taxes. In that way, they get 10¢ or 20¢ more to consume more. So there's an increase in tax revenues from consumption. For the segment of the population that pays no tax, there's an increase in overall purchasing power. Proceed which ever way you want. You can play both roles. For example, you can pay taxes because you prefer to consume this month. The financial institutions play the role of market agents responsible for managing the points.

That's the magic of Health Points Canada. You have a reservoir of savings. We are not talking about Hydro-Québec wanting to increase its rates, but about a reservoir of savings. We'll come back to that. Why pay \$5 billion more for those rates when you can allocate that money to health, education or public services? That's it.

When we talk to economists, they tell us that nothing's lost and nothing's created, that there is no free lunch. I tell them that we dress our children with this money, which isn't used to pay the hydro bill. In a family like ours, that represents \$1,500 a year. That isn't peanuts. It's very important to see how this kind of thing can count for the average person. In addition, contrary to what goes on now, everyone shoulders his own responsibilities. We tend to deny the validity of public action. However, we have to work to re-establish the community tie that binds us and enables us to solve this damned problem you've been talking about since 1954.

• (1710)

The Chair: It's 1956.

Mr. Pierre Laval Mathieu: Let's go back to Mr. Morin, if you will, or any other minister.

The Chair: It was 1956, the year of the Tremblay Report.

Mr. Pierre Laval Mathieu: Fine, all right: we've landed on the calendar number, as my mother used to say. Did your mother used to say that too?

The Chair: Pardon me?

Mr. Pierre Laval Mathieu: When my mother referred to a date, she used the expression "calendar number". My mother was old.

The Chair: Do my colleagues have any questions or comments?

Mr. Pierre Laval Mathieu: I hope we've amused you. Mr. Bell, don't forget what's just been said here. Report it all in British Columbia. Tell the people on the other side of the mountains that people from Quebec have found a solution. It's funny and different, and it can work.

The Chair: Thank you very much for this presentation and for the document. Thank you Miss Léa Cadieux-Mathieu and Mr. Pierre-Laval Mathieu.

Mr. Pierre Laval Mathieu: I scared Mr. Dupuis. We had intended to sing a song a bit later.

The Chair: Thank you very much.

Miss Léa-Cadieux Mathieu: Thank you, everyone.

Mr. Pierre Laval Mathieu: Good luck, have a good trip and thank you. It was a very enriching day in terms of knowledge. We had the opportunity to say what we believe. I saw a lot of adorable things. You're doing an excellent job.

The Chair: Thank you for your patience. That's particularly intended for Léa.

Miss Léa-Cadieux Mathieu: All right.

The Chair: Thank you very much for this great day of hearings.

The meeting is adjourned.

Published under the authority of the Speaker of the House of Commons

Publié en conformité de l'autorité du Président de la Chambre des communes

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