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## **Subcommittee on Fiscal Imbalance of the Standing Committee on Finance**

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**Chair**

**Mr. Yvan Loubier**

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Monday, April 18, 2005

•(0810)

[English]

**The Chair (Mr. Yvan Loubier (Saint-Hyacinthe—Bagot, BQ)):** Good morning, everybody. Welcome to the subcommittee on fiscal imbalance.

[Translation]

Welcome, Mr. Gerrard.

[English]

It's not the first time I have come to Winnipeg. Twenty years ago I came here for the Crowsnest Pass agreement debate. It was a very rigorous debate, and especially for a representative from Quebec City. I am sure it will be quieter today than it was at that debate.

You will have 15 minutes to introduce your opening remarks. After that we will have a question period with members of all the parties of the House of Commons.

[Translation]

Welcome, Mr. Gerrard. The floor is yours.

[English]

**Dr. Jon Gerrard (MLA and Leader of the Opposition (Liberal Party), Legislative Assembly of Manitoba):** Good morning. Bienvenue au Manitoba.

Let me begin by welcoming all members of the committee to our fair province. You are engaged in work that of course is very important to Manitoba and to Canada. Your efforts today, and across the country, may well lay the groundwork for the future approach to equalization and other questions of fiscal imbalance in Canada.

I speak to you as the leader of the Manitoba Liberal Party and as a provincial member of the Manitoba Legislature for the constituency of River Heights. I've been the provincial leader for six and a half years, and a member of the Legislative Assembly for five and a half years. In addition, I served as the member of Parliament for Portage—Interlake from 1993 to 1997, and as the Secretary of State for science research and development for that period, and for western economic diversification in 1996 and 1997. Thus, I can speak with some knowledge of both the provincial and the federal aspects of this situation.

In welcoming you to Manitoba, I take particular pride in the role of Stuart Garson, who was the Liberal Premier of Manitoba from 1942 to 1948, because he played an important role in laying the groundwork for our present system of equalization transfers. Garson was a lawyer with a particular flair for understanding finances. He

became the provincial treasurer, a position we would now call the finance minister, in 1936. It was during the Depression, and the finances of the Government of Manitoba were being stretched very thin to deal with the challenges of the day.

Shortly after his appointment as provincial treasurer, he persuaded then-Premier Bracken to allow him to ask Ottawa to investigate the state of Manitoba's finances, and to look at the need for changes in the existing federal-provincial relationship.

Ottawa responded by sending three young men from the research department of the Bank of Canada to Winnipeg in January of 1937. As Jack Pickersgill, who was involved from the federal side, later reported, this review by the Bank of Canada was really a watershed in the federal-provincial fiscal and intergovernmental relationships, which we're talking about today. The representatives from the bank from Ottawa were able to report back that the provincial government itself could do no more, and urgently needed interim financial assistance to bear the existing burdens and avoid repudiating its debt.

The review led to interim help for Manitoba, and was also pivotal in the establishment, in 1937, of the Royal Commission on Dominion-Provincial Relations. That commission was chaired to begin with by Chief Justice N.W. Rowell, and later by Joseph Sirois, and became known as the Rowell-Sirois commission. Garson prepared the Manitoba presentation to the Rowell-Sirois commission, and was involved in a whole series of negotiations over a number of years with the federal government and other provinces, which led to fiscal agreements between Manitoba and the federal government in 1942 and 1946, which really formed the precursor of the present-day system of equalization transfers.

Jack Pickersgill, who was involved at the federal level at the time of the negotiations, said the following of the situation and of Stuart Garson:

Out of the politics of Manitoba during the Depression, the political initiative came which resulted in the equalization of provincial revenues. Without equalization, Canada's unity might not have survived. More than any other public man, Stuart Garson deserves the title of "father of equalization" and the new dynamic federalism which has thus far spared Canada any return to "the winter years".

On another occasion, Pickersgill said:

After he became Premier of Manitoba, Garson's... constructive part in the federal-provincial conference on negotiations on tax sharing was more than once really decisive. Without a viable system of federal-provincial tax sharing and equalization it is hard to see how Canada could have escaped disintegration. This is why I feel Garson should be counted as one of the saviours of Confederation. Tax sharing with equalization is his greatest monument.

As a Manitoban and a Liberal, I take great pride in the role Stuart Garson played in the events that led to the setting up of equalization transfers that are currently so important to so many provinces in Canada. I believe all provinces, except Ontario, at one point or another benefited from equalization transfers. These transfers have clearly been particularly valuable for provinces like Saskatchewan, Manitoba, Quebec, and the maritime provinces.

• (0815)

For Manitoba, as an example, in the budget papers from this year we see that for the fiscal year 2004-05, which is just completed, equalization transfers from the federal government to Manitoba represented \$1,699,000,000, and for the same period, the total provincial revenues were \$8.2 billion. Thus, equalization transfers represented 20.7% of all provincial revenues for the 2004-05 fiscal year. There's no doubt that this is tremendously important in being able to provide services for Manitobans.

From the Manitoba perspective, I would like to emphasize three points. The first is that in some years there have been large last-minute changes in the amount of equalization funds received by the province from the federal government. For a province like Manitoba to have to make an adjustment near the very end of the year of \$100 million or more is not easy. Clearly there would be advantages to a system that provides a better perspective on the equalization dollars at the beginning of the year, or six months before the end of the year, rather than having to contend with numbers that fluctuate like this toward the end of the year.

Secondly, there have been concerns from time to time about the Manitoba budget in years when the economy is doing particularly well compared with other provinces. Unfortunately, we have tended to lag behind the rest of Canada in recent years, and that is one of the reasons we are needing and benefiting from equalization transfers. What I would say to you is that there is not a perfect way to reduce equalization transfers as a provincial economy improves, but I think this is an important issue for the committee to look at. We're seeing the effects of this in some other provinces at the moment. Clearly, for Manitoba, for example, if there were to be a major change in the equalization transfer system, and which had a drop in the revenues to Manitoba, then there should be a period of adjustment. If the Manitoba economy is doing particularly well, and the amount of money coming in from equalization falls dramatically, then we need to be able to make sure that Manitoba doesn't suffer, particularly because of sudden falls for whatever reason in equalization transfers.

Whatever system we have going into the future, some sort of an approach that allows a bit of a cushioning in times when the equalization transfers could be falling rapidly is important.

A third issue, which I would like to talk about in terms of equalization transfers, is some improved process for accountability in the spending of money received by Manitoba. Now, I think this accountability is important in order to improve the nature of discussions around the transfer and to ensure that the equalization transfer program continues. There clearly doesn't need to be a description of where every penny is spent.

I think it is important to reflect upon the 1982 Constitution, which says that equalization transfer programs are to allow provinces to achieve two goals. The first is to provide reasonably equivalent

services to citizens of Manitoba compared to other provinces. The second is to be able to have reasonably equivalent levels of taxation for Manitoba compared to other provinces.

I believe the equalization transfer program also has a third goal, which, though not stated in the Constitution, is implied in the program, and that is that Manitoba become a "have" province that no longer needs equalization transfers—and we clearly desire that.

So an important part of the accountability a province should provide to its citizens is an explanation of how the equalization transfers are being used to achieve these three goals. Another part of the accountability the provincial government should provide is a brief accounting of the use of equalization funds—as an example, so much for health care, so much for education.

In a sense, all that's really needed is the amount of equalization transfers allocated to each provincial department budget. I don't believe it's necessary to go further, but I do think that a modicum of accountability is needed. Let me give you an example why. Several years ago the Government of Manitoba advertised widely that it was receiving only 14% or 16% of the funds for health care from the federal government. This number was based on the specific transfer from the federal government for health care and it didn't include any of the equalization transfers.

• (0820)

The number presented then was based on the fact that not a penny of the hundreds of millions of dollars transferred to Manitoba as part of equalization transfers was used for health care. That's ludicrous, because a significant amount of the money from equalization transfers is in fact being used for health care. To those who were aware of the facts, it was quite clear that the NDP government of Gary Doer was making kind of a laughingstock of itself in trying to suggest that the federal government contributed only 14% or 16% to Manitoba's health care spending.

Significant amounts of the equalization money clearly was going to health care, but the lack of acknowledgment created a situation where there was a debate back and forth. That debate served nobody well, as people were throwing around numbers here and there. It only served to undermine the credibility of what people in the political realm were saying. So I think honesty and clarity in the numbers is going to be important in terms of having a program that works.

Another example would be in terms of construction of highways. For many years, Manitoba governments have indicated that the amount spent on road construction is roughly equivalent to the amount of provincial fuel tax raised. This position is now part of the legislation. The position of the province essentially has been that not a penny of equalization transfers from the federal government is being spent on building highways. This is a choice of a particular government, and that's fair, but to have accountability, it's important that we see which departments are benefiting from the transfers and see how this matches with the constitutional requirements that the money be used to ensure roughly equivalent levels of service and roughly equivalent levels of taxation with other provinces.

I think the improved accountability is going to be important to the future of the program. It's important to all provinces and to the federal government. I think it's important that Manitoba citizens have that accountability.

There are, of course, a variety of other federal programs, besides equalization transfers, that are designed to address fiscal imbalances, but rather than talk about these I would stop here so that there's time for members of the subcommittee to ask questions.

[Translation]

**The Chair:** Thank you very much, Mr. Gerrard.

We're going to start. You're very disciplined. It's obvious you're from Ottawa as well.

[English]

Madam Smith, for the first five minutes.

**Mrs. Joy Smith (Kildonan—St. Paul, CPC):** Thank you, Mr. Chair.

Could you elaborate on your comment about accountability a little bit more concisely in terms of your recommendation that a general accounting would be that  $x$  number of dollars go to individual departments? Would you not want a clearer outline of where those moneys went within those departments?

**Dr. Jon Gerrard:** No, I don't think we would benefit from going further than that.

I think there does need to be a general statement of the use of the moneys and how they are meeting the objective of providing reasonably comparable services, the objective of reasonably comparable levels of taxation, and the third objective, which I believe is implicit in the program, that we have a desire to become a "have" province and how we're achieving that.

**Mrs. Joy Smith:** As a follow-up to that, when you use words like "reasonable", I'd like to see more quantitative kinds of numbers. When you say that often in a province or in a country these numbers are bantered around, having a mathematics background myself, it makes me a little uncomfortable. When you talk about reasonable levels of taxation and the impact on the public, could you expand on what you're saying about "reasonable"? What does that mean to you as the leader of the Liberal Party?

**Dr. Jon Gerrard:** Well, "reasonably comparable levels" of services and taxation is basically the phraseology in the Constitution, so the word "reasonable" is there. I think that in the accountability process there is the ability of the province to explain what is

"reasonably comparable", although different political parties might have different perspectives on that.

We have relatively high levels of property taxation in Manitoba, for example. One of the reasons is very significant amounts of money are raised for education from property taxes. We have higher levels of certain taxes, such as payroll tax, than other provinces. You're never going to have precisely the same, but I think provinces at least must be accountable and be responsible for making the case that they have done their best to achieve reasonably comparable levels of taxation and services.

This is important, not only from a perspective of accountability of the system, but also from an economic perspective. If you're going to have a growing province that is attracting industries and people, one of the important things is that you're not providing much higher levels of income tax than other provinces, or you're not providing higher levels of business taxes. That makes it uneconomic, for instance, to have head offices in certain provinces because of the higher levels of certain types of business taxes—for example, payroll taxes. That would make it much more difficult for companies, from an economic perspective, to have their head offices in Manitoba, for example. Particularly in the global world we're in at the moment, being able to have reasonably comparable levels of taxation and services is going to be very important in order to achieve prosperity, as well as a high quality of life.

• (0825)

**Mrs. Joy Smith:** I have one more quick question. Could you comment on the fact that transfer payments should be targeted very specifically to specific areas? When you're talking about the health care, the health funding, what you have in your paper here is quite alarming. Can you expand on that a bit?

**Dr. Jon Gerrard:** It is important to maintain the equalization transfer system as a block transfer. Let me be clear on that, okay? I think the accountability that is needed is accountability by the province to its citizens. That accountability provides a better and more comparable understanding of what's happening. I think it's very important that provinces have the ability to make choices, and that the federal government, in making equalization transfers, not constrain the choices provinces make beyond what's in the Constitution—which is that there be reasonably comparable levels of services and of taxation.

[Translation]

**The Chair:** Thank you, Ms. Smith.

[English]

Mr. Bell, for five minutes.

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

Thank you, Mr. Gerrard.

You have the advantage of having the perspective of having been both a federal member and now a provincial leader of the opposition, as an MLA.

On one of your points about accountability and acknowledgement, is it fair to infer you're suggesting that the recognition of at least block accountability—not necessarily down to specifics, but by department, at least, acknowledging that there are federal funds, equalization funds, flowing to or of benefit to the province—might encourage a greater equalization program, or willingness from the federal government, if there's acknowledgement federal funds are flowing to the provinces?

**Dr. Jon Gerrard:** I think it is important that there be a common understanding, in a sense, of the proportion of dollars the federal government has put towards providing health care in whatever province. When you have the province saying the federal government is only contributing 14% or 16% and the federal government is saying it's really 30% or 35%, it becomes an argument of figures back and forth. Clearly, we will all benefit from a system that has a bit more honesty, and then we can debate the system instead of debating these numbers.

The important aspect here is that yes, there needs to be recognition of the contribution the federal government is making; that's very important in being able to continue the program. From a federal perspective, there needs to be integrity in what the province is saying and doing, and having some modicum of increased accountability in reporting how the dollars are being used will be very helpful.

• (0830)

**Mr. Don Bell:** Something I've heard as we've talked about this as we've gone through the different cities where we've received witnesses is the issue of ensuring equalization does not become a disincentive to developing an economy. We've heard, for example, in Regina that the level of taxation was such that to develop local natural resources would result in really no benefit, because an equal amount could be lost in equalization payments.

You're suggesting there be some kind of phase-in or phase-out program so there's an incentive to a province to develop its resources.

**Dr. Jon Gerrard:** In my view, it's clear that where a province is doing better economically, the province shouldn't be losing those dollars it gets in taxation dollar for dollar from equalization transfers. There should always be a net benefit for the province.

I don't have the capability or the research staff to fine-tune approaches that would give you that, but I think what is important is the principle that as a provincial economy improves, there should continue to be a net benefit. That is, if you get \$100 million in new oil revenue in Saskatchewan, you don't just have \$100 million taken off equalization.

Your committee has the research expertise and the ability to look into this and to make some suggestions as to how that might occur. I would suggest that's a fairly important principle.

**Mr. Don Bell:** The point I was trying to make is that before becoming a federal politician, as a municipal politician and as a resident of one of the provinces, in this case British Columbia, I didn't really appreciate how much was coming from the federal

government. The reason I was interested in your suggestion of identification of where some of these funds come from or at least the acknowledgement of the funds overall was that I don't think the general public realizes the degree to which equalization is a factor, that funds are flowing from the federal government. I say that now as a federal politician, thinking the work we do as MPs and the level to which we tax should be acknowledged.

**Dr. Jon Gerrard:** Well, I think this is true across the board. This is one of the wonderful benefits of being in the Canadian system, that whether it's Manitoba, Quebec, the Maritimes, or Saskatchewan, just about every province has benefited from equalization. It's important for citizens to recognize some of the benefits from working together in the equalization process and important for us to make that a little bit clearer than it often has been in the past.

**The Chair:** Thank you, Mr. Bell. We will have another round.

[*Translation*]

Mr. Côté, you have five minutes.

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

Thank you very much for your presentation, Mr. Gerrard.

From the outset, I admit I have some reservations about what you're presenting, that is to say about the accounting as to how equalization payments are used. Tell me whether I've gone wrong somewhere. Equalization payments are currently paid into the consolidated revenue fund of each province and entered in general revenue. We naturally tend to cite health as an example, since it's an important issue. So if a given number of millions of dollars is spent in that field, whether that money comes directly from Manitoba's taxes or from equalization has little impact.

I don't know what percentage of Manitoba's budget health represents, but, roughly speaking, 20 percent of the province's revenue comes from equalization. While I was listening to you, I was thinking that, ultimately, if all the money from equalization were allocated to health, it wouldn't be spent any better since government revenue would then simply be spent in other sectors.

Would proceeding in this matter make the management of Manitoba's finances less flexible? To use a somewhat extreme example, let's imagine that a government emphasizes the fact that only 30 percent of equalization is allocated to health. Whether it's 30 percent, 40 percent or 90 percent has little impact since the government's revenues will simply be allocated to other budgets.

●(0835)

[English]

**Dr. Jon Gerrard:** I think, first of all, part of your question dealt with whether this will restrict the flexibility of the Government of Manitoba. I would argue that the answer is no, because it's the Government of Manitoba that makes the choices about where it's going to spend. In other words, there should be no attempt for the federal government to dictate that a certain proportion of it should go to health care or to other areas. It should be a block fund; it should be transferred as a block fund without qualifications, as it were, from the federal government.

The provincial government should make decisions on how it is going to spend those dollars, and it should provide not a detailed penny-by-penny reporting, but just an overview, a broad overview. And that broad overview is going to be important. Let's take health care. The budget for health care for Manitoba is significantly over \$3 billion. We have a certain amount of Canada health and social transfer, transfer of the money that goes towards health, which would be something less than a billion dollars, maybe \$700 million or something like that. But because we get the equalization transfers, which last year were approximately \$1.7 billion, and a proportion of that is going to health care.... It's unlikely to be all of it. If it were proportioned the way the rest of the dollars of the government were spent, it might be \$700 million or \$800 million out of that proportion. But that has a significant impact on the overall contribution from the federal government toward health care in Manitoba and has a major influence on the ability of Manitoba to provide improved health care to the citizens of Manitoba.

So what I'm suggesting would not restrict in any way the flexibility of the province. The province would have the ability to make those decisions, but in making a report of just the general areas of spending and not going into specifics, it would provide a better basis for discussion and for understanding of the use of the equalization dollars and how they're contributing to the well-being of people in the province of Manitoba, for example.

[Translation]

**Mr. Guy Côté:** I'm not convinced of that. In my opinion, even if zero percent of equalization payments were transferred to health, the sector would not be any less funded: funding would simply come from other sources. However, in political terms, you'd have to justify the fact that no funds from equalization would be allocated to the health sector.

We talk a lot about equalization. In the hearings we've held across the country, many of our witnesses have explained that, over the past 20 years—and particularly in the past 10 years—the equalization system has been somewhat diverted from its objective, which is set down in the Constitution. Among other things, they emphasize that this had occurred quite recently through special agreements. A number of people said we should return to the 10-province standard.

As regards Manitoba, do you think the current way of calculating equalization is satisfactory for the province or that a certain number of improvements should be made to the system?

●(0840)

[English]

**Dr. Jon Gerrard:** Essentially, on your question as to whether the present way of calculating equalization transfers works reasonably well for Manitoba, I think the answer, in general, has been yes. Manitoba has clearly been a significant beneficiary of equalization transfers. The problems that I see, from a Manitoba perspective, are that sometimes there are some fairly sizeable last-minute changes. When you're doing a budget, some last-minute adjustments are not very easy, which is why having more lead time in knowing just what the numbers are would be very helpful.

Secondly, I will give you an example of how, during the flood of 1997, some of the people in the Red River Valley were late in putting in their income taxes and so on. There was less income in that year, and the next year there was more income. Equalization actually functioned to provide more income in the year the revenues went down a little and less when the revenues went up a little. It has actually functioned quite well for Manitoba in terms of stabilizing the revenues of the province and in helping the province to deliver services. So I think, in general, from a Manitoba perspective, it has worked fairly well, and you will probably hear more about this from the other leaders and from others later on.

There are two specific areas that I think need to be addressed. One is longer lead time and the other is the issue of the ability to sometimes cushion a fall in years when there may be a sudden fall in equalization transfers.

[Translation]

**The Chair:** Thank you, Mr. Côté.

Thank you for welcoming us to your home, Ms. Wasylycia-Leis.

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

I want to welcome you to Winnipeg. The weather is beautiful here, isn't it?

[English]

Thank you, Mr. Gerrard, for your presentation and your paper and your strong defence of the equalization program, which is a critical part of our discussions. Thanks also for your reference to Stuart Garson, who was active at the time the Rowell-Sirois commission got under way. The situation then was roughly comparable with what we're dealing with today, which is a crisis in fiscal federalism. The real purpose of our committee is to address this crisis.

I'd like to hear a bit more from you about whether or not you agree that there is a fiscal imbalance. That's the first purpose of our committee—to determine if there is one, to what extent it might exist, and how we might deal with it.

Let me deal with your comments about cash transfers for health care. I'm sure the government representatives who will come after you, together with our Minister of Finance, will do an adequate job of taking you to task for your commentary on Manitoba's response to the drop in cash transfers. But I think it's incumbent upon me to tell you that the comments by Premier Doer, having to do with the 16% share from the federal government for health, were repeated by every single premier, every political party, across this country. It was a position taken by Conservative governments, Liberal governments, PQ governments, and NDP governments when cash transfers were arbitrarily reduced by the federal government in the 1995 budget.

Our last stop was Quebec City, where we got a very good presentation from the Quebec Liberal finance minister. He reminded us that the overall transfer to provinces, as a portion of federal government revenue, has dropped from 26.8% in 1983, to 23% in 1993, to 13% in 1998. Today, we're gradually going back up to about 18% or 19%.

It's recognized across this country that there is an imbalance. People know that what the federal government did in reducing cash transfers to health and post-secondary education, and in changing the rules around EI so that more people were forced onto provincial welfare roles, was a significant contributor to the fiscal imbalance we face today. We're trying to sort that out on this trip across Canada.

My questions are as follows. Do you agree that there is a fiscal imbalance? Do you support the call by all provincial governments to make the federal government a 25% partner in funding health care and education? Do you support the call by all provinces back in 2003 for a change in the equalization formula—it would be a 10-point standard—that would include all provinces and all revenue? Finally, given your thoughts that we should drop equalization as a province does better, what is your opinion of the side deals by the federal Liberal government vis-à-vis Nova Scotia, Newfoundland-Labrador, and now, perhaps, Ontario?

• (0845)

**Dr. Jon Gerrard:** Let me start with the issue you raised in terms of the proportion of federal funding of health care in Manitoba, which in terms of the Canada health and social transfer was down at a 14% to 16% level. But in terms of total federal funding for health in Manitoba, when you consider the equalization transfers—and a significant proportion of the equalization transfers—and direct federal spending on health care in Manitoba, primarily in first nations communities, which is more than \$400 million at the moment, then in fact the proportion is not 14% or 16% of federal funding of health care in Manitoba; it's up at 30%, 40%, 45%. You may be correct that for Ontario, which did not receive equalization transfers, the proportion was actually 14%, 15%, 16%, but in Manitoba it clearly was not.

I think that led to some very unseemly back and forth and a great deal of skepticism among citizens. When you don't have a common understanding of what the different governments are contributing, it leads to a circumstance where the credibility of politicians in general is being questioned unnecessarily and a situation that does not help federalism, does not help the equalization program, and does not help Manitoba.

If you want to continue to undermine the equalization program by suggesting that it doesn't contribute to health care in Manitoba, then you're certainly free to do that. But it's not, I would suggest, an accurate position on what is really happening. If we are going to get better equalization programs, I would suggest to you that one of the things we need is better accountability, and that's better accountability on all sides.

Is there a fiscal imbalance? I think it's important to recognize that fiscal differences among the provinces are addressed in a variety of ways. We have equalization transfers, but the federal government also uses its spending power to help out provinces that have disasters, to help out provinces that have major capital expenditures—we're seeing this on the floodway, for example—and to help out provinces in other areas with significant contributions in terms of facilities like the Canadian Science Centre for Human and Animal Health. There are similar research facilities in other provinces.

The federal government can use, should use, and is using its varied fiscal powers to help provinces in a variety of ways. Equalization is clearly the cornerstone of this effort, but it's not the only part.

Sure, as our country was set up initially and the powers and taxation powers were divided, there are clearly some areas we have to wrestle with on an ongoing basis to ensure that provinces are able to deliver on their responsibilities. But they also have to be accountable in delivering on those responsibilities.

• (0850)

[*Translation*]

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

Over to you, Ms. Smith.

[*English*]

You can have a short question and a short answer, because we have eight minutes more.

**Mrs. Joy Smith:** Thank you, Mr. Chair.

I'm just not quite clear about whether you have answered the question. Do you think there is a fiscal imbalance here in Manitoba? There have been cutbacks to post-secondary education; there have been cutbacks in different areas. Could you expand on that a little bit and on how this problem could be solved? As you said, we want to make Manitoba into a have province, not a have-not province. What are your thoughts on that?



**Dr. Jon Gerrard:** It's quite clear that from a Manitoba perspective, there is a fiscal imbalance. That's why we're receiving \$1.7 million in equalization, because we don't bring in revenues that are comparable to other provinces. We rely on federal approaches to addressing that fiscal imbalance, most particularly equalization. We would have a great deal of trouble in Manitoba getting by without equalization; there's absolutely no question. This program is very important for addressing that.

**The Chair:** Thank you, Madam Smith.

Mr. Bell, you have two minutes for question and answer.

**Mr. Don Bell:** Thank you.

On the issue of municipalities and funding, which was something that was of interest to me, do you think programs such as the new deal and the gas tax money that come in and are targeted are useful?

There have been suggestions for those funds being targeted, in the case of the announcement that was made on Friday in British Columbia, where with the cooperation of the province those funds will flow through to the municipalities for infrastructure, transportation, and other needs. Can you comment on those kinds of programs?

**Dr. Jon Gerrard:** Sure. I think the federal initiative and tying that in to the fuel tax, which would provide more dollars to municipalities, is an excellent example of a positive step by the federal government to support municipalities. We are also seeing provinces ready to grant municipalities more in the way of taxing powers. In the long run, I think we're going to be better off with increased direct accountability for municipalities to raise taxes and spend the money directly, rather than having to rely so much on transfers.

**Mr. Don Bell:** Thank you.

**The Chair:** Thank you, Mr. Bell.

Monsieur Côté, two minutes.

[*Translation*]

**Mr. Guy Côté:** Thank you very much.

In Manitoba's case, you say there's a fiscal imbalance. Does the Liberal Party of Manitoba recognize the phenomenon? That's not at all clear in your presentation.

[*English*]

**Dr. Jon Gerrard:** It is very clear that there are different fiscal capacities among provinces. There is a fiscal imbalance in terms of the ability for different provinces to raise revenues under the current circumstances. Such imbalances have varied historically from province to province. Some have been better off at certain times than others.

On the fiscal imbalance, we have our major equalization transfer. That is very important for Manitoba to be able to deliver services appropriately. Equalization is a vital program, and it's there to address the fiscal imbalance. We need equalization or some program like it. That's very clear.

[*Translation*]

**The Chair:** Thank you, Mr. Côté.

Ms. Wasylycia-Leis, please.

[*English*]

**Ms. Judy Wasylycia-Leis:** If I could quickly go back to fiscal imbalance, I notice that you didn't really support the assumption and the understanding that there is a fiscal imbalance in the country today.

Let me focus very quickly on the cash transfers for health care, since you seem intent on lumping everything into one basket, which I think is really the problem we're facing in terms of the threats to medicare today. Lumping cash transfers, equalization payments, and tax points into one basket as a way in which we could save medicare is not happening. I think we have to separate the cash transfers, because they are the glue that holds our medicare system together. The drop in transfers is one of the reasons why we've seen so much privatization in other parts of the country and fortunately not here in Manitoba.

My question to you is this. If you don't agree that there's a fiscal imbalance, do you at least agree there should be an increase in cash transfers for health care to move us back to at least the 25-75 partnership, with conditions attached to ensure that the principles of medicare can be preserved?

● (0855)

**Dr. Jon Gerrard:** You're wrong.

First of all, I am saying there is a fiscal imbalance and it needs programs like equalization to address it.

Secondly, in 1995, when there was a wrestling of the deficit at the federal level, one of the things that was done was to increase equalization transfers. It was recognized then that for every dollar you get in the Canada health and social transfer, Manitoba would get \$3 to \$3.50 out of \$100. In an equalization transfer, depending on the year, Manitoba would get perhaps as much as \$5 to \$10 out of \$100. In order to get dollars from the federal government to a have-not province like Manitoba, it was more efficient to increase equalization transfers than to increase the Canada health and social transfer. Therefore, the decision was made to help have-not provinces like Manitoba preferentially to cushion the fiscal problems. It was seen then as a way of getting dollars for health care for Manitoba.

That is why it's very important that there be an acknowledgement and accountability in terms of equalization transfers on where the transfers are going in broad terms. We don't need to have it accounted for penny by penny.

[*Translation*]

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

Mr. Gerrard, on behalf of all the committee members, thank you for your excellent presentation and for your contribution to the subcommittee's work. All your suggestions will be considered. Once again, thank you for welcoming us to Winnipeg.

Now we'll take a five-minute break to allow the other guests to set up.

• (0858)

(Pause)

• (0907)

[English]

**The Chair:** Welcome, everybody.

We have the honour to welcome Mr. Greg Selinger, Minister of Finance, Government of Manitoba.

[Translation]

Welcome to the Subcommittee on Fiscal Imbalance.

[English]

You will have 15 minutes to introduce your opening remarks. After that we will have a round of questions from members of every party in the House of Commons.

Thank you very much for being here and contributing to our work.

[Translation]

**Hon. Greg Selinger (Minister of Finance, Government of Manitoba):** Thank you, Mr. Chairman. We're very pleased that your subcommittee is here in Winnipeg today.

[English]

This topic you're dealing with, the fiscal imbalance, I consider to be one of the most important issues in the country, because it really determines the capacity of the various levels of government to meet the needs of their citizens. I have with me today my deputy minister of finance, Ewald Boschmann; our person who looks after all these fiscal transfer issues, Rory Molnar; also Rob Balacko, who also does a lot of the technical analysis; and one of our veterans, Jim Eldridge, who was for many years in charge of federal-provincial relations and clerk of the executive council. He brings a lot of historical perspective. We'd be happy to answer any of your questions about the past, present, or future of this program as we go forward.

We have a presentation for you. I'm going to walk you through it and make some comments. I'm assuming everybody has a copy of it.

First, we make the very simple point that Canada's success as a country is intimately linked to its ability to manage its internal fiscal arrangements. The structural diversity of our country creates a significant challenge. Although we are one nation, there is considerable variation in natural resource endowment. Therefore, there is a considerable variation in fiscal capacity, because natural resources are the preserve of the provinces.

For example, last year Alberta received 32% of its revenue from natural resources, while B.C. and Saskatchewan each got about 12.5% of their natural resources, and all the other provinces in Canada received 2% or less of their revenues from natural resources. Right there you can see the underlying issue of fiscal imbalance. If in Saskatchewan \$12.50 out of every \$100 comes from oil and gas and

potash determined by world market prices, and we in Manitoba, even with our abundant hydro resources, only get 2% of our resources from natural resources, it puts a big stress on provinces that don't have the natural resources to stay competitive with the other provinces in how they raise their revenues without making their taxes too high or unduly constraining the services they offer their citizens.

There are other demographics as well that speak to the issue of fiscal imbalance, demographics such as aging, immigration, the growth in the size of first nations populations, globalization, such as changes in trade patterns, the changes in global trade rules, and the increased importance of knowledge as a tradable commodity and as an input into the production processes. World energy prices continue to rise dramatically, impacting on the fiscal imbalances that we see across the country. The output of energy-importing provinces is being constrained by high energy input costs, including provinces like Ontario, while energy-exporting provinces are reaping the rewards of the uptake in international prices.

The challenge of our federation is to put the fiscal imbalance that has evolved over the last several years back into perspective and back into balance. The management tools that we have to deal with fiscal imbalance need renewal. The process needs strengthening. We will propose some concrete steps today on how we think we can do that. We think that any solutions we arrive at to address the fiscal imbalance should be based on a set of sound principles and the best possible information we can bring to the table to analyze what the fiscal imbalance is and how it can be corrected.

On page four I address what the guiding principles of the fiscal arrangements are. I'm sure you've probably gone over some of this ground already. They include adequacy and sustainability—sometimes adequacy is traded off against predictability, and we think that's an unfortunate trade-off in the last round—equity, efficiency, transparency, and accountability. Adequacy simply speaks to the issue of whether the resources are sufficient to provide the needs of Canadians, to allow provinces to provide comparable levels of service at comparable levels of taxation, not precisely the same, but roughly the same. Equity speaks to the issue of being able to provide that comparability. Efficiency speaks to the issue of having a fiscal set of arrangements that do not distort business or personal decisions based on fiscal imbalance. For example, Alberta has a very dynamic economy. We don't want that to be the only place the young people decide to locate. We want them to have options to locate in all the provinces across the country, based on the ability to have a decent quality of life and decent job opportunities.

And last but not least is transparency and accountability, ensuring that clear information on funding expenditure is provided by each order of government—I noticed you had a conversation on that just a little while back—and provinces take responsibility for their decisions for financing and/or service delivery.

The scope of fiscal imbalance usually revolves around two pretty arcane terms. It's pretty hard to get a sound bite out of them if you're a politician talking about vertical fiscal imbalance or horizontal fiscal imbalance, but nonetheless these terms help us understand the challenges.

The Canadian health transfer and the Canadian social transfer are the main tools to address vertical fiscal imbalance, which is the ability of provinces responsible for high-growth services like health and education to have adequate support to provide them. For example, the federal government collects 67% of all the personal income taxes, leaving the balance for the provinces; but the provinces are responsible for the high-cost, high-demand programs, things like pharmacare, things like home care, things like health care in general, things like post-secondary education.

On the other hand, equalization is the main tool to address the horizontal fiscal imbalance, and the issue there is the ability of different provinces to offer, once again, comparable levels of service. We have a situation where Alberta on one side of the scale has a fiscal capacity that's 136% greater than that of Prince Edward Island at the other end of the scale. That makes it pretty hard for some provinces to stay in the game of offering citizens roughly comparable levels of citizenship.

On the vertical fiscal imbalance, we'd like to make a couple of points. The federal government has the greater resources, but the program responsibilities are mainly in the jurisdiction of the provinces. The cost of meeting constitutional program responsibilities is greater for the provinces than their capacity to raise revenue.

The Conference Board of Canada has brought out a very useful report in this regard. It shows, over the next several years—and even the federal government itself shows over the next several years—growing surpluses, whereas in total the provinces struggle to keep out of deficit. This resource responsibility imbalance has created a lot of conflict over the last 25 years. This conflict remains unabated and carries on, and some of the evidence you've seen from other provinces and from us will show why that's the case.

It's been exacerbated by federal unilateral ad hoc decisions to change the rules governing transfers so as to limit its financial risk and obligations. This has left the provinces justifiably complaining about being left out of the decision-making process.

Some people say, well, it's the federal revenue. I think it's important to note that the provincial governments gave up their tax room to the federal government in the era of the Second World War so that the federal government could properly mount that effort. They never had that tax room returned to them after the war. They got special programs returned to them, cost-shared programs. So the provinces operated in good faith in giving up their fiscal capacity, and they got it back for a period of time with 50% cost-shared programs. Then those programs were capped and eroded, leaving the

provinces with the responsibilities without the fiscal room, which remained in the hands of the federal government.

So we can see there is a mismatch between program responsibilities and revenue resources, and that program imbalance is exaggerated or exacerbated, as you see on page 7, by the demands for program growth. There's a little table there on page 7 that shows you just what the challenge is for provincial governments. The provinces, as a total, are now starting to exceed the federal government in terms of the size of the programs they offer. Health, of course, is the biggest one at 40%, and it's one under extreme pressure.

The only significant federal program under pressure is old age security, which as you can see from the table is actually quite a small portion of their total program responsibilities. Our biggest program pressure at the provincial level is health. It's 40% of our budget. You can see that old age security, where there is growth pressure, is a very small part of the federal responsibility at about 5%. So you have a 5% growth pressure versus a 40% growth pressure, and that's a major difference right there—for the same population group, senior citizens.

While it is also true that the federal government's debt servicing costs are higher than those of the provinces and territories, it should be noted that the way the federal government has structured its budgets has seen that debt substantially reduced, particularly as a percentage of the GDP. It's down to around 30% now. In most provinces, while debt-to-GDP ratios have been declining in most cases, those ratios are still higher than 30% of GDP.

● (0915)

On page eight, you'll see from the chart of projected surpluses of the federal government that even by their own calculations, those surpluses continue to grow. They've underestimated their last several surpluses six out of seven times, for a total of \$60 billion, a not insignificant amount of money. We've made the point in Manitoba that if you don't identify that surplus, there's no ability to debate it in Parliament or the legislature; so you've really removed it from public scrutiny and review until it's there, and then boom, it's dumped down on the debt, and there's no discussion about whether that should be the main priority for the use of the resource. Even with the future forecasts, there is great suspicion, based on past experience, that the surplus projections may err on the side of caution, and maybe unduly so.

Moving along to the 2004 health agreement, that was one of the few times the provinces and the federal government actually came to a unanimous decision: in the last round, everybody agreed to a new health accord. It provided for a significant increase over the next decade, and for some element of sustainability through an escalator clause. For the first time, it actually made the federal contribution to major social programs higher in real per capita terms than when they had taken office; the next table shows you that. It was really only back in 1995-96 that the federal contribution was as high as it is today—though it was not actually quite as high then as it is today. From 1995-96 to 2004-05, the federal contribution to major social programs was always smaller than it was in 1995-96. It's only in this last year, 2004-05, that the feds have really caught up with the cuts they made in the mid-nineties. That tells you right away that the provinces have been carrying a much heavier burden, with much less of a contribution from the federal government.

It was a good agreement, in the sense that everybody was at the table and agreed to it. There was some approximation of restoring federal health care to about 25%, with the agreement adding about three percentage points to the federal share of funding. A good portion of health care funding is in the base; the agreement is not for the one-time transfers that we, for the most part, have been seeing, and which run out every three or four years, leaving the province holding the bag. Those one-time transfers have been great sources of frustration. I remember that just two budgets ago, they announced a really interesting and probably worthy immunization program, but the funding was only for three years. After the three years, we don't stop immunizing kids; we have to continue immunizing them. So it became entirely a provincial responsibility.

On the federal contribution to health care, you can see from the chart what the federal-provincial agreement has generated in terms of the sustainability track, which has bumped up a bit. It's still below the premier's 25% target, but it was an improvement.

However, there was a cost in doing that, and the cost was, what's the impact on our social program funding for post-secondary education and social services? It really ignored the Romanow recommendation of getting to that 25% target without shifting any money out of post-secondary education and social services. The federal government, unfortunately, did not follow that advice, but shifted about \$2.7 billion out of social services and post-secondary education into the health envelope. So the federal contribution to all transfers to the provinces for health is now 62%. That is higher than the historical average, but left the contribution for post-secondary education and social services significantly below the historic rate of contribution, which has created a significant problem there. You can see from the chart on page 14 which portion is new money and which money is transferred money.

Perhaps it might seem a bit self-serving, but you could argue that the provinces have had to backfill for the resources transferred out of post-secondary education and social services; so it's provincial money, in effect, that's been shifted into the health envelope and been imaged as federal money. You could make that argument, because you can show that the transfer comes from backfilling out of provincial resources. I only make that point to illustrate that there was a real cost to provinces of shifting those resources, a cost that

has been downloaded by the federal government onto the shoulders of the provincial governments.

● (0920)

Quebec, in their presentation, made a very interesting point as well, that equal per capita contributions leaves some provinces significantly worse off than others with respect to meeting the needs of social service recipients. If you have more people who need social assistance in one jurisdiction, the per capita contribution winds up being significantly less there than in other provinces where they have less people with that kind of need. So there's an inequity there as well that Quebec pointed out, and I actually think they made a very valid point.

On the transfer to post-secondary education, it's fallen from about 15% under the EPF to 7% under the Canadian social transfer. In other words, it's fallen by more than 50%. That's really unconscionable in a global society where knowledge is going to be the key to our future success.

Now, the federal government has done other things with respect to both student loans and resources that help create more demand for post-secondary education. In other words, more people want to get access to post-secondary education. So they've done some worthwhile things there, but they've really hampered the ability of institutions to provide that education by cutting their resources in half. They've increased demand and then cut the ability of the institutions to provide the knowledge, the education, and the environments in which people can develop new ways of generating economic prosperity and personal prosperity in the world. There really is an imbalance right there that needs to be addressed.

On social services, I know there's expertise at this table, but it bears making the point that there was a time, under the Canada assistance program, when the cost risk for the most vulnerable citizens in our society was a 50-50 cost-shared arrangement. Now the federal government, with the ending of CAP in the Martin budget of 1995-96, has really left 100% of the risk of an economic downturn on the shoulders of the provinces. All new people who need any form of social assistance, the 100% cost of any incremental adds to the caseloads, are provincial responsibilities. That puts an enormous burden on the provinces.

Actually, I think it's a significant and maybe insupportable burden on the provinces in a go-forward situation where an economic downturn is severe and prolonged. We haven't had that yet, or not since 1995-96, but we've had some downpicks. We've been fortunate enough to recover from those in a fairly rapid fashion, but history is replete with economic downturns. The next time it comes, the provinces are going to be tipping into deficit to support their citizens or going to be cutting programs, or program support, at a time when they need it the most.

If you combine that with reductions in employment insurance, you can show that there's been a double hit on the provinces. There's a narrow employment insurance program and no Canada assistance program, which leaves an even greater burden on the shoulders of the provinces. I think that point shouldn't be forgotten. Most people never talk about CAP any more, but it was one of the best tools we had in the country to share the risk for people in need and the economy when it's in a downturn.

Turning to horizontal fiscal imbalance and equalization, it was first introduced in 1957. The federal government realized that payment value they were providing to provinces was not equal. It's the only transfer enshrined in the Constitution. I'm sure you're familiar with the language, but I'll repeat it here:

Parliament and the government of Canada are committed to the principle of making equalization payments to ensure that provincial governments have sufficient revenues to provide reasonably comparable levels of public services at reasonably comparable levels of taxation.

Subsection 36(1), which is usually ignored, is important as well. It's a transfer that's used to promote equal opportunities for the well-being of Canadians, to further economic development, and to provide essential public services of reasonable quality.

The new federal equalization plan was put in place just this last fall. It does provide higher funding in the short term. However, there is a huge uncertainty, going forward, with this new federal panel, which has no provincial representation on it because of a unilateral federal decision. We had some very good nominees that we think could have added a lot of value to that panel. They were rejected by the federal government because there wasn't 100% consensus. Can you imagine if the federal government had to wait for 100% consensus in Parliament before they moved forward? There would be paralysis. A majority of provinces, though, had recommended people that we thought were very able, both academically and in terms of public administration.

We did do an agreement in the fall. It wasn't a perfect agreement. As a matter of fact, it had significant design flaws in it. But it provided some stability from a significant decline in equalization, which was going to occur under the inadequate five-province formula that was already in place.

● (0925)

So it provided some stability, but it did so at the expense of adequacy. Historically, equalization has been about 1.1% of the GDP. Even with this program being put in place, it's only going to be about 0.8% of the GDP. So it gives greater stability but at an inadequate level. It retains the out-of-date five-province standard, and it excludes 50% of user fees from the base, which has been a long-standing recommendation of all the provinces. They have long

been recommending full revenue coverage and a ten-province standard. I can even remember Mike Harris supporting this in Victoria several years ago, so there was consensus all across the country on it.

On the new federal plan, the escalator at 3.5% really means that equalization will continue to diminish as a portion of federal contributions, or federal budget requirements, and that it will wind up being less significant.

There is a challenge in the equalization program. Who benefits most? It is startling that the benefits are very unequally distributed; it's hard to see any equity in the way this has been designed. This is a real problem. You can expect the provinces to be very unhappy if they can't understand why some got less than others.

On equalization reform, evolutionary steps are needed to transform the current system. But the theoretical underpinnings of the program are sound and should not be abandoned. We think the idea of equalization as enshrined in the constitution is solid, but the way it's put in practice needs to be improved.

Our recommendations are as follows. We should reassess the responsibilities of each order of government along with their tax authority and see whether or not the provinces with high-growth programs have sufficient taxing authority to meet their needs. We recommend that the Canadian social transfer be split in two. One transfer for post-secondary education and one for social services, with an additional, separate transfer for all the things we do for early-childhood education, early-childhood development, and daycare. Put that in one envelope. Have another envelope for post-secondary, another for social services, and another for health care. That way you can start getting some accountability in how those moneys are allocated and for what purposes.

The equalization program itself needs to be improved, with the question of adequacy at the forefront, to make it more, not less, comprehensive. That means addressing the standard—moving from a five-province standard to a 10-province standard, as was done in the past—and going to full revenue coverage.

The other issue is responsiveness. The problem with the new program is that even though it provides stability it is not responsive. If a province was to dip into a serious problem, because of an accounting error or because of September 11, the program doesn't generate new resources to offset that problem. It just stays on a flat track even though provinces have less fiscal capacity, which entirely misses the point of the transfer. You could even argue that we no longer have an equalization program. We have a block transfer called equalization, which doesn't equalize. It misses the point.

In concluding, I hate using sports analogies, but the temptation couldn't be resisted here. Some of us read more than just the news section and we can see right now that the National Hockey League is fighting about revenue-sharing, about a way to make the league fair. It's our contention that if there had been a fair system in place, similar to what we're talking about here with respect to the country, we wouldn't have lost the Nordiques or the Jets. We would have had a National Hockey League with more Canadian participation. If you look at any successful sports league, they do a number of things to make sure the league stays competitive. They have a draft, which gives an advantage to the team that had the worst performance in the previous year. They have scheduling that is fair to all teams. They have in some cases a salary cap, or what they call a luxury tax, if some people are paying too much. And all the successful leagues have a revenue-sharing scheme in place.

• (0930)

There's nothing necessarily ideological about this. Nobody could argue that the owners of professional sports teams are on the left of the political spectrum, but they've all recognized it's in their business interest to have a competitive league, to increase the market, to increase the competitiveness of the teams, to have a better product on the field, and to have a dynamic ability to stay progressive and in the market for what they do in the future.

If the professional sports guys can do it, who are business people, not politicians, why can't the politicians do it, when it will put the country on a competitive footing, it will make sure we have a dynamic federation where people are treated fairly, and it will ensure we can grow and prosper in the future with well-educated people and with adequate social services that are fairly financed in every region of the country?

With that, I'll conclude, and thank you for the opportunity. Merci.  
[Translation]

**The Chair:** Thank you, Mr. Selinger.

[English]

You don't mean we must adjust our salaries to the players'?

**Hon. Greg Selinger:** I don't think that would fly politically.

**The Chair:** Madam Smith, for five minutes.

**Mrs. Joy Smith:** Thank you.

Thank you for your presentation. It was very clear, and I think there are some very valid points that were brought forward this morning, Mr. Selinger, in this area.

Now, there's one thing I'd like you to comment further on. Repeatedly the federal government has announced surplus numbers

that are basically way below what's really there. Could you comment on how that impacts on provinces across our nation and particularly on Manitoba?

**Hon. Greg Selinger:** Well, as I said earlier, the first impact is that those surpluses are not up for public debate and scrutiny as to how they should be used. They basically get wiped off the federal political agenda because they're not identified until year-end, and then they're spent before there's any opportunity for Parliament to debate them.

But the second thing is that it doesn't allow for programs to be adequately funded, such as equalization and what used to be the Canada health and social transfer, which is now the Canada social transfer and the Canada health transfer. There's always been an argument that we can't afford to improve funding to these programs, but it's because they've underestimated the revenues every year. Now, that's \$60 billion going backwards and at least \$31 billion going forwards, probably higher.

Unless those surpluses can come on the table for public debate, the government will unilaterally decide how the money is going to be used, whether the citizens support it or not. I think it's really eroded democracy. I think it could be argued it's part of the democratic deficit in the country.

• (0935)

**Mrs. Joy Smith:** This morning we're talking about the fiscal imbalance, and in your presentation this morning it was outlined very well.

I want to also have further comments on this equalization plan. When you look across the provinces right now, clearly Saskatchewan has a huge chunk of the equalization benefit. When you look at some places like Quebec or B.C. or Manitoba, you see they're really far down the fiscal scale. Could you comment on your earlier suggestions that the equalization plan...?

You can see by the chart you set up earlier that obviously it's diminishing and diminishing, until you basically don't have an equalization plan. On one hand you have bogus surplus numbers, so the provinces all across this nation don't know how to deal with the social programs and the policies we want to push forward in each of our provinces, and here in particular, Manitoba. Secondly, when the large tax share is taken by the federal government, there's nothing concrete on which to hang our hats for us to be able to develop our programs when it gets right down to it. Now, this equalization plan—could you comment a little bit further on how you think this can be readjusted to impact in a better way on the provinces?

Frankly, political announcements and things like that really don't mean much when the people aren't getting served and don't have the money they need to make the programs go or when we have useful programs put on the table that go away in two or three years. That's what's happening right now all across our nation.

**Hon. Greg Selinger:** On your second question, I want to go back and tie it to your first point. There has been an under-estimation of the federal fiscal capacity that has resulted in huge surpluses that have not been available for public debate. Instead of doing long-term principal-based fiscal transfers, the federal government has done one-off deals, time-limited deals, or both. As a result there is now a smorgasbord of activities going on out there, where it's hard to detect the underlying principles of fairness and equity, or even efficiency.

For example, there is a transfer to the provinces for waiting list reductions in the health care system, but it's a time-limited transfer that will run out. If all those wait lists are to be evaporated by then, the provinces will be 100% responsible for the follow-through. I mentioned the example of the immunization programs earlier. Really, there's no reason why there shouldn't be a national or pan-Canadian immunization program funded by the federal government on an ongoing basis. There's a tremendous benefit to that. The cost-effectiveness is clearly there, from a health point of view.

So I think the one-off approach has created some serious problems now, where everybody wants a one-off deal. They all develop unique rationales why they should get one-off deals. Everybody is squabbling and fighting. That sense of common citizenship is being eroded as a result, and I think that's unfortunate. It's causing some significant political problems at the federal level.

[Translation]

**The Chair:** Thank you, Ms. Smith.

[English]

Mr. Bell is next, for five minutes.

**Mr. Don Bell:** Thank you.

I've found some of the historical aspects you've highlighted interesting. On slide 10, your major federal social program transfers, you go back to 1995 and the beginning of the Liberal government. Can you tell me what those were prior to that? Do you know the size of them? Would Jim, your historian, be able to tell you? I'm curious as to whether they were above what was shown in 1995. You're saying we're now back to greater than 1995. I'm just wondering if that represented a high or a low. Was that already in a down-trend?

**Mr. Rory Molnar (As an Individual):** I think it has been in a down-trend. The year prior to that was pretty much at the same level, but it's been in a down-trend ever since the early to mid-1980s.

• (0940)

**Hon. Greg Selinger:** The federal government will say that in absolute dollars the money has gone up, but in real dollars—in other words, adjusted for inflation—they've gone down. As a proportion of the federal budget they've gone down. You can actually have the real dollars going up but the proportionate amount going down. That has been the case, and that's the case currently.

**Mr. Don Bell:** On slide 20, the new federal equalization plan, you talk about how at the end of the current legislation the equalization payments will grow to less than the GDP, and 3.5% is the figure for growth that's been put into the plan. What do you calculate would be needed to actually have that either stabilized or grow?

**Mr. Rory Molnar:** You'd need a level adjustment to get it to 1.1% of GDP, if you're going to the ten-province standard. To maintain it

at the 1.1% level, it would be something in the range of 4.5% to 5% to match GDP.

**Hon. Greg Selinger:** I think his point's important. Just increasing the escalator off the inadequate base right now wouldn't do it. You'd have to get it up to 1.1%, and then have an escalator that would make it stay that way.

**Mr. Don Bell:** The other question I've asked most of the presenters has to do with municipal transfers. My background is with municipalities, and the Federation of Canadian Municipalities has the position that municipal governments should be a third order of government.

I notice in one of your last slides you talk about reassessing the responsibilities of each order of government, along with their tax authority. I don't think you're including municipalities in there, but does your government have a position with respect to the role or the future of municipalities? I'm talking in the context of the new deal right now, with the emphasis toward supplementing municipalities with infrastructure, for example. The gas tax is one example.

**Hon. Greg Selinger:** Yes. First of all, I was a municipal councillor myself, so I know what you are talking about. I remember being a municipal councillor and also saying we didn't have enough resources, so I take your point.

In Manitoba we have a unique arrangement. Unlike any other province in the country, we have what we call the provincial-municipal tax-sharing agreement. We share a portion of our corporate and personal income taxes with municipalities every year. Our growth revenues have been shared since the 1970s with the municipalities. No other province does that.

In addition, we overhauled that program this year and broadened the base of sharing of provincial revenues. We gave them the equivalent of three cents of our gas tax. There was for many years a frozen transfer to the cities for things like public transportation and other forms of infrastructure. We took that frozen transfer and converted it to an equivalency of gas tax. In addition to that, Manitoba is one of the only provinces that shares its VLT revenues. Last January we decided in the city of Winnipeg, in the only city where we have casinos, to start sharing a portion of our casino revenues.

We have probably the broadest provincial tax base shared with municipalities of any provincial jurisdiction in the country: personal, corporate, VLT, gas taxes, and casino taxes. We have pioneered the willingness to share those taxes.

Our one concern about the gas tax only going to municipalities is this. Who is paying for the roads that connect the municipalities and the cities together? It is 100% the provinces. They don't get any gas tax from the federal government. For all the gas tax we raise in Manitoba—and I put in place what we call the Gas Tax Accountability Act—we show where every dollar raised through gas taxes goes in terms of infrastructure, roads, in this province. We actually put in more than we raise in gas tax. So if there's going to be gas-tax sharing—and we're not begrudging money to municipalities—we're simply saying there has to be some of that gas tax that should go to those roads that connect cities and markets together. If it's all just in cities and municipalities and there's an inadequate amount to connect them together, that's missing the point. The entire infrastructure across this country needs upgrading, including the Trans-Canada Highway, but also including those highways that flow north and south and east and west.

That is the only point we've made, and I made it in my budget address this year. We gave 8% more revenues to our municipalities this year and 15% more for public transportation. We weren't using it as an excuse. We also said that we would pass every nickel we got from the federal government on to the gas tax to the municipalities and we wouldn't claw any of that back. We do think the federal government should contribute to that infrastructure that connects us all together.

• (0945)

**The Chair:** Thank you, Monsieur Bell.

Monsieur Côté.

[*Translation*]

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

Mr. Minister, thank you for your excellent presentation. I'd like to take this opportunity to draw attention to the work you've done. You've not only given us a good historical perspective and clearly described the present situation, but you've also presented us with a certain number of solutions to the problem of fiscal imbalance. I'd like to thank you for that.

I have a very simple question to ask you. One of the tables you presented concerns the benefits of the last equalization agreement. Are the amounts granted under the special agreements with Newfoundland and Labrador and Nova Scotia included in that table? We know those special agreements substantially increase the fiscal capacity of both provinces. The way you're shaking your heads suggests to me they probably aren't included. To what extent would that change this table?

**Hon. Greg Selinger:** That's a good question, and I thank you for it. It's not included in the table, but there can be no doubt that, if we included it, the imbalance would be even more pronounced. We have such a table, and we could submit it later, if you wish. In that table, we simply refer to the existing equalization program. Apart from that, there's the special agreement aspect that aggravates fiscal imbalance in the country.

**Mr. Guy Côté:** Thank you, Mr. Chairman. That's all. Thank you.

**The Chair:** For your information, I would say that, when we were in Quebec City last week, the Minister of Finance estimated the value of that province's agreement with the federal government on

offshore oil resources at \$3,818 per capita. That amount would be added to the \$169.

Ms. Wasylycia-Leis

**Ms. Judy Wasylycia-Leis:** Thank you, Mr. Chair.

[*English*]

Just before I take my turn, could I make a suggestion that we, after this round, actually have a presentation from Mr. Eldridge? He has a lot of experience over the years on equalization, and I think it would save a bit of time. I think we should draw on his expertise while he's here. If that's possible, we could have maybe ten minutes from him, and then another go-around for everybody.

Thank you.

[*Translation*]

**The Chair:** Ms. Wasylycia-Leis, your wishes are our command. I'm sure our colleagues will agree to that.

[*English*]

**Ms. Judy Wasylycia-Leis:** Oh, what else can I ask for? Thanks.

Thank you very much, Mr. Selinger, for your presentation. I want to start with the whole issue of the fiscal imbalance, since the federal government continues to suggest we don't have one in this country. We've been around the bush on this many times, and we just can't seem to make any headway.

I have a feeling the reason for that lies somewhere in the presentation we just heard from the Liberal leader here, Mr. Gerrard, who I think is mixing apples and oranges. Maybe this is what the federal government is doing—suggesting that if you look at health transfers and tax points and equalization payments, a province like Manitoba really is doing quite fine, thank you very much, and what's the problem? In fact, he went so far as to suggest that—I don't know if you were here for it—your government made a laughingstock of itself by suggesting that the federal share of health care was down to 16%. This goes back a few years. I pointed out to him that in fact this was the position taken by all provinces, and all parties.

I'd like you to address that issue, because we've got to somehow convince the government that there is an imbalance, so we can come up with meaningful solutions. So talk about this tendency to mix apples and oranges, and deal with the vertical versus horizontal imbalance.

**Hon. Greg Selinger:** Thanks for the question.

I think there has been a mushing together of the fundamental ideas of—and I know it's boring—vertical versus horizontal imbalance. That's why we did a two-part presentation.



The vertical imbalance relates to the issue that the provinces transferred their taxing authority to the federal government but retained the constitutional responsibility for the most expensive social programs that help our citizens stay healthy and competitive and knowledgeable. That issue resulted in the CHST, which took all the post-secondary, social services, and health, put it in one envelope, and reduced it 39%. There has been some partial restoration of that for health care, at the expense of post-secondary education and social services. That issue stands on its own—the imbalance between responsibility and inadequate resources, because of the historic transfer of taxing authority to the federal government.

The second issue is the broader ability of a provincial government to offer comparable levels of services across the board at comparable or reasonably similar levels of taxation. If you mix those two together, you get a situation in which, in absolute dollars, the amounts have gone up—and some provinces have done better than others, depending on how their equalization in the past has been adjusted—but in relative dollars, and as a proportion of the federal budget, the federal government has eliminated its risk for the high-need programs, and it has shrunk its equalization transfer as a proportion of the growth of its revenues.

So the federal government has really wound up generating its fiscal surpluses on the backs of the provinces and the citizens in the regions. They have been stiffed on equalization, health, social services, and post-secondary education. So they've had superior ability to cut, on the shoulders of the provinces.

I noted the Quebec presentation made the case that in the toughest times, the federal government spending went up slightly—just under 2%—while its transfers to the provinces went down dramatically.

So the feds always say your absolute dollars have gone up, and what are you complaining about? That might have been part of what the leader of the Liberal third party in Manitoba was making the case on. But he's missing the point. He has to accept that equalization is a constitutional requirement for horizontal equity, and the federal government has a responsibility to offset its superior taxation capacity by transfers to the provinces that have the most demanding programs.

● (0950)

**Ms. Judy Wasylcia-Leis:** As we are the committee dealing with fiscal imbalance, would it be incumbent upon us, in your view, to come up with recommendations dealing with both the vertical and the horizontal imbalances, so we deal with the problems of equalization and problems in terms of cash transfers?

On the question of cash transfers, one of the things we're getting from some provinces is that instead of dealing with the imbalance in cash, we should recommend an increase in tax capacity—designate some portion of the GST to the provinces, give more tax points. I'm worried about that from the point of view of national programs. I think we can do cash transfers and still be sensitive to the needs of Quebec and respect the distinctiveness of Quebec, but I'd like your opinion.

**Hon. Greg Selinger:** It is true that the Séguin commission, several years ago, prior to Séguin being the Minister of Finance in Quebec, did recommend a transfer of the GST to the provinces. If there was going to be a transfer like that, it couldn't just be a straight

dollar transfer of the amount raised in each province. It would have to be an equalized transfer or it would create further inequity. So no matter how you do it, you have to have an equalization element to it, to make it fair.

**A voice:** And there is no more equalization.

● (0955)

**Hon. Greg Selinger:** That's right, there is no more equalization. Jim will comment on that.

You couldn't just transfer the GST back to the provinces that raised it, because the provinces that raised less would get less, and the provinces that raised more would get more, and the inequities would grow. It would have to be an equalized transfer.

Then your other issue is about some ability to retain a role for the federal government around conditionality of transfers. That has always been worked out in a way that had enough flexibility in it. We want some universal principles, for example, in health care or in early childhood education, but we've always wanted to have the ability of provinces, especially Quebec, to be able to do that in a way that made sense for them, with their own specific administrative arrangements, with their own program design.

If we're going to maintain a federal state, we want to have some things that bind us together, whether it's the Charter of Rights and Freedoms, whether it's a universal health care system. It's already delivered uniquely in every province. Every province has a slightly different way of doing it, but I think we all want people to have access to health care based on need. I think we all want to have a comprehensive system and a universal system. We have to find a way to do it that respects the history of provinces such as Quebec and its need for recognition, and at the same time makes sure the provinces are accountable to their citizens for some universal principles that we share as a country.

[*Translation*]

**The Chair:** Thank you, Ms. Wasylcia-Leis.

We'll come back later to the lengthy question you want to ask Mr. Eldridge on equalization.

[*English*]

Madam Smith, you have three minutes.

**Mrs. Joy Smith:** Going back to what we were talking about, I want to go back to the municipalities for just a moment. There was an article in the paper where the premier of the province was concerned that he would lose his plan he had with the Liberal government. It was a confusing presentation in the paper. Could you qualify what he was talking about?

**Hon. Greg Selinger:** First of all, I only read the papers, like you did. I think the point the premier was making is there are a number of things in progress right now in this Parliament, and if Parliament doesn't pass those pieces of legislation, if it decides to go back to the people for an election, it could take a long time to put those back on the table and get them resolved. Some of us, probably everybody here, has been through transitions of government where things that were just about there and ready to be done got delayed for one or two years as governments changed. That would only be to the detriment of the citizens.

I think the premier was simply saying we've got a lot on the table that we're working with the federal government on, whether it's cost-shared arrangements and specific projects, whether it's floodways, or museums of human rights, early childhood education, day care, equalization. All of these programs need to be passed, because even though they're not perfect, it's always better to be able to carry on the discussion at a slightly higher improved level than it is to be back in the hole again, in a crisis situation.

So we have to get these things done is the point I think the premier was trying to make.

**Mrs. Joy Smith:** Yes, I would agree with that. However, the track record of the current federal government has some questions, in equalization programs and I remember grant announcements about the human rights museum as well. I know that the premier and people in Manitoba all want the human rights museum. We want it built, and we're quite delighted with announcements. We just want to see things done, as you say.

Having said that, what do you think the single most beneficial thing would be to get the equalization payments established in a way that is consistent? The Liberal member, a little earlier, talked very briefly in his paper about changes to the rules at the last minute, and that this has been a constant frustration. I think your presentation was extremely well presented today, and a lot of truthful things were said here this morning. This is what we would share in terms of what's best for our province and best for our nation.

If you could comment on that, I'd appreciate that.

**Hon. Greg Selinger:** The single most important thing is to put the equalization back on a principled footing, to have a foundation based on principles that are understandable by all Canadians and have a mechanism or a formula that brings those principles into play in a way such that everybody understands how the formula connects to the principles. That would simply mean to put it on a ten-province standard with full revenue inclusion. That would probably be the most important thing you could do immediately.

If the federal government were to argue that they can't afford to do that all at once, we have in the past then said, okay, you put the ten-province standard in place, with full revenue coverage, and you peg it at say 85% or 90% of the standard and move it up every year according to your capacity to pay, which has always been underestimated. But it doesn't have to be all or nothing. It has to get the principles right, get the mechanism right to support those principles, and then make sure you work towards getting there every year. I think that would give greater confidence to the federation that we're treating everybody fairly.

**The Chair:** Thank you, Madam Smith.

Monsieur Bell, for three minutes.

**Mr. Don Bell:** Thank you.

You talked about the issue of one-offs, and you talked about the immunization programs as one example, and others. Don't one-offs serve a purpose, though, for the unusual kinds of circumstances that come along when one province may be affected greater than others by virtue of an economic downturn? I'm thinking of the BSE situation or others that could come along.

**Hon. Greg Selinger:** A well-designed equalization program will help you with one-offs, because it will have responsiveness built back into it. If the ten-province standard is \$100, and all of a sudden your little province drops dramatically below that \$100 because they've had an agricultural crisis or a natural disaster, the ten-province standard automatically says we have to backfill what they lost.

We saw that with the federal accounting error. We had a big fight about this, and I spent a lot of time discussing this with the Minister of Finance of the day, Mr. Martin. We lost \$165 million before I got a phone call to say that I was losing \$165 million because of a federal accounting error. Then they said, "By the way, you owe us \$700 million because we overpaid you for the last ten years." We said, "Well, that's a pretty big hit on a small province, and it's going to be really hard for us to pay that back." But we immediately said, "If our revenues go down because of your error, you have an obligation to put an offset against that of equalization."

We argued and fought for that principle. We had a precedent for that under Mike Wilson, in the early 1990s, when a similar situation had happened, and he had provided an equalization offset. So right away, 70% of the money came back to us through an equalization offset. That really diminished the size of the problem immediately and allowed us to negotiate repayment terms that were fair to the federal government and fair to us. So well-designed equalization will deal with one-off tragedies or situations in a specific region or province.

• (1000)

**Mr. Don Bell:** To clarify a term, is "FMM" the federal ministers' meeting?

**Hon. Greg Selinger:** FMM is the first ministers' meeting.

**Mr. Don Bell:** That's what I meant, the first ministers' meeting.

**The Chair:** Thank you, Monsieur Bell.

[Translation]

Before handing the floor over to Ms. Wasylycia-Leis so that she can ask Mr. Eldridge her lengthy question on equalization, Mr. Minister, I'd like to ask you a question that may go beyond the scope of this debate, but is related to it. It concerns the situation of the agricultural sector in Manitoba. This is one of my major concerns as a result of the duties I performed at the Union des producteurs agricoles.

Earlier I was speaking with your colleague from the Legislative Assembly of Manitoba, Mr. Gerrard, about the fact that I came here in 1982 during the debate on the Crow's Nest Agreement. There have been a number of attempts to diversify Manitoba's economy in the past. In particular, some have shifted from the grain industry to animal production. How are animal producers taking the fact that, across Canada, but particularly in the West, they are currently the victims of mad cow disease and the embargo ordered by the Americans?

Second, grain prices aren't where they should be because of massive subsidies by the Americans, among others, and the Europeans, which have resulted in a drop in international prices. How are you taking this crisis? How is the Government of Manitoba managing to support agricultural producers?

**Hon. Greg Selinger:** That's a good question. We've reorganized our departments. We merged the Department of Agriculture and Food with the former Department of Rural Development. We now have a different vision for each region, each city, each municipality and each rural area. We consider all economic development opportunities, not just agriculture, but also wind energy, ethanol, and we're trying to stimulate the tourism sector. They're establishing an economic plan for the rural regions that want to development, retain their young people and enhance their development opportunities in the future. Immigration is also part of that. Many immigrants are coming to Manitoba now. We have a program for that. Many of these immigrants will go to the country as well, not only in the major cities such as Winnipeg or Brandon.

**The Chair:** What does the \$1 billion announced by Andy Mitchell last week represent for Manitoba grain producers?

**Hon. Greg Selinger:** I believe it's about \$200 million. There can be no doubt that it's a benefit. There's still a lot of pressure.

**The Chair:** Yes because it's for past losses, not...

**Hon. Greg Selinger:** Absolutely.

**The Chair:** Thank you, Mr. Minister.

[English]

Madam Wasylycia-Leis, your question on equalization to Mr. Eldridge.

**Ms. Judy Wasylycia-Leis:** Merci.

I have lots of questions, but just to clarify, Mr. Eldridge will have a good chunk of time to present, and we'll have another round for Mr. Eldridge if possible?

● (1005)

[Translation]

**The Chair:** That will be for the greatest benefit of all colleagues around the table.

[English]

**Ms. Judy Wasylycia-Leis:** Okay.

On equalization, it seems to me that a few years back, as I understand—and I think the minister said this—there was considerable unanimity at the provincial level for putting in place a new formula, a ten-province standard, including all revenue, including revenue from oil and gas and natural resources. The provinces did all that work—they knew their five-year agreement was coming to an end—so that there would be a reasonable formula to deal with problems of the past and take us forward.

The federal government said that was too much money and proceeded to force, I think—put the gun to the provinces' heads—an agreement as a temporary arrangement. And we're left now with a scheme that is inadequate, even as a transition measure, and a federal government that's running off doing all these side deals that actually is costing, my guess would be, as much as if not more than if they had agreed to the ten-province standard all along.

At any rate, I think we're in a crisis in this country in terms of holding on to a program that is vital to our national identity and the very notion of being able to ensure that all regions have some element of equality and access to equal services on an equal-capacity footing.

My question, broadly, to you is how did we get here? What's the history we need to learn from? How do we fix the problem now?

We could be going into a federal election, and I don't think we have a real consensus in Parliament for equalization. I know Joy is pretty positive today, but I think her party has not been that supportive of the equalization program all along. Other provinces, like Alberta, have different agendas that really are moving us toward a "survival of the fittest" kind of model.

I'm quite worried about the future. I throw this all out to you and hope that you can give us some clarity.

**Mr. Jim Eldridge (Special Adviser on Intergovernmental Relations, Department of Finance):** Thank you very much.

I will ask, actually, the minister and others to join in as they see fit.

I should explain that my history on this is a long one. I was a finance department employee from 1968 through 1982, became an ADM in 1973, have lived throughout my career with equalization, and have been on a number of the subcommittees. I worked on the committee that came up with the constitutional wording, as we have it now. I worked on the Charlottetown wording that did not pass, etc. So I have lots of perspective on those things, and can talk to them if you'd care to.

Interestingly enough, one of the reasons we have section 36(2) in the Constitution now is that equalization was severely threatened 25 years ago, and the provinces that cared about it were quite emphatic and aggressive in saying that unless the equalization system was put in the Constitution, they wouldn't support the package that was on the table at that time.

It is my opinion that the present federal plan strays considerably from section 36(2). The minister said it this morning as well. How far it will eventually stray is going to depend to some degree on the recommendations of the federal expert panel that Minister Goodale has established and what they recommend with respect to allocations and regular reviews and so on.

But as the minister said, and as I interjected, we now have a system that is really difficult to call equalization. It has that label, but it is a simple grant. It is capped. It is not sensitive at the moment to changes in fiscal capacity. It may become more sensitive if the expert panel's recommendation is that it should, and if the federal government accepts that, but at the moment we're dealing with a drastically different system from the one we knew in 1967 when the national average standard was introduced, and in 1982 when section 36(2) was put into the Constitution.

Some of the pressures are the same now as then: high-cost natural resources, non-renewables. The price of oil is one of the major determinants of the kinds of crises that we go through in this program. How do we fix it? I don't have a simple prescription.

One of my colleagues who will follow this afternoon, Ron Neumann, is the current national guru on equalization. I encourage you to listen to his presentation carefully, because he's extremely well respected across the country. He may have some prescriptions. What I can say, though, is that the role of this committee is very important. With the decision by the federal government to name an expert panel that doesn't have provincial involvement, you have become, to my way of thinking, the only balanced national voice on this subject at the present time, and it is to my way of thinking critical that you speak strongly, not only on the vertical fiscal imbalance issue but also on the horizontal fiscal imbalance issue.

There has been consensus over the years from time to time on the restitution of the ten-province standard. It's sometimes been a fragile consensus, and it's often been in the context of looking at other things at the same time, like new health arrangements and so on, but that is the system that was envisioned when section 36(2) was put into practice.

Actually I believe the question was raised this morning to Dr. Gerrard regarding what "reasonable" means as it appears in the Constitution. I thought just to contribute a little to the answer to that question I would say that the words in the Constitution were derived to a significant degree from the rationale for the ten-province standard arrangement that we now have in place.

• (1010)

In fact I was a member on the little committee that worked on developing the words and that actually developed a few alternatives, and there are several other members still around, in different jurisdictions. We went back to the statement that the Honourable Mitchell Sharp made, in introducing the ten-province standard into

the House of Commons, in 1966, I think, for introduction in 1967. In fact, you can find the phrase in two or three places, where he talks about reasonably comparable levels of service, reasonably comparable levels of taxation. There was not strong consensus among the provinces about precisely what we should do in the Constitution. The thought at the time was that this was about as far as we could go, and maybe, just maybe it could be measured.

What does "reasonably comparable" mean? Well, it's hard to say, but if Alberta has no sales tax and Newfoundland has—in those days it used to be 12% or 14%—is that reasonably comparable? Probably not. At some point, the officials thought, well, let's get as close as we can to something that potentially could be measured and see if it's saleable, and indeed it was. I can talk to you about some of the history of how those words actually got into the Constitution.

My concern, at the moment, would be exactly as Judy just said. We are in a serious situation, and the present federal proposal presents us with a system that probably ought not to be called equalization as we know it.

[*Translation*]

**The Chair:** Mr. Eldridge, earlier you referred to the expert panel. That expert panel has a very limited mandate. It isn't to propose an in-depth reform of the equalization formula. It isn't to examine, for example, the standards set by the provinces over the past few years. Its fundamental mandate is to determine how, starting next year, the federal government will distribute to the provinces the amount of equalization pre-established on the basis of the 2001-2002 payment indexed by 3.5 percent per year with a ceiling.

We deplored that—I believe the NDP and the Conservatives did so as well—since we'll be losing the very essence of equalization without in-depth reform. You also mentioned that it had become a pre-established subsidy and that it no longer had anything to do with an attempt to achieve a certain fairness, a certain uniformity among the provinces in order to provide comparable services and so on.

How can you aim for that objective with a capped program on which the allocation for next year is being done on a basis that is still unknown? How can you adjust all that to take into account the actual fiscal potential of the provinces? I'm less optimistic than you about the expert panel's work. Moreover, I've known a few that have never considered equalization in any way. Mr. Eldridge, you're probably one of the seven people in Canada who understand the ins and outs of equalization.

•(1015)

[English]

**Mr. Jim Eldridge:** Mr. Chairman, I too know members of the panel, and in fact I have great confidence in their ability and integrity, but I also agree with you that they're constrained in what they can do. I guess the one difference I would take up is that I think they will be able to examine a number of the larger issues, and in fact provinces will arm-twist them to try to do that. It isn't clear that they will, in fact, listen to us, however. They do have the capacity to talk about adequacy; they do have the capacity to talk about the allocation system sensitivity, the relevance of maintaining the representative tax system, etc. They do have the chance to visit or revisit the big issues, but it isn't clear that they will and it isn't clear that their recommendations, in any case, will be listened to.

[Translation]

**The Chair:** Thank you, Mr. Eldridge.

Mr. Côté, did you want to ask our guests a final question?

**Mr. Guy Côté:** It was more of a comment. I find it interesting to note this because, from your presentation today—and this is somewhat what we've heard in various provinces—we see once again, in equalization as in other fields, that unilateral decisions are constantly being made by the federal government. We have to deal with a series of unilateral decisions, which is one of the causes of this fiscal imbalance. The last agreement on equalization is another good example of this. It's only an agreement in name since it was a take-it-or-leave-it affair.

**The Chair:** Do you want to respond to that, Mr. Selinger? I don't believe it's up to Mr. Eldridge to do so.

**Hon. Greg Selinger:** You're right. Unilateral decisions cause enormous problems in relations between the provinces and the federal government. The federal government probably thinks that since its revenue is concerned, the final decision is up to it, but, historically speaking, its revenue is shared among the provinces. That was the case in World War II. A little sensitivity on this point would benefit the country.

I'd like to address another point. How can the capacity of the provinces be measured under the equalization system? Some experts now tend to recommend a large-scale measuring system. It isn't a measure of a province's taxing capacity; it's a measure of the economy. However, you don't tax the economy as a whole; you tax specific revenues. I think it's necessary to take a very accurate measurement of the provinces' capacity to offer their services; it isn't desirable to use a measurement that is simple but that less accurately reflects the provinces' capacity to offer their services based on their revenues. Between simplicity and accuracy, we choose accuracy.

•(1020)

**The Chair:** Thank you.

Judy, do you want to ask a final question?

**Ms. Judy Wasylycia-Leis:** Yes. Do we have 10 minutes?

**The Chair:** Oh, Judy! Of course we have 10 minutes. But you've monopolized at least 25 minutes of all the testimony. If my colleagues permit, you can ask a question.

[English]

Do you agree with that?

**Mr. Don Bell:** No. Let Judy have her final question. Go ahead.

**The Chair:** Final question, Madam Smith? Yes. Guy Côté? Yes.

[Translation]

The time is yours.

[English]

**Ms. Judy Wasylycia-Leis:** I have two questions.

You talked about the critical role of this committee. I agree; I'm just not sure how we're going to get through to the present government, given the state of intransigence on the Liberals' part right now and given the uncertainties around the fact we could be into an election. I want to come back to ask all of you what you think would be the most helpful at this point. If we do a report, say, within the next few weeks, before a possible election call, what would be the most important recommendations we could make in terms of fiscal imbalance?

The second question has to do with the minister's comments about the vertical imbalance. We've dealt a lot with health care, but we haven't really focused on education. Your statistics floored me; I didn't realize that the federal government was down to such a low share of funding for education.

We got an excellent overview of all of this from Robin Boadway at our committee last week in Ottawa. He was very clear about the fact that we've seen these cuts in transfers to health and education, and we've seen the loss of the Canada Assistance Plan, which he agrees was a fundamental blow to our notion of having a floor below which no one should fall in this country. He was also very clear about how the federal government now, rather than dealing with the inequities and the cuts in transfers, has actually started to put in place these little boutique projects that are narrow in scope, like the millennium scholarship, or have a time limit, meaning that at some point the feds are out and the provinces have to pick up the rest, or that they demand cost-sharing. Here you have the feds cut and put the load put onto the provinces, and then they bring in new programs that require even more money from the provinces.

My question is, how do we advance the notion of increased transfers from the federal government at this time of tremendous surplus and the notion of a separate transfer for both education and programs relating to children?

**Hon. Greg Selinger:** All the polls show there's very wide support across the country for equalization as a principle, and I think there's probably even higher support for post-secondary education. There's a wide recognition that education is going to be the key to being successful in a global economy, but I think the evidence is now in front of you from many experts that it's down to about 7% from a high of 15%. I think there's a lot of room in there to get the public's attention. We as a province plan to put more emphasis on the inadequate funding for post-secondary education. That's going to be one of our go-forward positions.

The usual response to the ten-province standard or demand for full restoration of any program is that it's not affordable. I think if you get the fundamentals right and then have an incremental approach to it, they have less of an excuse there. I think Quebec has recommended this too: immediately restore funding for post-secondary education and social services. Separate transfers? I suspect they would agree with that as well, for accountability. Then incrementally improve things on a go-forward basis, because then the debate is about the increment, what's the affordability of the increment, not whether the fundamentals have been addressed.

Right now we're tangled up in what you could call "ad hoc-racy" on a federal scale. It creates an enormous amount of confusion and misunderstanding, and we can't get through that to get down to the basics of how to advance these programs.

• (1025)

**Mr. Jim Eldridge:** Some of your predecessors produced this document, a parliamentary committee report from 1981. They took on the issue of the macro-formula and basically explained why it was not adequate for achieving the goals of equalization. Your predecessors have done it, so feel free to do it as well should you wish to.

What could this committee do? One thing is to keep yourselves alive in whatever forum is possible in order to ensure that what comes out of the expert panel is reviewed by you and that you have a voice in the next steps. Don't accept automatically that the system as set out by the federal government ought to be in place for five years, ten years, or whatever. It's in place for two years, more or less. If you can insert yourselves into the process beyond that, that will be great.

Another thing, I think, would be to recommend strongly, to urge, that the expert panel and the federal government commit themselves to ensuring that section 36(2) is the main focal point for their work. I've seen the expert panel's mandate, and they have a sort of broad reference to section 36(2) in the preamble, but it isn't exactly clear that's to be the guiding light. One would think that when there's a constitutional provision, that would be the guiding light, so I encourage you to remind them of that fact.

Beyond that, if you were willing to argue for the restitution of the ten-province standard of full revenue coverage, that would certainly be highly desirable as well. As Greg mentioned, the proper split on post-secondary education and social services is critical as well.

But really, to keep yourselves active and on the file in whatever forum, I think, is essential for a review of something as important to Confederation as equalization. It's always under the radar screen except for relatively few people, yet it's so important. As often is said, it's the cornerstone of Confederation.

[Translation]

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

I want to thank my colleagues for working in harmony everywhere since the start of our proceedings, but particularly in Winnipeg.

Mr. Selinger, thank you for taking part. Incidentally, your French is impeccable and does you credit.

Thanks as well to Mr. Eldridge, a wise man, Mr. Boschmann and Mr. Molnar for their participation. You've made an extraordinary and well-documented contribution to our work. Thank you for contributing to our report with specific recommendations, on equalization in particular. I believe we'll be able to carry out our mandate in adequate fashion.

Thank you very much. Good day to you.

We'll now take a 15-minute break. We'll resume at 10:45.

[English]

• (1028)

\_\_\_\_\_ (Pause) \_\_\_\_\_

• (1052)

**The Chair:** Good morning, everybody.

It's a pleasure for me to welcome Mr. Stuart Murray, Leader of the Official Opposition, and Mr. Gerald Hawranik, responsible for finance for the Progressive Conservative Party. Welcome to the Subcommittee on Fiscal Imbalance.

You will have 15 minutes for your opening remarks, and after that we will have two rounds of questions on this important issue from members of every party in the House of Commons.

Mr. Murray, thank you very much, and welcome to the subcommittee.

**Mr. Stuart Murray (MLA and Leader of the Official Opposition, Progressive Conservative Party, Legislative Assembly of Manitoba):** Thank you very much for allowing us this opportunity.

I certainly want to welcome all of you to the great province of Manitoba and to the city of Winnipeg.

Before I start, let me say I have been asked questions as to the particular star I'm wearing. I just wanted to let you know that we of course are very excited about it, and I think all of Canada and all the political parties are behind the Museum for Human Rights, which is going to be built here in Manitoba. We were all asked to reach for the stars and to be part of it, so that's what we're wearing. I know each and every one of you will be joining us just as soon as you can get access to it.

On that basis, I would like to proceed.

Mr. Chair, thank you very much.

[Translation]

**The Chair:** Do you have a star for us?

[English]

**Mr. Stuart Murray:** We'll ensure that you all get them. I'll speak to the committee and make sure it sends them out to you. Thank you very much.

I know that these are busy days for all of you and that there are more pressing issues hanging over the head of the federal government. Nevertheless, this is a very important and timely topic, and I'm grateful to have this opportunity. I'm joined by my finance critic, Mr. Gerald Hawranik, in talking to you this morning.

As the House of Commons Standing Committee on Finance learned just the other week, due to a strong performance of our Canadian economy, the federal government will be looking forward to more than \$22 billion in surpluses over the next three years. Clearly, the time is right to visit the fiscal imbalance and to chart a long-term solution in the best interests of our confederation and, just as important, our Canadian taxpayers.

Canadian taxpayers are ultimately responsible for the fortunate fiscal position we find ourselves in at this point. It is important that we seek the opinions of Canadian taxpayers on how this windfall should be spent, or whether it should be spent at all.

I want to discuss a few points today. Although they may appear distinct, they mesh together under the larger issue of the economic competitiveness of our country and our provinces.

First, we need to revisit the impact of the current equalization policy on the development of our provinces. Specifically, we feel that the equalization program should be revisited to ensure that these funds assist in developing larger and more competitive provincial economies.

Second, although the new deal has finally increased the transfer of gas-tax revenues to municipalities in need of infrastructure upgrades, the federal government has yet to address the issue to our satisfaction. Given the vastness of our country and the importance of infrastructure for supporting economic growth, our arteries need to bolster rather than hinder the flow of goods and services.

Finally, we think that the announcement of the prolonged fiscal health of our federal government is an opportunity to finally address the taxation issues that make our business conditions less competitive than those of many other nations. Until we bridge the prosperity gap between Canada and other countries, we will be limited in our ability to grow knowledge-based economies and curtail the brain drain to the United States and elsewhere.

I'm glad to have the opportunity to address equalization issues with representatives from the federal government. The issue is certainly front-of-mind with many Manitobans as well as with some of the presenters to this committee. We share the view that it is time to fundamentally address the program to deal with transparency and the changing and growing natures of provincial economies. The program needs to become a booster, rather than a deterrent, to economic development in the provinces.

Manitoba has been a recipient of equalization since 1957, ever since the inception of the equalization program. This is a rare distinction that you won't find mentioned in many publications from the Province of Manitoba. Given where our province is right now and the economic growth it is experiencing, I would expect that Manitoba would be decreasing its reliance on equalization rather than growing it.

In 1957, when the program began, equalization was known as the Government of Canada subsidy. The \$1.8 billion represented just 2.7% of all provincial revenues. Today, Manitoba receives more than \$1.6 billion in equalization, almost 20% of our provincial revenues. The revenue is enough to fund Manitoba's departments of education, justice, transportation, and government services for one full year. This figure doesn't include the health and social transfers or other

federal revenues that together add almost \$1.8 billion, 34% of all Manitoba's revenues. Despite economic and population growth, Manitoba is more dependent on equalization than ever before.

Our view is that the current system of equalization is bad for Manitoba and bad for Canada. This program has delayed needed government reform and entrenched bad policy that has left our province unable to compete with our closest neighbours.

Manitoba has some of the highest taxes in western Canada. We also have the highest per-capita debt. Despite recent growth, these hindrances prevent Manitoba from establishing itself as a preferred destination for businesses and individuals. The C.D. Howe Institute points out that the current system of equalization hinders economic growth, since increases in the tax base and revenues will ultimately reduce equalization payments. Provinces that lower taxes to encourage private-sector investment would also lose out on equalization. Conversely, borrowing and building debt to bolster the province's bottom line does not reduce equalization payments.

As we know, growing debt often serves to entrench the practice of high taxes. The process becomes further entrenched because the current system of equalization would penalize provinces for growing own-source revenues and using that growth for the purpose of reducing debt.

•(1055)

Effectively, the federal government is rewarding provinces for running up the balances on their credit cards. The system penalizes provinces for trying to pay off their credit cards. Shouldn't it be the other way around?

This is a particularly important issue here in Manitoba, where our province has recently announced that the debt will grow to over \$20 billion by the end of this fiscal year. Despite annual payments, debt continues to grow unabated.

As we see it, the future of an equalization program should address this inequity. Yes, there should be supports to provinces to provide comparable levels of services across the country, but it should not be done at the expense of the fiscal health of any province, either.

I would also like to address the topic of the five-province standard for calculating a province's fiscal capacity, which has been raised by other presenters to this subcommittee. We share the view of the presenters who have advocated for return to a ten-province standard for future equalization calculations.

Using only the five middle provinces to calculate a national standard for fiscal capacity seems fundamentally flawed, because it doesn't include the participation by all provinces, which should be a requirement for a national measure, and does not address the fact that the relative fiscal capacities of provinces can change over time.

Moving to a ten-province measure may increase equalization transfers to some of the provinces, including Manitoba. That can be addressed, however, by adjusting the way you calculate the representative tax system, or RTS. Either way, a ten-province calculation is still the fairest calculation for all participants.

On the fuel tax issues, I'm glad to note that the subcommittee has travelled to Winnipeg today, because it makes my comments regarding the infrastructure needs of many municipalities more poignant. Surely each member noticed the quality of our roads on the ride here from the airport and can appreciate the calls many of us make for assistance to improve road quality.

I don't for a minute want to suggest that the new deal accord money was not appreciated; certainly every little bit helps. That being said, the federal government is doing a disservice to every person who uses the roads, because out of the amount of fuel taxes it collects, it returns a relatively small amount to the provinces for infrastructure needs.

The federal government will collect more than \$5 billion this year alone in fuel tax revenue. However, just \$600 million of that amount will be transferred to cities to deal with their infrastructure needs.

The federal government had promised to share half of all fuel tax revenues with municipalities, but that won't happen for five years. While municipalities will eventually get to share \$5 billion, the federal government will collect more than \$20 billion in fuel tax revenue over that same time. That works out to 25% of the fuel tax at best—not such a great deal any more.

These calculations don't even factor in the inevitable growth in the fuel tax between now and 2010. The fuel tax grew by 10% over the last five years.

I turn now to the issue of the opportunity for permanent tax relief. When deciding what to do with this large and ever-growing surplus, it is important to remember where it came from. Regardless of who was holding the large surplus, it is the Canadian taxpayers who have provided it, and I believe it is critical that they be rewarded for their hard work through meaningful and permanent tax relief.

There has been discussion on the issue of tax points and whether transferring more tax room to the provinces will give provincial governments the resources they need to cope with the provisions of services to taxpayers. Surely transferring tax room away from the federal government and to the provinces is the simplest way of addressing the fiscal imbalance. Perhaps it is, but I would contend that it is not in the best interest of any party to do this.

A few Canadians have discussed the issues of productivity and the growing prosperity gap for Canadian taxpayers relative to their counterparts elsewhere. However, while only a few people might be able to explain what the prosperity gap is, most taxpayers are acutely aware of the impact. They know when they look at their paycheques that they aren't much better off than they were a year ago. They also know that the recent announcements of federal tax cuts are measures that offer very little in terms of real relief.

Since the 1980s, average Canadian incomes have essentially stagnated. According to the Rotman School of Management's Institute for Competitiveness and Prosperity, the gap between incomes in Canada and the United States is more than \$7,000. If the gap were overcome, the average Canadian family would have an additional \$15,000 in after-tax income in their pockets.

This would mean reducing taxes for both individuals and businesses. It would mean lowering the barriers to investment.

We know the creation of jobs—not just highly paid and skilled jobs, but all jobs—is critical to provincial development. Lowering the barriers to entrepreneurial activity could make Canada a location of choice for new business ventures and in turn create the job growth Canada needs to be competitive. This is critical for Manitoba, which has a lot to offer prospective businesses but negates any advantage through punitive taxation.

If we allow the prosperity gap with the U.S. to continue to grow, we will further entrench comparatively weak economies for provinces and further the need for equalization.

• (1100)

As for our recommendations, I want to thank the committee for inviting us and all Canadians to present our ideas on this very important subject. We certainly hope that decision-makers look at these issues as more than a simple transfer of dollars between levels of government. It can be so much more than that; it can be an opportunity to leverage the good fortune and hard work of Canadians into a future where provinces and the entire country can enjoy prolonged periods of growth and prosperity. It can also be an opportunity to reward Canadians for the important role they have played in contributing to the present federal government windfall.

In summary, my four recommendations are the following: to make equalization a program that both rewards the provinces' efforts to boost their fiscal health and ensures all Canadians have access to equal, quality programs, regardless of where they live; to boost the transparency of the equalization program by returning to a ten-province standard for calculating fiscal capacity; to commit to an increased and longer-term transfer of fuel tax funds to municipalities in order to deal with infrastructure issues, or reduce the fuel tax to lower the tax burden on Canadians; and to make real tax reduction for businesses and individuals a priority.

Again, I welcome you to Manitoba, and I thank you for the opportunity to make the presentation.

• (1105)

**The Chair:** Thank you very much, Monsieur Murray.

[*Translation*]

Ms. Smith, you have five minutes.

[*English*]

**Mrs. Joy Smith:** Thank you.

Thank you for that presentation; it was very much appreciated. It is a privilege to be here to speak with you this morning regarding this.



As you know, in considering the well-being and taxation constraints that we have in the province of Manitoba, we want to get away from the term “have-not province”, which you hear nationally, and which grates on me, quite frankly, every time I hear it.

I would like to have your comments. Every year you hear great celebrations at the federal level about surplus numbers, and then a few months later you find out the surpluses were much more than first advertised. Can you comment on how that impacts on what you're doing here at a provincial level, and how that impacts on the programs we run here in this province?

**Mr. Stuart Murray:** Thank you very much for the question, Ms. Smith.

There is, I think, a high level of frustration on the basis that you are going down a path where we, particularly in Manitoba, rely on equalization and put together our budget on the basis of the revenues we can grow in our province, and then are hopeful that we're going to see additional equalization come from the federal government. Of course, a lot of that depends on what happens in Ontario.

I think it perhaps sends a bit of a signal that somebody is not paying attention at the federal level. I have a business background, and from time to time you budget and do the best you can, and you're always within a plus or minus ratio of where you may be, but I think when things are sometimes tenfold higher, as we saw in the last federal projections, you have to ask a very salient question of, fundamentally, who's in charge.

In one respect, it's great to see the additional revenues present, but they beg the question.... I certainly don't speak for a moment for the federal government, but I think one would ask the federal government, if you're projecting a certain amount of revenue and all of a sudden you have tenfold those revenues, then what exactly was your plan to deal with the initial amount you allocated? Presumably there was a plan for that. But when it gets exponentially increased, what does that say about your budgeting process? To me, you have to ask, are you overcharging Canadians? Could you be so far off the mark that perhaps you weren't watching properly?

Again, I'm thankful for one thing: that it's on the plus side, as opposed to the negative side. But one could ask the question, if it is on the plus side, is there the same risk that it could also be on the negative side, which I think would be devastating to the provinces.

**Mrs. Joy Smith:** Can you also comment on something else? As you know, you made a comment earlier about the tax burden. I think it was during the Second World War that we relinquished some of our personal income tax—in fact, quite a bit. The federal government, I believe, now gets about 57% of our personal income tax.

I'd like you to comment on two things, the first one being whether there have been any efforts through the provinces to get together and lobby the federal government to take a look at their cut of this tax. Originally, it was placed in the provinces to take care of the needs of the provinces, and we haven't revisited it. I don't know why, really, there hasn't been a great deal of will to do that.

Secondly—and I'm going to ask both of you, so you can sort of meter your time out a bit—when we talk about the benefits from the

new federal equalization plan for 2004-05, it's interesting when you take a look at the benefits that went to different provinces, because Manitoba seems to be fairly low down on the scale. You see other provinces like Saskatchewan and Prince Edward Island, and some of them have benefited a lot more. Could you comment on that as well?

• (1110)

**Mr. Stuart Murray:** Thank you very much for the question.

I would say one might argue that the health care accord for ten years, which the provinces got together, was one initiative that was taken by provincial premiers. That was specifically generated, frankly, by the Prime Minister, however.

I think your comment is very salient. I think what needs to be done.... And I would hope, frankly, through the chair, that as you go through the process throughout Canada, by listening not only to political leaders, but also to hard-working Canadians in all provinces who have an opportunity to present, they give a strong message that we need to be able to reflect that to be a competitive environment.... We all understand that there are overused words—that there's only one taxpayer. I think it always bears repeating, because I think from time to time all of us in various levels of government get lost in the perception that we can go back and re-tax somebody, or if there's a huge surplus at the provincial level, that somehow the federal government is doing its job.

I would submit that perhaps there has to be a revisitation of what the tax level is, because if that amount of revenue is being created or generated, I would suggest it would be important for all provincial premiers to try to come together to say to the Prime Minister—not at the Prime Minister's agenda, but perhaps at the premiers' level—that they should be getting together to try to make Canada, and therefore their own provincial jurisdictions, more competitive.

I guess this gets to the point of tax room and tax points. I guess I would argue as a provincial leader that certainly we have a very good relationship with the Province of Manitoba and the people of Manitoba, so I would argue very strongly that there should be some room given to tax points for the provincial premiers to be more in control and decide where they want to be with respect to their handling of that money.

On the other comment that you raised on the federal plan, yes, I think that's one of our major concerns. We find here in Manitoba that we continually seem to be ratcheting up more and more in terms of reliance on federal transfer payments. I've had this discussion with the premier, in that typically we get about 80% of the province's budgeting done, and then you hope there's going to be a 20% fill there from the federal government.

I just think it's a heck of a way to run a railroad—particularly if it's starting to be reduced, as we see in Saskatchewan. And the notion that in Manitoba, in western Canada, we've become the last have-not province, in itself sends a negative signal to business and to how the province is being run.

So it is a concern that we are reliant more and more on federal transfer payments, rather than less and less.

**The Chair:** Thank you, Madam Smith.

Mr. Bell, for five minutes.

**Mr. Don Bell:** Thank you.

I was interested in your comments about the new deal. You did expand on the fuel tax issues, but if I understand what you're saying in your original comment, the federal government has yet to address this issue to your satisfaction. I presume it's basically that you think the half that has been promised should have happened faster. Is that the summary?

I would point out that the FCM, of which I was a board member at the time when we started these discussions, about five or six years ago, asked for three things that we were seeking at that time. In fact, during the last election the federal Conservative Party adopted three cents up front, but that was going to include or replace existing infrastructure programs.

As a municipal politician at that time, my concern was that what we saw being offered by the federal Liberal Party was in fact five cents over five years, back-ended with two cents in the last year, but it was going to be in addition to the infrastructure, the green municipal fund, and the other infrastructure programs that are there. It seemed to be a richer program than we had asked for at the FCM, and it was a richer program than was being offered by the alternate parties.

I'm curious about that. And I would point out to you that through the discussions we had, we increased the offering, if you want to call it that, to one and a half cents in the first year. So we managed to front-end some of it even more. I can tell you that because of my ties to municipal government, I am hopeful that we'll in fact move some of that two cents in the fifth year up earlier.

It's critically important. I agree with you on that, but I was curious about your comments.

•(1115)

**Mr. Stuart Murray:** Sure. Thank you very much, Mr. Bell.

Your comment that you were involved at the municipal level politically is important, because I think you'll understand my comment.

We go to the AMM, the Association of Manitoba Municipalities, here in Manitoba. We have opportunities to speak as leaders of a party and to be part of the process. A couple of years ago, one thing was always the comment from provincial leaders, while they were hammering the podium at the same time. They were demanding that the federal government give back more gas tax to provinces.

I can tell you that I probably got swept up in that and made that comment. I was kind of swarmed afterwards by a number of municipal leaders who told me to forget it and give up, because it's not going to happen; we've been going down that road and it's not going to happen.

I think I said to you that there was a start through what they did. The concern that we have is when you see the latest numbers. I'm sure they're bigger than this.

Let's talk about Manitoba for a minute. I think it's \$135 million that the federal government would get in terms of gas tax. When you drive around the province of Manitoba, our roads are really in very rough shape. I would think that would be a priority for the federal

government. I know there's always a danger when you start getting into this notion about revenue generated on a line item in a budget that then has an expense line that goes across to it. Maybe there's some limiting factor in terms of who's actually spending that if you're always being directed to where you're going to spend money, but I would submit to you that the infrastructure in Manitoba is in very serious condition. On that basis, that's my comment.

I think that when the federal government, and particularly Mr. Bell, again realize that there's a projected revenue, of course, the revenue then exceeds that original projection.

In my mind, and I speak on behalf of Manitobans, we are a trucking industry. We truck a lot of product, such as grain. We hear time and time again from a lot of our people, entrepreneurs and business people in Manitoba, that our roads are in very bad shape.

On that basis, I would be delighted if the committee had an opportunity to experience that first-hand. Don't take my word for it. If you experience that first-hand, Gerald and I will pitch in for the wheel alignment that you're going to have to pay for once you've finished driving around on our rural roads. Even in the city, it's a huge problem.

That was the basis, Mr. Bell, for the comment. I think that for the \$134 million, and it could be more that comes out, there should be a more highly focused approach to fix the infrastructure in the province of Manitoba.

**Mr. Don Bell:** You're just talking about the more rapid escalation of that figure rather than the five year, the way it's currently scheduled, I presume?

**Mr. Stuart Murray:** Yes, and I think this is number one. I think it should be increased more rapidly, because in my observation—and you may disagree with this observation—according to the federal treasury, the revenue is there, because the revenue exceeded what you initially thought you might have.

**Mr. Don Bell:** Is that my time?

**The Chair:** We'll have another round of three minutes after.

Monsieur Côté.

[*Translation*]

**Mr. Guy Côté:** Thank you very much, Mr. Chairman.

As you know, the subcommittee is conducting consultations across Canada. Those consultations are nearly complete. Without drawing any immediate conclusions, a certain number of points have been repeatedly made.

In each province visited, fiscal imbalance is a structural problem amplified by certain policies of the present Liberal government. Certain terms often recur, particularly the unilateral nature of the federal government's decisions. We all have in mind the radical cuts made to transfer payments in the mid-1990s and the dramatic effects they had on the provinces.

To date, everyone agrees there must also be an in-depth reform of equalization. The vast majority of presenters have mentioned that it is important to return to the rule of 10, that is to say to the average fiscal capacity of the 10 provinces.

Earlier you seemed more in favour of a transfer, at least a partial transfer, of taxation fields or tax points. I'm fishing for information. This thought came to me while I was listening to you.

If the federal government were to proceed—I'm taking my thought quite far—with a complete elimination of transfer payments to the provinces in exchange for both tax points and fields of taxation, provided the reform were based on equalization, which would exactly play its appropriate role, wouldn't that be a solution to the fiscal imbalance problem?

• (1120)

[English]

**Mr. Stuart Murray:** Thank you, Monsieur Côté, thank you very much for the question. Again, I applaud you. If the term is “thinking outside the box”, I think it's important that we do this.

I would submit that there is a role for equalization under the way that it was initially established. I think this was very important. When you look back to 1957, there have been so many combinations and permutations of this. They've gone, as I understand it, from a two to a five, to a ten, and back and forth in terms of is there a better mousetrap out there. I think there has to be a way to not punish any province, for example, that might have a smaller population, that may not have the ability with some of the resources. I know that here in Manitoba, with hydro, there's a tremendous opportunity for us with hydro. We like to refer to it as our opportunity to compare it to Alberta's oil. Yet we don't seem, in Manitoba, to have the ability on that same basis.

I don't want to be gratuitous in my comments to the committee, but I do want to say wholeheartedly that I do think that this is very timely of what it is that you as a committee are doing. There are all the issues you're hearing from various presenters on the concern about fiscal imbalance, all the concerns about whether Nova Scotia and Newfoundland and Labrador have been given some kind of special treatment. You hear these sorts of things, in which case you start to step back and ask, are we playing one province off against another? And I would certainly hope that it wouldn't be the intent of any prime minister of the day to try to curry political favour by trying to go on a piecemeal by piecemeal basis to try to influence a voter decision.

I think it's important again to come back to the question: What is the primary focus of equalization? It was very important when it was established because it meant that those provinces, through no fault of their own, were given the opportunity to provide services so that any Canadian living in whatever provincial province would not be treated as a second-class citizen compared to anybody else. So I would hope and I would recommend that the committee, when they start their deliberations, sit back and say let's focus on what 1957 was all about. Why did it come about, and what were the fundamental core values of that? And let's see how far we've strayed away from that in terms of 2005 and 2010 and forward. So I think you raise a very interesting comment on it.

[Translation]

**The Chair:** Thank you, Mr. Côté.

Ms. Wasylycia-Leis, please.

[English]

**Ms. Judy Wasylycia-Leis:** Merci.

Thank you, Mr. Murray and Mr. Hawranik, for being here.

I appreciate the presentation, Mr. Murray. However, I sense from your presentation a confusing message around equalization. I sense that you're prepared to give reluctant support to the concept of equalization and you see it as a bit of a drain on creating a competitive economy. The fact that you cite the C.D. Howe Institute study that suggests that equalization hinders economic growth, and the fact that you fail to reference the absolute need to include all revenues as part of the ten-province standard, suggests to me that you'd like to get out of the whole system of equalization if at all possible.

The contradiction I see is that equalization is here and it's desired, because there is in fact such a difference on a province-by-province basis in terms of fiscal capacity. An oil-rich Alberta and a natural-resource-rich Saskatchewan have a much greater tax capacity than Manitoba. The purpose of equalization is to in fact even that out. So it's not like Manitoba has done something bad and therefore shouldn't be entitled to equalization, whereas Alberta and Saskatchewan have been great economic planners and have created this competitive economy. I think they're at an advantage that has to be addressed through equalization.

I think it was actually Robin Boadway who said that the consequence is a system that effectively amputates a good part of the economic purpose of equalization, if we don't look at all revenues and natural resources.

Actually, we've all heard Tom Courchene, who has talked a lot about this issue. He says that Alberta is able to use its energy revenue bonanza to mount a version of a tax haven. That's why we have equalization, and that's why we're grappling with it today. We want to put in place a formula that works, so it's not just a ten-province standard, but it's one that actually includes all revenue and is based on the notion of the politics of redistribution, which is why, I think, Canadians support it.

I guess my question to you is this. How far do you go in terms of advocating a return to the way things were in 1957, which really was about including all revenue and all tax capacity, and then using the power of the federal government to ensure that we even that out across the country?

• (1125)

**Mr. Stuart Murray:** Thank you very much for the question, Madam Wasylycia-Leis. It's nice to see you in your home town.

I think my message is very clear. When you look at the way equalization is working today—you mention resource-rich Alberta, mineral-rich Saskatchewan—I think what we're seeing in Manitoba, and why my concern is with the way it's working in Manitoba, is we seem to be going just in the opposite direction of the other three western provinces. We see that British Columbia, with the new government in that province, has now started to become a have province, and Manitoba is trailing behind it in terms of becoming the last have-not province.

My concern is that as we've seen growth in the province of Manitoba, we don't seem to be relying less and less on the equalization; apparently, we're relying more and more. That says to me that there needs to be some kind of a change in the way it works. As more equalization payments come into a province, as we've seen in Manitoba, there is less and less desire, less and less necessity to try to be more and more competitive, to try to generate our self-growth, to try to generate more revenues in the province, to be more competitive in the province. We see that on the basis that the province has the highest per capita debt in Canada.

Again, I want to be very clear. I believe very strongly that all Canadians should be treated equally. I think that's very important. To go back to one of your colleague's comments, I think that was the initial interpretation of equalization in Canada in 1957.

What we're seeing today, and my concern, and the reason I brought the presentation with the recommendations, is that perhaps we need... I challenge the committee to look at different ways to define what is in that basket of items, those thirty-some-odd items that you look at.

Again, I said very clearly in my comments that I think Manitoba in some ways gets hindered because we have a renewable resource in hydro. To me, that's a very important natural resource, and I don't know that we are a beneficiary of it versus what we see in some of the other provinces.

I'm from Saskatchewan. I think the honourable member may know that. When I look at the opportunities in Manitoba, I think they're much greater than what we see in the province of Saskatchewan in terms of growth, yet my concern is we don't seem to be going down that path. I illustrated in my comments how we went from, in 1957, \$1.8 million, which was 2.7% of our provincial revenue, to \$1.6 billion of equalization, which is almost 20%, and I'm not including the health and social transfer payments. That's the reason I make the point. I am not suggesting for a moment that we should outlaw it. It would be most unfortunate if you interpreted it that way, because that certainly is not in any way, shape, or form what I'm referring to.

• (1130)

**Ms. Judy Wasylycia-Leis:** I just get the sense that you see it as a—

[*Translation*]

**The Chair:** Ms. Wasylycia-Leis...

[*English*]

**Ms. Judy Wasylycia-Leis:** Another round?

**The Chair:** We'll have another round, yes. Thank you.

**Ms. Judy Wasylycia-Leis:** Okay. Sorry. I'll come back.

**The Chair:** Thank you very much.

Madam Smith, for three minutes.

**Mrs. Joy Smith:** Thank you.

I would like to ask you if you could elaborate a little more on what you were just saying, and elaborate on one aspect in terms of health care. I don't know if you heard the comments a little earlier, but transfer payments coming to the province are not always accountable

and transparent. They go into a black hole someplace. Often the concern around the table—it was brought up a little earlier, and it's a very valid concern—is those transfer payments need to be accountable to the people so we know exactly where they go. Could you comment on that?

**Mr. Stuart Murray:** Yes, thank you very much.

I think we see an example of it here in the province of Manitoba in the waiting list moneys that came forward to provinces. I think it is problematic to operate without a timeframe, without any sort of delineation. Again it comes down to this notion that it's one thing to transfer money to a province, but if it's not directed, or specifically tied, as we saw with the waiting list transfer.... The current government put it into the fiscal stabilization fund. Arguably, I would suggest to them I'm glad they at least parked the money rather than just spent it. But my criticism would be that the current government has for six years talked a lot about how they're going to shorten waiting lists, and yet the money sits without any specific movement on it.

I want to come back to the comment you made, and I think it speaks to where Mr. Bell was going: there is nothing wrong with the federal government working in conjunction with the provinces, not unilaterally, but together in a partnership looking at where they can generate and put revenues. I think that has to come at the request of the provincial premiers, because I think they're the ones who are the closest to the constituencies and know where to spend the revenues. I would hope, if there are surpluses being generated by Canadians paying taxes to the federal government, that provincial premiers would come together as a group to tell the federal government specifically what it is they want to do with that revenue, and that it be targeted and have meaningful positioning. Because I think just transferring money doesn't mean that it's well spent and well generated. Opportunities may be lost.

**Mrs. Joy Smith:** May I?

**The Chair:** Go ahead for one minute.

**Mrs. Joy Smith:** Thank you.

I wondered if maybe we could get a comment from Mr. Hawranik, who has a considerable amount of knowledge in this area. With all due respect, would that be all right to give Gerald just a couple of minutes to make comment on what we have just talked about?

**The Chair:** Mr. Hawranik, go ahead, please.

**Mr. Gerald Hawranik (Finance Critic, Progressive Conservative Party, Legislative Assembly of Manitoba):** Yes, I would like to make a comment as well with regard to that.

Stuart had mentioned earlier that in fact the money that was directed from the federal government to the province for waiting lists went into the fiscal stabilization fund. Certainly that should be a concern of the federal government, because if you're giving money to us as a province to reduce waiting lists, certainly you'd expect some outcome as a result of that. That's a concern of ours as well.

With regard to direction, if you're going to give funds for certain purposes—and we know the federal government's awash in cash—certainly I would expect that the federal government would want to ensure those funds are directed toward that specific purpose. There have to be controls. It's not just giving dollars to the provincial government from the federal government and expecting the province to fulfill their obligation. I think part of the whole process has to be brought to the province with controls and to ensure that we are fulfilling our obligations, and that you are getting dollars for what you've given to us. You're getting us to give a performance, and we certainly need to ensure that we use the dollars in the proper places.

Thank you, Joy, for that question as well.

• (1135)

**The Chair:** Thank you very much, Madam Smith.

Mr. Bell, go ahead for three minutes, please.

**Mr. Don Bell:** I would just like to follow up, concluding my earlier comments about the gas tax. It's one that is near and dear to my heart. I was on the caucus committee that looked at the distribution model. Just so you know, we created an element—if you don't want to call it equalization—fairness, because we didn't have just a per capita distribution. We recognized that provinces by virtue of their circumstances were either population-based or had needs. And the territories would get a certain flat amount, or base amount, and then the formula would kick in above that. So there was a degree of equalization, I guess, in terms of this and in recognizing the infrastructure needs.

Certainly, as one of the mayors who was originally involved, I can say that we were asking for the gas tax strictly for transportation. Now there are some communities that have come forward and said transportation wasn't their only need, that they needed water and sewer systems. That's the reason that was expanded to provide that.

In your comments you said that transferring tax from the federal government to the provinces is the simplest way of addressing the fiscal imbalance, but you would contend it's not in the best interest of any party to do that. I presume you're saying that as opposed to tax reduction. You've talked about the debt reduction, the importance of reducing debt for the provinces. I'm pointing out the debt reduction I would offer to you for the federal government, which was a ridiculously high debt percentage of the tax dollar that went to the federal debt. Paying that down is also critically important. I would appreciate your comments on that.

**Mr. Stuart Murray:** Thank you again, Mr. Bell, and thank you for the explanation of the background. As the mayor of a community, you would certainly have some appreciation for the whole infrastructure issue.

To come to your point, the reason I say that one of the easiest ways to alleviate the fiscal stabilization side of it is by transferring tax points to the province is that I think you've then got the ability provincially to have more control over where you can generate the revenue. I would not for a minute want to leave the impression that debt reduction certainly isn't important; I think it's something we struggle with in the province of Manitoba, as I said.

I want to correct something I think I said: that we have the highest per capita debt in Canada. I meant western Canada. So I apologize to the committee for that; it is in western Canada.

As long as the debt continues to go up.... Debt is one of these things that is a very difficult animal for the general public to really get their mind around, because when you bring it down to the level of the kitchen table, it's like you've maxed out one credit card and now you're trying to borrow on another credit card; at the same time, you're trying to pay down your mortgage and maybe plan a holiday. When you see your debt going up, and the cost that it takes to service that debt, it's just money that's going to foreign markets or to whoever's holding our debt. It takes it straight out of health care, out of infrastructure, out of education, and all of the things that Canadians pay tax for, when you get right down to it. There's a fair level of taxation that Canadians are prepared to pay, but they're looking for services in return for that. When a big chunk of that is being eaten up in servicing debt costs, that's a disservice, frankly, to hard-working Canadians, and in our case to hard-working Manitobans.

So I offer up this suggestion, and there probably isn't a party that would do it, but I would applaud—as I'm sure a lot of provincial premiers would—if the federal government decided to give the provinces some more tax room and tax points. I'm not sure that's going to happen, but it's what I meant by that comment.

• (1140)

**Mr. Don Bell:** Okay, thank you.

[*Translation*]

**The Chair:** Thank you, Mr. Bell.

Mr. Côté, you have three minutes.

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

I want to go back to transfer payments and the fact that it's important that they be targeted. You probably think I'm playing the devil's advocate, but I think this point of view makes a lot of sense.

Doesn't specifically targeting these transfers cause problems of transparency and accountability? I always hesitate in citing examples in health because the needs everywhere are enormous. However, as an example for our purposes here, let's say that new, higher-performance equipment is important in reducing waiting lists in Manitoba. More employees might be required in another province.

Wouldn't it be more beneficial for this democracy if a certain number of millions of dollars were allocated for health? Then the Government of Manitoba could decide to invest in equipment, for example, and would be accountable to its population. Wouldn't that improve accountability more than receiving money to hire new staff when that's not what's needed?

You could find the same kind of example in education or in roads. Here it may not be the roads between the various municipalities that require investment. I know that, in Quebec, it's the municipal roads that require investment right now.

What's your opinion on the subject?

[English]

**Mr. Stuart Murray:** Thank you very much for the question, and it is a delicate one.

What I think does not serve a purpose for any level of government is, if perhaps I can use the expression, father or mother knows best. In other words, here's the money, but before we sign it off to you, thou shalt do the following. I think that's a very dangerous precedent. I want to be careful here, because I did say earlier, on the issue on infrastructure, that I think infrastructure has depleted so badly in Manitoba—and I daresay across Canada, but I speak for Manitoba—that it is one of those issues that I liken to selling a house. When you sell a house, you want to make sure it's painted, and you want to make sure that your carpets are clean, that sort of thing. The real issue, I think, when you're purchasing a house is what's behind the walls. What's there? Is it zonalite? Is it old plumbing, old wiring? Are you going to have to rip down the walls and re-do them? You want to know exactly what you're getting, and it's hard to know sometimes in those situations.

So I look at the infrastructure in some respects as a specific issue that we have here in Canada, and I think that in some respects the discussion that we've heard is they're trying, through a small portioning of the gas tax, to put it back into the provinces. I don't agree, if the relationship continues further on the basis that everything has to have a target to it. For example, one of the discussions on the federal side with respect to a national day care program is we need one, it's important. I think it's very important, but clearly what might work in the province of Quebec may differ from the province of Manitoba. And again you hear them say in Manitoba that they're not going to deal with for-profit, that it's not going to be part of the discussion, whereas in Alberta they're saying it has to be to whoever can provide adequate spaces at the most effective cost, because if it's all about the children and the parents, then that should be what drives the issue.

Again, I know that this is a very fulsome discussion, and perhaps needs more time, but I just want to make sure that I would not want to mislead the committee by suggesting that the federal government should go line by line and should say here's the money, but you better have a program for it, you better do this.

I go back to what I said to Mr. Bell. That's one of the reasons I would suggest transferring tax points to the provinces. Let the provinces decide. Canada is a vast nation. Every province is quite unique unto itself, and the provinces I think have a very good handle on what it is they need to do. So that's how I would look at that specific question.

[Translation]

**The Chair:** Thank you, Messrs. Murray and Côté.

Ms. Wasylycia-Leis, over to you.

[English]

**Ms. Judy Wasylycia-Leis:** On that issue, a major point of discussion for our committee is how do we deal with vertical imbalance? Your suggestion is that we actually move some tax capacity and do it through tax points. Many experts have told us that would be tantamount to killing national programs, and if that had been in the modus operandi, we wouldn't even have any semblance

of a medicare program left; we'd end up with a patchwork of programs right across this country.

I'm wondering if that's really your position, and how you respond to the off-loading of the federal government over the last decade: billions of dollars in cuts in transfer payments for education and health; dismantling of the Canada Assistance Plan; changes to the EI; loading all of those needs on to the provincial government that isn't resource-rich like Alberta.

This brings me to my last point. Surely you can appreciate the fact that Manitoba's fiscal capacity is much different from Alberta's, with its heavy reliance on oil revenues that is not included in the formula, which means it can just not have the sales tax. It can create a tax haven.

So I guess my last question is this. In some provinces there has been this all-party support for a revamping of the equalization formula, the ten-province standard, including all revenues, including natural resource revenues. Do you support that?

• (1145)

**Mr. Stuart Murray:** I think the honourable member is very adept at phrasing questions that are very prudent.

To answer your last one, I would support an all-party initiative that was driven on the basis that we could use resources in the province of Manitoba, because we're blessed with something that I think is good not only in Canada but also in the United States, and that is renewable resource with hydro.

I think we should have the ability.... And you mentioned Alberta. I know sometimes everybody gets hung up, saying we can't do this because Alberta has oil, and we can't do that because Alberta has oil. I look at it and say that I don't believe we should be punished on the basis that we have more capacity, frankly, to use a very prominent renewable resource. I think the world is crying out for different forms of energy, and we have one in spades that sits in our backyard. So if we could utilize that as a way to help us, of course I would be very supportive of that.

I want to come back to my earlier comment that I think in the province of Manitoba we have to figure out a way we can become more competitive, less reliant on equalization day to day, and more in a position where we can be contributors to the benefit of Canada, rather than being in the position we're in of being more and more reliant on equalization.

**The Chair:** Thank you, Madam Wasylycia-Leis.

We have eight minutes more. If possible, we'll have only two minutes for a question and answer.

Madam Smith.

**Mrs. Joy Smith:** Thank you.

I just want to clarify something. You were talking a little earlier about being less reliant on transfer payments, on equalization, here in Manitoba. The comment was made also that medicare would go by the wayside and everything.

Could you clarify what you were saying in terms of health care transfer payments? As you know, the Liberal government, or the current government, has had transfer payments come to provinces, and as stated by a presenter a little earlier, some of this money has sort of disappeared, and they don't know where it went.

That being said, can you comment on whether the fact that you were saying something about being less reliant on equalization means you want to get rid of medicare, or are you talking about targeting it in such a way that it will shore up the health care program without it disappearing into a vacuum?

• (1150)

**Mr. Stuart Murray:** Thank you very much, Madam Smith.

I absolutely do not want to get rid of medicare, and to suggest that would just be folly. What I am suggesting is that we have seen dollars come into the province of Manitoba and there has not been an improvement, so you wonder where the money is being spent. The question simply becomes that if it's a matter of more money, more money, more money....

I tell this anecdotal story about a guy I know who was building a boathouse. He was building some piers, and he had to put concrete into the water. He had a truck that was backed up, and they kept putting more and more concrete, and more and more concrete, and then finally they called the owner and asked what they should do. The owner said he thought they should stop; they should find out what was going on.

If everybody's just saying more money, more money, one would have to ask, where does the management side of more money come into play? I think that's the issue I would be concerned with.

[*Translation*]

**The Chair:** Thank you, Ms. Smith.

Mr. Bell, you have two minutes for questions and answers.

[*English*]

**Mr. Don Bell:** Okay, I'll just go back to my fuel taxes again.

I noticed that you suggested, in a different phraseology—you talked about the small amount—that basically you think there should be more money. Are you suggesting at this point that more than half, more than five cents, is what the government should be committing, or are you just talking about the ramping-up rate not being fast enough in your opinion?

**Mr. Stuart Murray:** Mr. Bell, I would suggest that again—

**Mr. Don Bell:** Recognizing the federal government does have infrastructure responsibilities for the Canadian highways, as well.

**Mr. Stuart Murray:** I appreciate that comment. However, I come back to the notion that there was an exponential surplus that was discovered by the federal government, more than what it had projected.

And again, I just can't emphasize enough that our infrastructure deficit in Manitoba is so huge that we're struggling, and I think we would appreciate an increase in the amount and a ramping up.

I know that's asking a lot. I get that; it's not an easy ask. But I think it's an important ask, because when you travel around the

province of Manitoba.... Just as a quick example, we've got companies in the province that have milling processes that now are not able to use a bridge, so they have to drive another hour as a detour to get their goods to market. That to me is fundamentally against what we are as a producing nation. We should be enhancing that, not inhibiting it.

Again, I want to explain that the reason I appear to be asking for so much is because I think our infrastructure deficit is just that bad.

[*Translation*]

**The Chair:** Thank you, Mr. Bell.

Mr. Côté, you have two minutes.

**Mr. Guy Côté:** It's more of a comment.

There's a lot of talk about this government's unexpected surpluses. People think it's not in a position to give lessons on the management of public accounts when they see how far their forecasts are from the actual situation. Last year—I quote this figure from memory—I believe that \$10 billion was spent without being budgeted. So this government can afford to help its fellow citizens, but it's not doing so as a result of its mismanagement.

[*English*]

**Mr. Stuart Murray:** I wouldn't want to suggest to any members of the committee that I haven't been reading the newspapers or watching the news. I suspect there's a potential election somewhere in the offing.

Again, it comes down to, and I stated to all of you in the committee.... The notion that we have a surplus, whether it's at the provincial or the federal level, I think begs the question of whether it is because we're asking more than we should of our Canadian taxpayers. Is that one of the reasons we have the excess revenue?

I believe strongly that all Canadians believe there is a fair level of tax to pay. Out of that tax they expect services. I think they get very frustrated when they find that moneys being spent are unaccounted for, that there is no transparency with regard to where the money is going. I think it frustrates Canadians, as it should.

I think it's no different from investing money in a business. If you don't like where the business is going, in that instance you have an option. You can opt out and sell your shares. In Canada you can't do that. Maybe you can make a statement in the next election campaign.

• (1155)

[*Translation*]

**The Chair:** Ms. Wasylycia-Leis.

[*English*]

These are the last two minutes.

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

I'm still not convinced that you, Mr. Murray, are prepared to fight for an equalization program that is founded on the principle of some measure of redistribution and equality between provinces.

I get the sense that you're a really reluctant supporter of equalization and that you see it as a drain on a province's capacity, much the way some people would describe our support system for low-income citizens—it hampers their ability to contribute to our society if we give them some sort of support through hard times. We're trying to get away from that notion. In fact, equalization is about addressing real disparities in the capacity of different provinces to fund public services.

I think you haven't really addressed the notion of equalization on that basis, and I'm not sure what your suggestion is for adjusting the way in which you calculate the representative tax system.

So I come back to the question. Do you support the principle of equalization, not as something that deals with have-not provinces, but as an equalizer between provinces and in relationship with the federal government? And are you prepared to use the public policy tools available to us to address those disparities and ensure some equality and fairness among provinces?

[*Translation*]

**The Chair:** Mr. Murray.

[*English*]

**Mr. Stuart Murray:** Thank you very much.

I will assure the honourable member that I will fight for people who through no fault of their own find themselves in difficult positions. I think we are all in public life to do exactly that. Everybody should be treated equally. I think those who are less fortunate are not there primarily because of their doing; there's

something that puts them in that position. Those of us who can should be there to ensure that all people are treated equally. Through this committee, I believe that's what you're going to do.

I would think it would be most unfortunate if the honourable member were to characterize me as not being prepared to stand up and fight on behalf of the people of Manitoba for what is right for Manitoba. I just want to repeat that I think the reliance on equalization we've seen in Manitoba has made us a less competitive province. Overall, it does not allow our province to become, as we've seen with the other three western provinces, a have province. That is something we need to improve in Manitoba, and it can be done through being more competitive rather than just being more reliant on equalization, as we've seen.

**The Chair:** Merci, Monsieur Murray. Merci, Madame Wasylycia-Leis.

On behalf of the members of the subcommittee, I would like to thank you very much for your contribution, and

[*Translation*]

I'd like to thank you for your excellent presentation.

I inform committee members that we'll resume at 1:15 p.m.

[*English*]

Thank you very much.

We are adjourned.

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